



*"A crisis is a terrible thing to waste."*

Paul Romer

Now that the worst of the "global financial crisis" appears to be behind us it might be timely to ask ourselves what lessons we can take from it.

Debt is a wonderful thing. Few of us would own homes without it. But it is very much a double edged sword. Whilst it can magnify gains, it can equally magnify losses. As Warren Buffett said of banks in May of last year, "They'll only lend you money if they *want* to lend you money. And if you're dependent on borrowed money every day, you have to wake up in the morning hoping the world thinks well of you." This applies at both a corporate and a personal level. There are many CEOs who got to know their bankers a lot better over the past eighteen months when what they should have been doing was running their businesses. There are also many "mum and dad" investors who had to sell shares at ridiculous prices because they had taken out margin loans during the boom times without a sufficient buffer to get them through a substantial and prolonged fall in the markets. Whilst debt can play an important part in a business' capital structure or an individual's investment strategy, it is far more useful if kept at very moderate levels.

It is imperative that you never allow yourself to be a forced seller. If you rely on a steady income stream for your living expenses always have at least one (and preferably two) year's cash flow available in cash or secure and liquid fixed interest securities. That way, even allowing for an impaired income stream, you won't have to contemplate selling any of your investments at stupid prices. You will also have a bit of dry powder available to take advantage of any of those stupid prices.

In retrospect, the best time to have been buying was in the first half of 2009. Most people can see that now, but at the time many were reluctant to. Six months ago many of the core holdings in our portfolios were trading at less than half of what they are today, some at significantly less. Whilst we think they remain reasonable value at current prices; at those levels they were screaming bargains! It is important not to abandon an investment strategy because of the vicissitudes of the market. The purpose of a strategy is to help you to profit from such events.

Lastly, as we appear to be heading through calmer waters, it can't hurt to occasionally remind yourself of how you felt during those recent tempestuous times. To borrow from Buffett again, "Be fearful when others are greedy (and greedy when others are fearful)".

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