

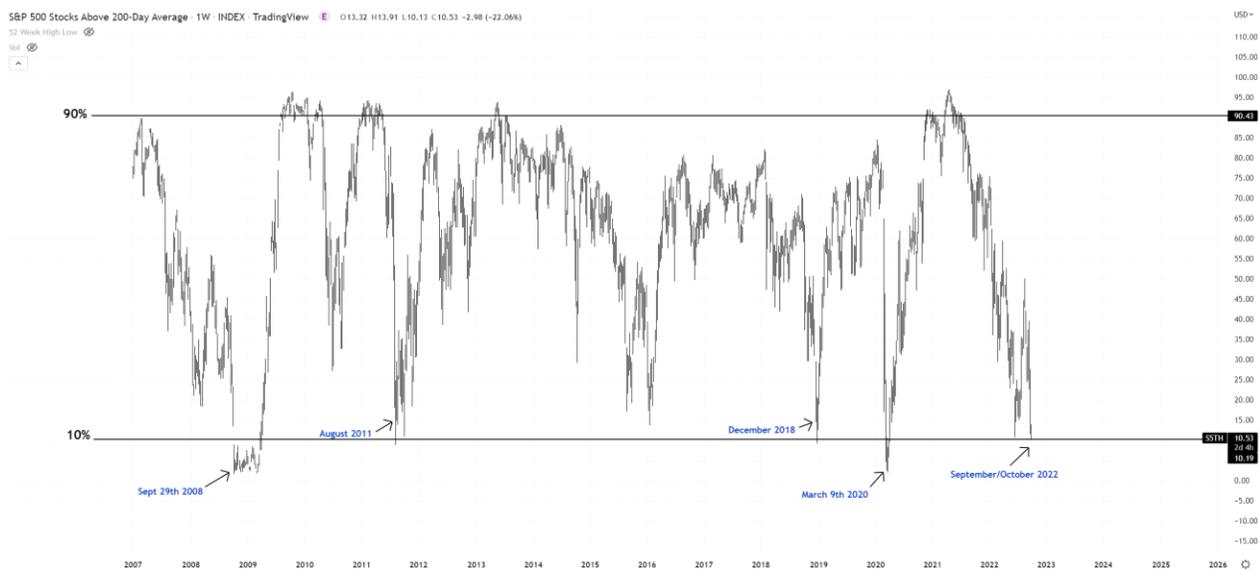
## A Case Study on There is No Quick Fix

The economic and financial era of lower inflation and lower interest rates may be coming to an end. Given this major shift, it is important to understand that there is no quick fix for the current financial situation. This framework will then help us determine where we want to invest and what price we would like to pay. A weak stock market presents us with opportunity but given the scenario where lower interests rates are not yet on the horizon, it really matters what we buy.

It has been our shared experience for the past 40 years that central banks generally cut short term interest rates at the first sign of weak financial markets. But this time the stress in the financial system is being caused by higher-than-expected inflation. The central banker's main tool of dropping short term interest rates and adding liquidity to the financial system would actually make inflation worse. It may take six months to a year of higher interest rates and a slower economy before inflation comes down to a more desirable level.

With an active war on inflation, a war on globalization and an actual war in Ukraine, there are few if any bright spots. But stock market investing is at all times perverse. If we are not worried about anything and the world is great, we should definitely be worried. If we are worried about everything, then that is when we are most likely to get good prices on new investments. We only get good deals when investor sentiment is uniformly negative.

A key sentiment indicator we like: the ratio of stocks trading below their respective 200 day moving average. Currently only 10% of stocks are trading above their long-term trend line. This is getting closer to a “wash-out” level. So, while the outlook for the economy is negative, everyone else knows that as well and most investors are already negative. In financial industry jargon, ‘the negative sentiment may already be in the price.’



Even though there is no quick fix, we know we cannot compound our money unless we are invested. History tells us the best time to buy is when everyone else is negative and worried about the future. Then, we will be able to buy great businesses trading at a depressed price.