

*“You never feel good when you’re buying a great bargain. When you buy a great bargain, you’re doing it with sweaty palms, you’re leaning against the crowd, engaging in contrary thinking, and you’re pretty much alone. And almost everybody in the press is telling you that you’re doing the wrong thing.”*

Arnold Van Den Berg (Century Management) - *Outstanding Investor Digest*, August 2006

I am absolutely astounded at how market commentators in the media, who six months ago were saying that you simply could not lose by investing in Australian equities (because of the demand for our resources and the monopolistic nature of our banking system) are now suggesting that investors should sit on the sidelines until the direction of the market becomes clearer.

In many cases the value of the earnings stream of the businesses that they had been urging people to buy has not significantly changed. Will the customers of Blackmores, Cochlear or Origin, for example, buy that much less of those companies’ products because we are in a more restrictive credit environment (which in itself was clearly foreseeable – indeed inevitable – given the amount of overly cheap money available over the past few years)? The only thing that has changed is the price at which you can buy that earnings stream.

As we warned in this report just nine months ago (when the general view was that markets could not possibly fall and that you should be out there indiscriminately buying Australian equities):

*“When investing it is important to block out the external noise as much as possible and focus on the fundamental qualities of the individual business you are buying a share of. This requires a conscious effort as our natural inclination is to move with the crowd.”*

This advice is as relevant (and perhaps more so) in times of gloom as it is in boom. Whereas nine months ago we were struggling to find suitable investment opportunities, we are now finding a growing number of excellent businesses with capable and honest management, reliable earnings and transparent balance sheets available at very attractive prices.

The market will certainly rise and fall in the future; it is what markets do. But one thing we can say with some certainty is that there are bargains in the current market that simply were not there nine months ago. To fail to take advantage of these opportunities is bound to be more detrimental to your long term wealth than any short term price volatility.

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