"In investing, there are times when the best thing to do is nothing at all."

Seth Klarman

"Patient opportunism – waiting for bargains – is often the best strategy."

Howard Marks

The Australian share market has risen 42.3% over the past two years. That's 19.3% per annum! Company earnings have not grown by anywhere near that amount and, by any measure, there are far fewer bargains available to investors today than there were one, two, three or five years ago.

So, as investors, how should we respond to these circumstances? We may attempt to conjure up opportunities where there actually are few, in the mistaken belief that investment returns are the product of incessant activity. This will inevitably lead us lower down the quality scale and/or higher up the risk scale. Or we can continue to allow our cash balances to grow, take some profits on some of our more fully-priced holdings and reassess individual investments (new and existing) so that we are prepared to act when opportunities do emerge.

In general I currently favour exposure to businesses that have a reliable earnings stream, that are exceptionally cheap, or that have an exposure to foreign currencies. Ideally they will have more than one of these characteristics. Most of the shares we have bought over the past couple of years meet one or more of these criteria. So, having planted these seeds, our portfolios are positioned much as I would like them to be, and I am hopeful that they will continue to bear fruit over the next couple of years and beyond.

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