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Translation of a March 9, 2019 article by Stéphane Préfontaine

Stock Market Volatility: Keep your Eyes on the Ball!

When I encounter friends on the street, I am sometimes told: “Ah, Stéphane, the stock market has come back!”; or “Ah Stéphane, how volatile is the stock market these days!”; or “Ah, Trump this” or “Ah, the Federal Reserve that”. I invariably answer: "Yes, it's been more than four hundred years since stock exchanges exist and it's been more than 400 years they go up and down; it does not concern me, since I invest in companies ". Some understand right away while others are taken aback. My point is that what makes short-term stock markets move are transitory factors that punctuate the long life of our portfolio companies. Also, the ability of a well-managed company to adapt to its environment should not be under-estimated.

Implicit in the notion of investing is the notion of building. Building a business takes skills, resources and time. If I decide to put my trust in a team and its strategy to create value, I'll give them the time needed to carry out their plan. If the company is listed and I buy its shares, I try to buy before the market realizes its full value. Herein lies the key and the difficulty in investing: it is the exercise of a judgment on a reasonable valuation which gives us a good margin of safety. Once I've made my purchase, I'm attentive to business developments, including developments in the company's primary resource, the human beings who work there. I monitor the relationship between the fluctuations of the stock and the business realities only to see if there is a very large discrepancy. Otherwise, I let price fluctuations roll off me like water off a duck’s back.

The stock markets could close for five years and our investments wouldn’t change much

In general, I am interested in stock prices only at the extremes, in terms of a company's price / business success ratio. Measures of success are broader than accounting profits, "adjusted" profits, book values, or cash flows. The most important measure of success is somewhat invisible and concerns the strengthening of the competitive position, or “moat”. If I believe, to the best of my knowledge, that the company is strengthening its competitive position, and the stock price does not go up, or on the contrary goes down, it could be a buy signal. On the other hand, if the competitive position deteriorates and the stock rises, it could be a sign of caution or profit-taking. If I am convinced of the quality of the leaders and of the strategic plan of a company that I consider undervalued, often I will not wait for the accounting profits to confirm my belief, because the market will probably have reacted instantly, and it will be too late to buy its shares.

Jack Bogle, the late founder of Vanguard, said that the two main factors that destroy the returns of individual investors are emotions and costs. The best way to control one's emotions is to focus one's attention first on the business of the companies in which one has invested as opposed to their share price. Warren Buffett offered the following analogy: you're at the home plate and you're waiting for the pitcher's ball. If at this point you spend your time looking at the scoreboard, you risk a strike out. The scoreboard is the stock price; the ball is the business and its progress.

Keep your eyes on the ball!