



"Now a man can spend a lot of time wondering what was on Jack Ruby's mind."

Billy Bragg

The earthquake and tsunami that hit north eastern Japan on 11 March have had truly devastating effects and our thoughts are with the victims. The ultimate effects of these events also remain unknown as authorities still attempt to contain the perilous situation at the Fukushima Daiichi nuclear plant.

These events also had massive effects on global equity markets, particularly those exposed to Japanese economic activity. Japanese selling of global equities portfolios to fund reconstruction led to lower global equity markets and, until the intervention of central banks, a booming Japanese yen.

So were these events predictable and, as investors, should we be taking actions to protect ourselves from their worst financial effects? In a sense they were predictable. It is a region that has experienced similar events in the past. A 1923 earthquake devastated Tokyo and killed between 100,000 and 140,000 people.

It may be futile to try to predict a particular event happening at a particular time, but if we are to take anything from this incident it is that sometimes "stuff happens". It may be an earthquake in Japan (or the west coast of the USA which many say is overdue for "the big one"), a terrorist attack on a civilian population, a global outbreak of influenza (such as occurred in 1918 killing 50 to 100 million people or 3% to 6% of the world's population) or a large asteroid colliding with earth...

We can try to predict such events, but ultimately this is likely to be quite futile and we will have added little in the way of value for the effort. As investors there is little value in trying to predict events that are fundamentally unknowable. Instead we need to be aware that from time to time such disruptive events **will** occur and that the best way to prepare for them is to hold a diversified portfolio of quality businesses that deliver solid returns over time as well as a healthy allocation of cash to take advantage of opportunities that present themselves at such times.

March 2011