Vitaliy Katsenelson's Contrarian Edge

Opinion: Surviving the coronavirus crash: 'You make most of your money in a bear market; you just don't realize it at the time'

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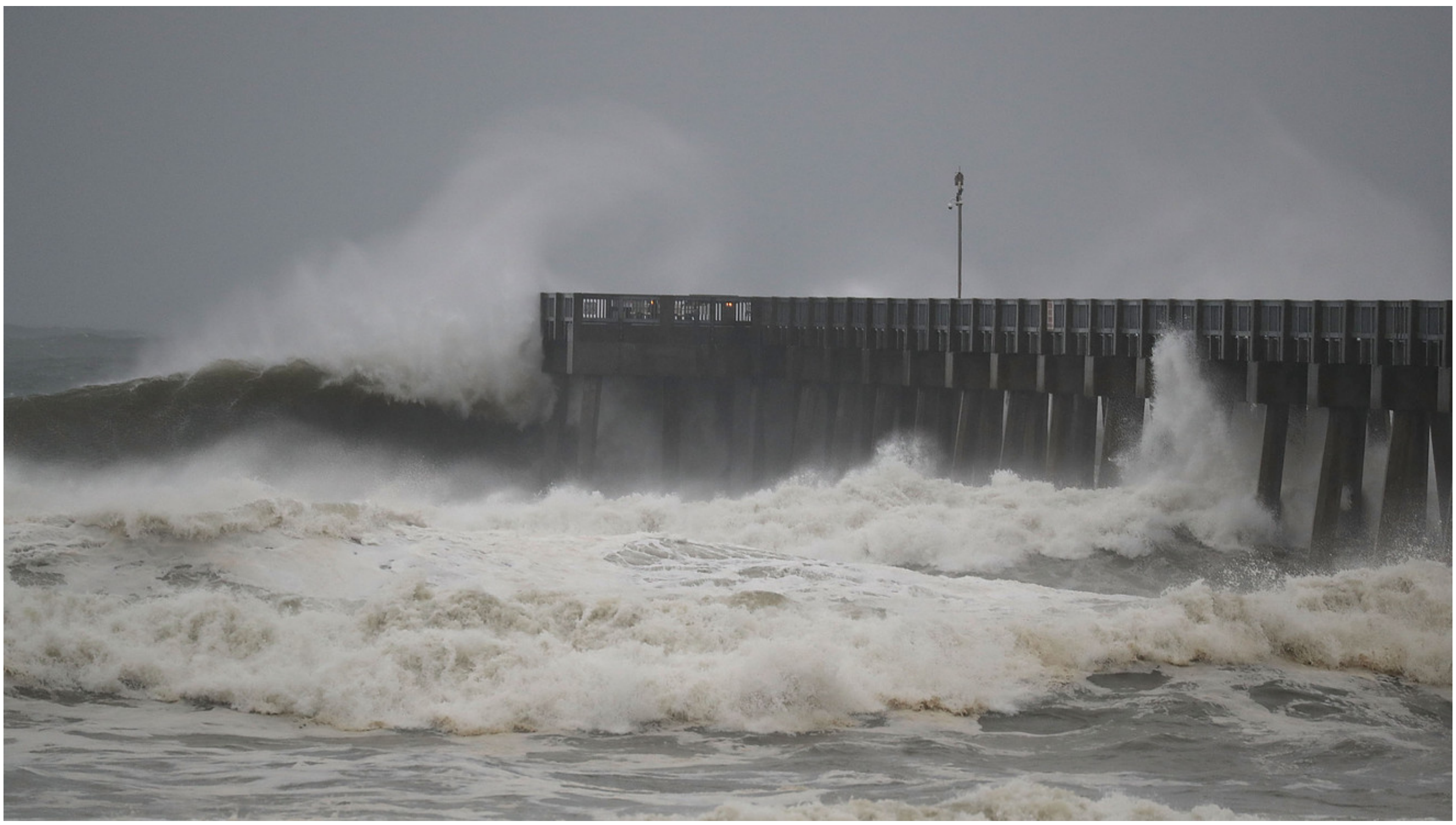
Value investing offers a way to weather Mr. Market's moods



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With stock prices sinking fast, a client emailed me saying, "Your move, boss." So here is our move: Especially in this coronavirus crash, we continue to seek out what we always look for globally — high-quality businesses that we can buy at a significant discount to fair value.

We are prepared for the possibility that every decision we make today will look wrong tomorrow, as we have no idea how long this market decline will continue. We are completely fine with that, as long as these decisions are proven right several years out.

Our investment focus zooms out from this or the next quarter — where our vision is fogged — to years ahead, where paradoxically we have a lot more clarity. It is easy to look at the current decline as a curse, but if we look a few years out, we can expect to see that this sell-off provided the opportunity to add to existing positions on the cheap and to add more high-quality but undervalued stocks to our portfolios.

As famed value investor Shelby Davis observed: "You make most of your money in a bear market; you just don't realize it at the time."

Writing this, I took heart in a recent column by Wall Street Journal columnist Jason Zweig, entitled "What Benjamin Graham Would Tell You to Do Now: Look in the Mirror."

Zweig offers advice gleaned from Benjamin Graham (the father of value investing): The primary reason many individuals fail as long-term investors, Graham said, is that "they pay too much attention to what the stock market is doing currently."

Graham added: "The investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage." Investors "would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused him by *other persons'* mistakes of judgment."

As I read this article, I felt blessed to reside as an investor in the wonderful world of Ben Graham. Despite all the chaos and panic out there, Graham helps us put everything into the right perspective and maintain great clarity.

Stock prices today are the transitory opinions of Mr. Market, who often is emotionally unstable. Mr. Market did not carefully value your companies today and decide they are now worth less. No, he woke up in a panicked mood and indiscriminately marked them down as if they were overripe bananas at the grocery store.

The stock prices on your screen now say nothing about what these companies are worth. Nothing at all. But valuation is all that is going to matter in the long run. I promise you one thing: the value of your companies doesn't change 8%-10% a day, day after day.

Meanwhile, check out these Six Commandments of Value Investing — a chapter from my still unfinished book, where I discuss Graham's principles of value investing in depth. You can read the chapter here or listen to it here.

So, how does one invest in this overvalued market? Our strategy is spelled out in this fairly lengthy article.

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