StaufferWilliams
ASSET MANAGEMENT · LLC

OCTOBER 2013 INVESTMENT COMMENTARY

HERE WE GO AGAIN

We knew that this partisan battle was coming for months, however as always; we were not willing to attempt to guess when, or if, the market will react negatively to the prospect of political brinksmanship. It turns out that we were absolutely right not to react prematurely, as the equity markets have performed very well through the end of September.

As of the writing of this short commentary, many investors in the U.S. stock market have begun to remove risk from their portfolios. The result of this de-risking has led to a rather minor correction as of the writing of this commentary, leaving the broad market just a few percentage points below all-time highs. We had taken the opportunity to trim or eliminate many significantly appreciated stock positions into the strength of the last 30 to 45 days.

We tend to thrive as investors when advances are largely driven by company specific factors and corrections are the result of either political brinksmanship or geopolitical headline risks. Since May, this type of market has been present and has been well suited to our fundamentally driven process.

Our investment process is underpinned by value oriented principles that drive portfolio actions. This process generates opportunistic purchasing of securities at levels offering compelling value as well as, the selling of securities that no longer offer sufficient upside opportunity versus downside risk. During the first three quarters of 2012 we have had some high profile examples of our discipline leading us to sell securities that have appreciated to price levels that we cannot fundamentally justify. In some of these cases, we exited positions, only to have the security continue to appreciate far beyond any fair value that we could have imagined. In other situations we exited positions at levels that were materially higher than where they are changing hands today. In all of these cases, one common denominator prevailed. This common denominator was a principled assessment of fair value, risk and return. These principles and our discipline is what separate a professionally managed portfolio management process from simply trading stocks with the hopes of short-term gains.

Many of our successful investments over the last several years were capitalized on during times of fear induced market volatility. We do not wish for harsh market corrections caused by political or geopolitical crises, however we expect them to occur infrequently. Although we cannot time market disruptions, when they do occur our process allows us to capitalize on the values that are inevitably produced.

We are possibly on the cusp of one of these periods and many client accounts have an increased cash level generated by previous value driven profit-taking. If this modest correction turns into a more severe correction, we will once again seize on such an opportunity to purchase, or re-purchase, companies whose stocks are selling at compelling values.

We will keep our remarks relatively short this month and will hopefully have more to discuss at the beginning of November.

CURT R. STAUFFER
Partner, 717 877 7422

JONATHAN M. WILLIAMS
Partner, 717 810 6705

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