MONTHLY COMMENTARY

• Value • Deep value • Global

Month Ended August 31, 2015

Recent volatility has sparked a feverish conversation about the state of the stock market. Given the wild swings of late, suddenly words such as "panic," "crash" and "bear market" have slipped back into the lexicon. Even though it has been more than six years since the financial crisis crested, nerves are still jittery.

With no working crystal ball on hand, we are all left to wonder about the true state of things. And while there is always the possibility of more severe erratic moves—we do not believe stocks are en route to a crash. Instead, the "C" word that we feel best describes the environment is "correction."

As many know, a correction is typically understood to represent a 10% drop from a recent high. To that point, the Dow Jones Industrial Average was off nearly -14% from its May 19, 2015 peak to the August 25th trough. Similarly, the S&P 500 was down almost -12% from its broader-based May 21, 2015 top, while the smaller stocks comprising the Russell 2000 and Russell Midcap indexes have fallen -15% and -12%, respectively.

It's safe to say that no one likes to lose money, and we are no different. That said, a *correction,* as the term implies, can in fact be a net positive for the overall market. A correction cuts the froth.

In recent months, we have said equity prices were feeling a bit stretched. Our thinking was not particularly original, as others held the same view. Now that stocks are less frothy, valuations have normalized. At current multiples, the S&P 500 is trading closer to its historical norm of 15x earnings. Perhaps the clearest indication of this seeming respite is the fact that it is so broad-based—from U.S. to international issues, from large to small-cap stocks.

In many ways, although impossible to predict, the market's recent comeuppance should not really come as a surprise. Market corrections are to be expected. For example, from 2000 to 2009, stocks experienced a 10% pullback on three different occasions. Then came the brutal bear market of 2008, and even with a spectacular recovery, we have had three more corrections since 2009.

So where does that leave us? Given our longstanding belief that as value buyers, volatility is our friend; now is not the time to cut and run. Instead, we strongly advise holding or even opportunistically buying in the current environment. There are bargains to be had, and we are optimistic about our plans to deploy our cash to capture some of these bargains.

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