

“Doubt is not a pleasant condition, but certainty is absurd” --Voltaire

The future may always “uncertain” but there are many things that can be counted upon. The following are a few illustrations of longer-term certainties;

- 1) Capitalism producing economic benefits to owners
- 2) People not being rational calculating machines.....being emotional
- 3) Recessions occur with regularity and are caused by many variables
- 4) Markets will be volatile in the short-run but reflect long-term value over time
- 5) Election cycles and party control drift over time
- 6) The desire for avoidance of pain....physical and psychological

But, is the present environment “more uncertain” than usual? The answer is perhaps “Yes”. And if so, the increased uncertainty can be caused by several things, such as;

- 1) Increased range of outcomes....perhaps some industries never “get back to normal”
- 2) Increased frequency of recurrence....of pandemic or the economy “stopping”
- 3) Government intervention....that may produces unpleasant and unintended side effects
- 4) What other risks exists that haven’t happened.....but could?

During times of increased uncertainty or challenges, it is best to remember certain long-term principles regarding risk management. Perhaps the singular best definition of risk is “more things can happen than will happen” (Elroy Dimson).

To process of managing risk starts with one attitude. It may be helpful to think of only two types of investors and how decision making is approached as either;

- 1) Believes in “Knowing the future” (aka more certainties)
 - a. Knowledge about interest rates and growth rates primary variables
 - b. Optimism and fear of missing out drives action
- 2) Believes in “Not knowing the future” (aka fewer certainties)
 - a. Valuation is front and center is the primary focus
 - b. Paying a lower prices than valuation (margin of safety) is required

Principle #1 provides context regarding proper decision-making framework and specifically addresses confidence in long-term thinking and expectations. It is expected that continued economic progress and prosperity will be achieved with capitalism continuing to benefit private investment. But expect occasional instable behavior from market participants. The instability in behavior can be caused by many things.....including pandemics. The instability is due to characteristics of human nature, which causes short term slumps to be exaggerated in degree, even though the state of long-term expectations is often steady. For those investors seeking to purchase investments with long-term expectations must avoid the crowd, always think and act long term, and ignore short-term fluctuations.

Investing is about making decisions in advance of reality. It is the attitude regarding how one deals with the uncertainty that distinguishes the long-term value investor from the rest.