"You make most of your money in a bear market. You just don't realise it at the time."

Shelby Davis

The market has had a very volatile quarter, inspiring some truly blood-curdling headlines. In truth, this may herald the opportunity I have been anticipating for at least the past couple of years. With just a couple of extremely fleeting exceptions, bargains have been hard to find since the UK voted to leave the European Union in June 2016 (and certainly since President Trump was elected later that year).

With prices falling so markedly over the past quarter I would make three general observations about how I think we should behave.

1. This is not the time to go looking for new and adventurous opportunities. The tried and true companies that we already know (and love at the right price) will more than do. Fortunately there is a growing list of these available at increasingly attractive prices.
2. This is an opportunity to climb up the quality curve. As the market has risen we have had to consider increasingly lower quality businesses that were available at relatively cheap prices. As markets become more volatile the prices of all securities suffer, including the really high quality businesses we want to be owners of forever. This is an opportunity to concentrate our portfolios in those businesses.
3. There is no need to rush. A bear market (and we are not even technically in one yet) typically lasts for around fifteen months. My prescription would be to progressively increase exposure to the best quality businesses available at attractive prices and, assuming the business case remains intact, continue to do so in the face of falling share prices.

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