AMI INVESTMENT MANAGEMENT
Registered Investment Advisor

White Paper

Mr. Market: Friend or Foe? (How the Long-Term Investor Should Think About Volatility) **December 2018**

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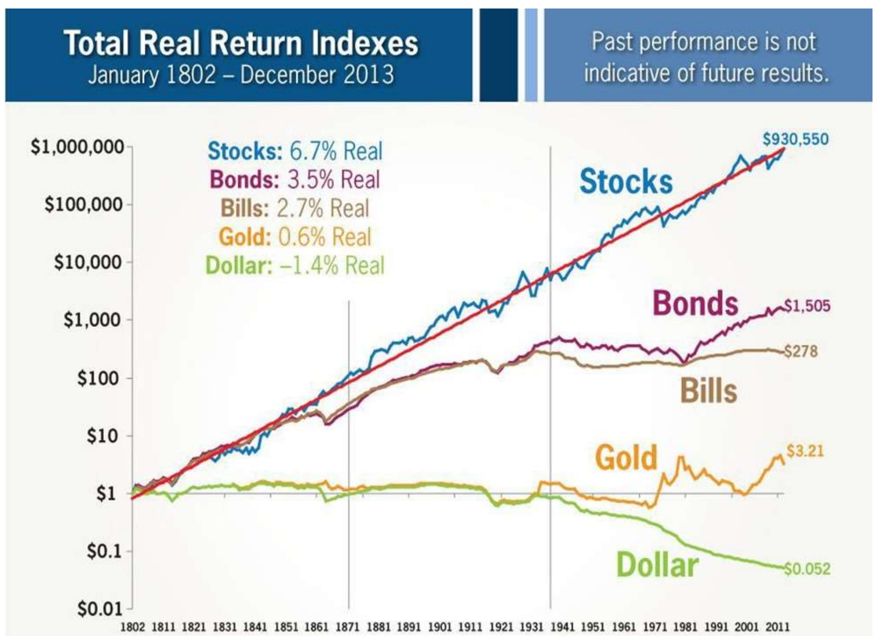
In his 1996 letter to Berkshire Hathaway shareholders, Warren Buffett wrote:

> *Intelligent investing is not complex, though that is far from saying that it is easy…To invest successfully, you need not understand beta, efficient markets, modern portfolio theory, option pricing or emerging markets. You may, in fact, be better off knowing nothing of these. That, of course, is not the prevailing view at most business schools, whose finance curriculum tends to be dominated by such subjects. <u>In our view, though, investment students need only two well-taught courses – How to Value a Business, and How to Think About Market Prices</u>.*

In a two-part series, we are going to try to tackle these two courses. This white paper addresses how investors should think about market volatility (i.e. "how to think about market prices"). A second white paper will explore AMI's stock selection process, which includes our view on valuing businesses.

Stocks have been a truly phenomenal long-term investment, well outpacing any competing investment alternative:[1]



We love this chart, but perhaps it's a bit too abstract for readers to really appreciate. Consider a numerical example instead. Imagine that your father (or grandfather) invested $1,000 in the stock market at the end of 1939. In hindsight, this seemed to be a terrible time to buy stocks. The country was still struggling to recover from the Great Depression. Immediately out of the gate, stocks fell 10% in 1940 and another 12% in 1941. Your father was already down over 20% in just two years! In December of 1941, the Japanese bombed Pearl Harbor and the U.S. entered World War II. Your father's decision to purchase stocks at the end of 1939 seemed to be a terrible one.

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[1] Jeremy Siegel. The same pattern repeats with other countries and other alternative assets.

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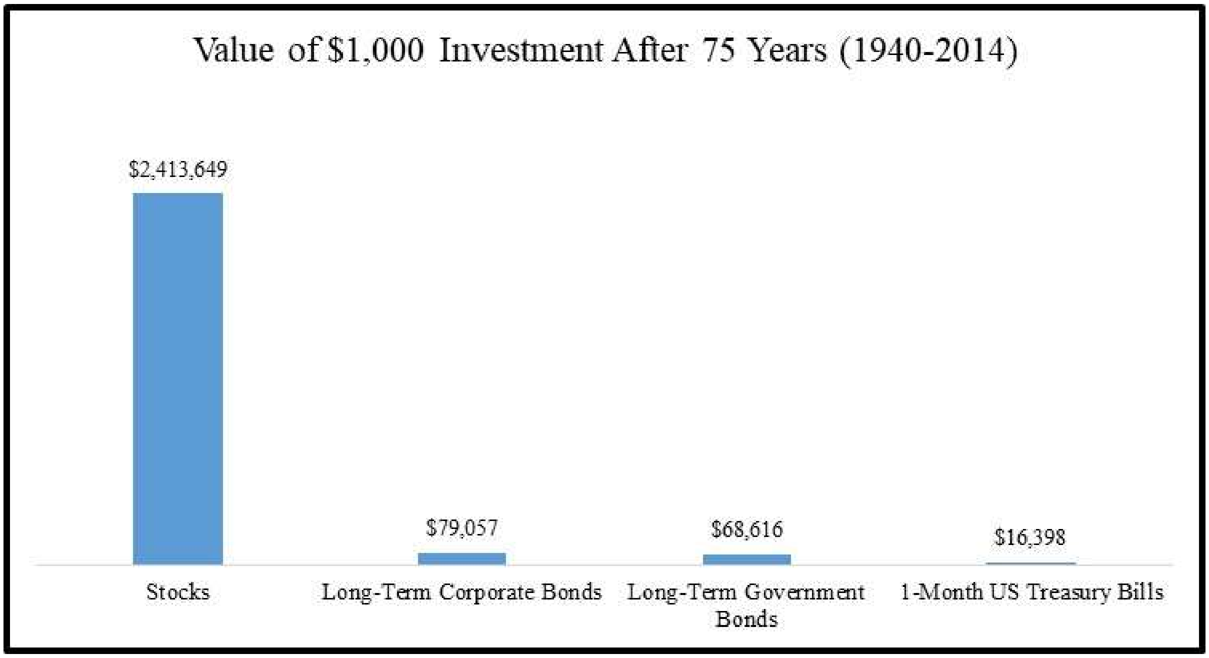
What would that $1,000 be worth 75 years later, and how would that compare to other investment possibilities available to him at the time, such as corporate bonds, government bonds or Treasury bills[2]? The figure below graphs the various outcomes:[3]



Now over those 75 years, there would have been some excruciating drawdowns, including 1973-74, 2000-2002, and 2008, each bringing temporary losses of around 40% or more. But fortunately for your family, your father held on through it all.

Just take a quick glance at the Forbes 400 list of richest individuals, or lists that rank the richest individuals in modern times (adjusted for inflation). You will quickly notice a commonality: all of these individuals amassed their fortunes from the long-term ownership of business interests, the equivalent of owning stocks. Now some, such as Henry Ford or Bill Gates, were blessed with a unique insight or innovation, but others have simply focused on owning a diversified portfolio of business interests.

There is no guarantee that the future will resemble the past. But both evidence and theory suggest that it is highly likely that stocks (and stock-like investments such as real estate) will be the best investment, by far, for the long-term investor.

Indeed, the argument can be made that despite the occasional setback, stocks are the *lowest risk investment from a longer-term perspective*. Warren Buffett argued as much in his 2017 letter to Berkshire Hathaway shareholders:

> Investing is an activity in which consumption today is foregone in an attempt to allow greater consumption at a later date. **"Risk" is the possibility that this objective won't be attained**…
>
> I want to quickly acknowledge that in *any* upcoming day, week or even year, stocks will be riskier – far riskier – than short-term U.S. bonds. As an investor's investment horizon lengthens, however, a diversified portfolio of U.S. equities becomes progressively *less* risky than bonds, assuming that the stocks are purchased at a sensible multiple of earnings relative to then-prevailing interest rates. [Emphasis in bold added.]

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[2] Corporate bonds, government bonds and Treasury bills all typically function like Certificates of Deposit (CD), where the investor is promised a fixed rate of interest and receives their original principal back after a number of years. Treasury bills are backed by the federal government and have maturities of less than one year. Returns on Treasury bills might mirror returns on savings accounts. Corporate bonds, unlike government-backed bonds, carry corporate credit risk since they are issues and backed by companies.

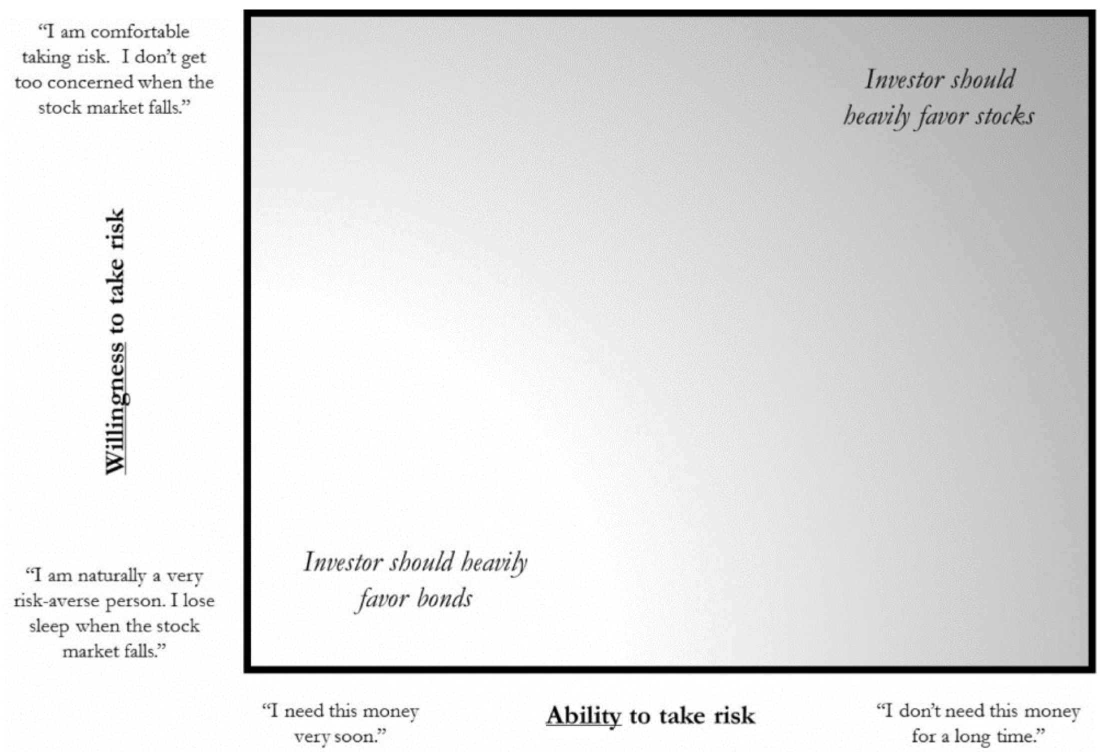
[3] Stock returns from Damodaran Online; data on other assets from Dimensional Matrix Book 2015. We don't factor in any tax impact, although stocks are often a more tax-efficient long-term investment anyway.

Think about Buffett's concept of risk: the possibility that the money you set aside today doesn't foster greater consumption for you in the future. In our example above, if your father would have invested his $1,000 in U.S. Treasury bills (whose returns likely mirrored a standard U.S. savings account), he would have had $16,398 at the end of the 75-year period, an annual return of 3.8%. Inflation over that same time period worked out to…3.8%! So after adjusting for inflation, *the net return was 0%.* In other words, your father's investment would have produced no future benefits in the way of greater consumption since inflation would have eaten up all of his returns. From Buffett's perspective, this turned out to be a highly risky decision, even though it never produced the occasional short-term drops that were experienced in the stock market.

The *long-term* investor might consider putting as much into stocks as they are ***able*** and ***willing***. A rule of thumb is to start with 70-80% of your long-term investment portfolio in stocks, and

> (a) Adjust this target downward if the investor expects to withdrawal a significant amount of money from the portfolio in the short or intermediate-term OR the investor is particularly distressed by the regular ups and downs of the stock market.
>
> (b) Adjust this target upward if the investor has a very long time horizon AND is completely comfortable with the regular ups and downs of the stock market.

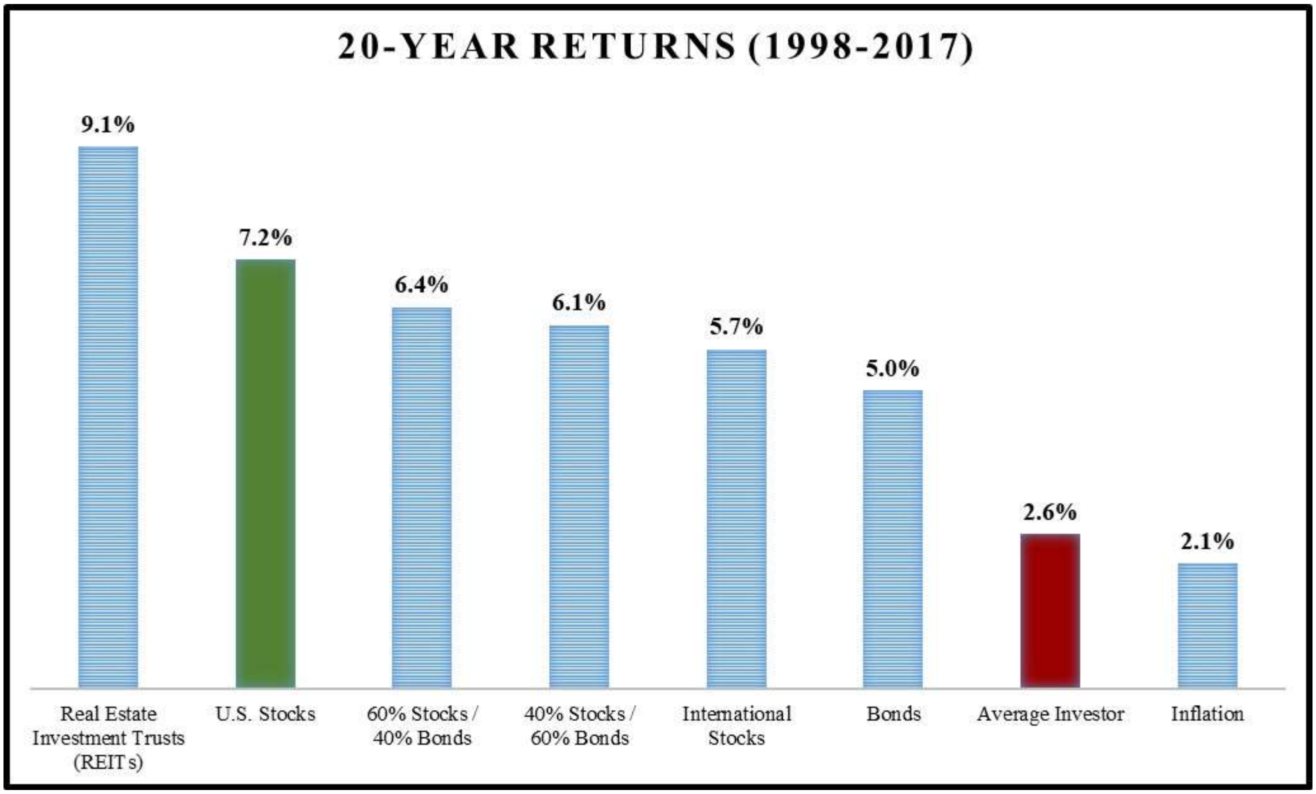
Once this long-term policy is set, investors are best served to simply stick to it, ignoring the regular noise and gyrations that come out of the financial markets and continuing to add money to their investment account over time (if possible). The figure below illustrates this approach:



Of course this method of investing is much less active than what is typical on Wall Street. That isn't a surprise – Wall Street makes money when investors buy and sell. So Wall Street brokers are incentivized to scream "sell, sell, sell!" when a market is falling and "buy, buy, buy!" when a market is rising. But this is a fool's game. Buffett once observed:

> Our stay-put behavior reflects our view that the stock market serves as a relocation center at which money is moved from the active to the patient.[4]

Unfortunately, many investors don't exhibit this kind of patience and discipline, because *it's hard*. Market volatility – the regular rise and fall of stock prices – causes investors to make common, and costly, investment mistakes. Investors often buy high, after a run-up in the general stock market, a sector of the stock market or a specific stock, and then sell low, exiting after a corresponding price correction. As a result, the performance of many investors trails the performance of the assets that they are investing in. The analysis below by JPMorgan shows the results for various asset classes over the period 1998 through 2017 versus the experience of the average investor:[5]



This "investor behavior penalty" results from efforts to jump in and out of the stock market, specific sectors, alternative assets or individual stocks, buying high and selling low. In an effort to avoid the short-term pain associated with the occasional setback in stock prices, *the investor ends up foregoing the long-term gain* that results from a committed, material, diversified investment in stocks.

How can investors overcome this behavior penalty and benefit from the long-term growth of the stock market? Understanding what stocks actually represent and thinking about how to respond to changes in market prices is a key ingredient to disciplined investing. Knowledge is power. In the rest of this white paper, we try to provide some useful tools to help investors see the forest from the trees. These are tools that we use on a regular basis to ensure that we maintain the right long-term perspective.

What is a Stock?

Investors often lose sight of the true character of a stock holding. They start to believe that stocks are just pieces of paper that are traded daily, and when the price of a stock falls by 2%, the holder of that stock is now 2% poorer.

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[4] Buffett, Warren. 1991 Shareholder's Letter. Berkshire Hathaway. February 28, 1992.

[5] JPMorgan *Guide to the Markets*, 3Q18 (September 30, 2018). Bond returns are measured by the Bloomberg Barclay's U.S. Aggregate Index, U.S. Stock returns by the S&P 500 Index, International Stock Returns by the MSCI EAFE Index and REIT returns by the NAREIT Equity REIT Index.

But a stock is not a piece of paper. A stock represents an ownership interest in a business. If you own one share of stock in the Walt Disney Company, you own 0.0000001% of the business. This entitles you, as the owner, *to 0.0000001% of all of Disney's present and future profits from now until eternity*. Now Disney may decide to retain and reinvest those profits – say in new theme park attractions that can in turn produce more profit – as opposed to mailing you a check. But if Disney earns more money ten or twenty years from now, it is highly likely that your small fractional ownership interest in Disney will be worth a lot more ten or twenty years from now, assuming you didn't pay an irrationally high price for the stock at the time of your initial purchase.[6]

What happens if Disney's stock drops by 2%? Well, nothing. You are still entitled to your share of all of Disney's future profits. The only thing that can adversely affect your wealth is if (a) you sell the stock after a major but temporary fall in the stock price or (b) Disney's future earnings are materially impaired. But no one will force you to sell the stock and you can guard against the second risk by owning a *diversified* portfolio of high-quality businesses.

Twenty years from now, it is highly likely that your diversified portfolio of businesses will be earning materially more money than they do today. And assuming they were purchased at rational prices, the stocks should be worth materially more money in turn. Of course this is what the historical figures shown earlier exhibit. This investment in stocks should well outpace both inflation and supposedly lower-risk investments like government bonds or CDs, even though the annual results will be much more volatile.

Where is the Crystal Ball?

We would love to magically discover a crystal ball that could tell us when interest rates or stock prices would rise and fall. To no one's surprise, we don't have one of these locked away in our basement. Yet we still frequently encounter investors who put faith in peoples' abilities to consistently and accurately forecast the short-term movements of the market. Warren Buffett once remarked:

> We've long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children.[7]

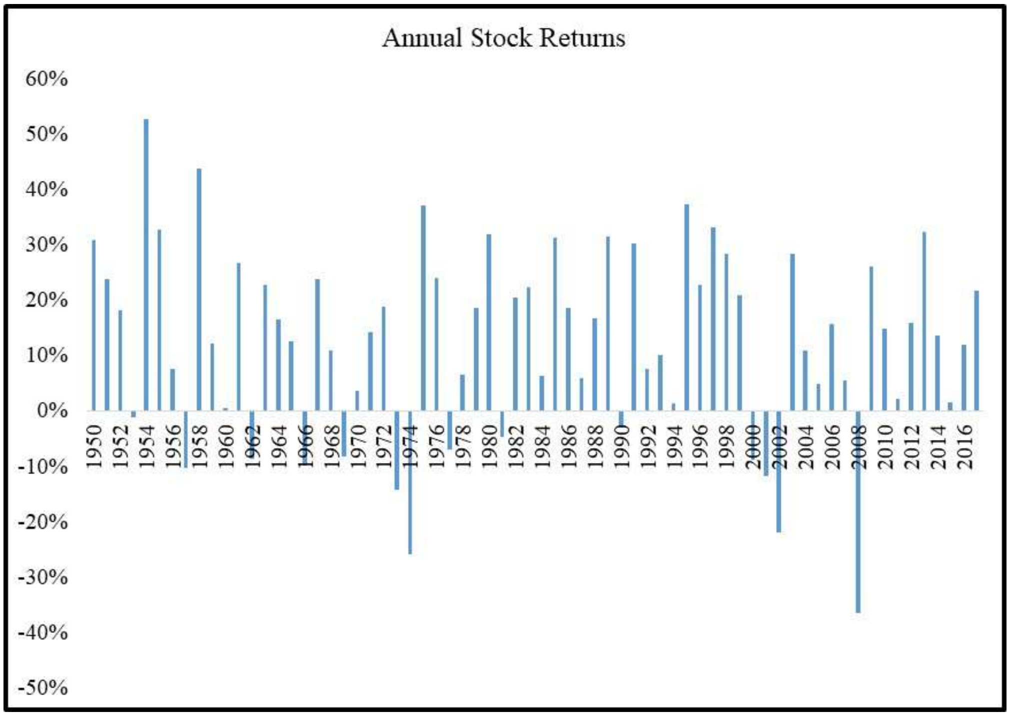
Imagine that we did discover a crystal ball. Remember our example where your father invested $1,000 in stock in 1939 and ended up with $2.4 million seventy-five years later? Now imagine that he discovered a magic crystal ball that he pulled out once a year that would tell him whether stocks would be up or down the next year. If stock prices were going to be up, he'd stay invested in the stock market, but if they were going to fall he would exit stocks and invest in short-term Treasury bills. After 75 years, instead of $2.4 million, he'd have nearly $48 million![8] If his crystal ball could predict even shorter time periods – say one or two months – the result would be even better.

What's the point of this story? Well, it sounds absurd to imagine an investor with a magic crystal ball. Yet investors do just that when they listen to market pundits go on television and predict what stocks are going to do over the next six to twelve months. If those pundits could really make such calls with any kind of consistency or accuracy, every investor in the world would become their client. But of course they can't, and no professional investor has shown the ability to predict short-term market movements with any kind of consistent accuracy. (In our white paper titled *Market Timing: The Rule and The Exception* we explain what we might be able to say about forecasting longer-term stock returns.)

Periodic Returns

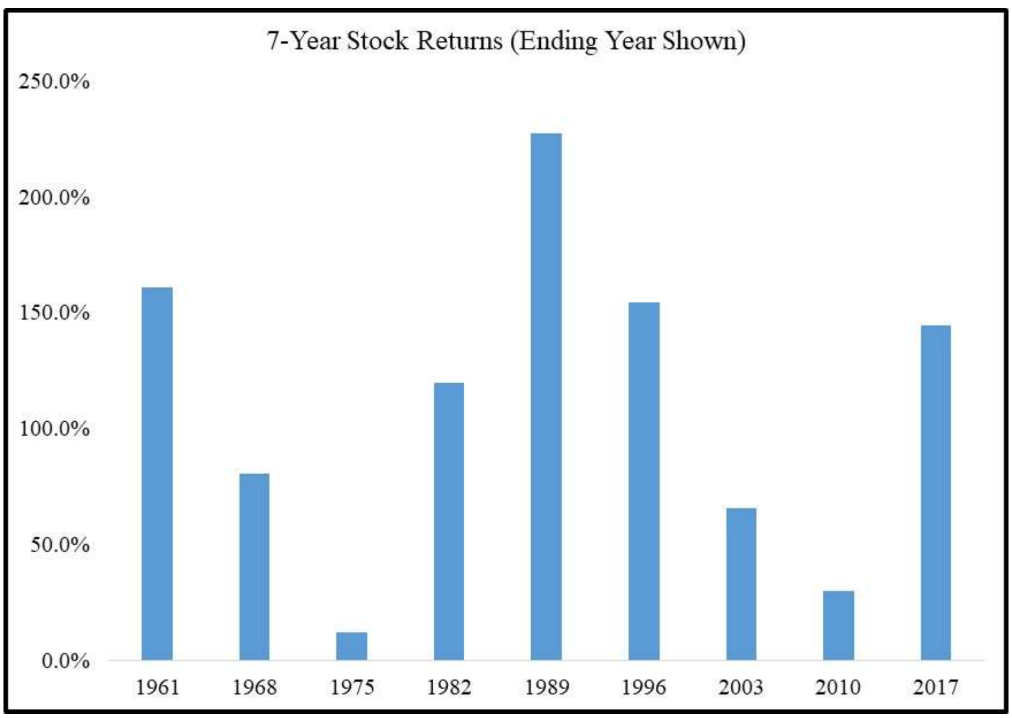
Many investors – both professional and amateur – focus on yearly returns. The following chart shows annual returns for U.S. stocks since 1950:

[6] Please note that we are using Disney here simply to illustrate a point; this is not a recommendation to buy or sell Disney stock.
[7] Berkshire Hathaway 1992 letter to shareholders.
[8] Using data from Damodaran Online; again, tax impacts are ignored.



While most years exhibit healthy returns, some years are downright painful, such as 1973-74 (stocks were down 14% and then 26%), 2000-2002 (stocks were down 9%, 12% and then 22%) and 2008 (stocks were down 37%). Investors commit a lot of errors in their effort to avoid years like these.

Imagine an investor who asks his advisor to simply send him a report once *every seven years*. He reasons that one-year is a rather arbitrary timeframe and he is investing the money for the long-term anyway. His chart looks like this:[9]



[9] This data set begins in 1955 in order to accommodate the seven-year intervals and end with the year 2017.

That's not so bad! Of course some periods are worse than others. He isn't thrilled to see his accounts produce shallow gains during the periods ending in 1975 or 2010. But each period shows that he has at least as much as he started with, and over the long-term his returns are quite satisfactory.[10] Again, it's all about *perspective*.

Ben Graham's Mr. Market

Warren Buffett remarked that his mentor Benjamin Graham's book *The Intelligent Investor* was "by far the best book on investing ever written."[11] In that book, Graham observes:

> Investment is most intelligent when it is most businesslike. It is amazing to see how many capable businessmen try to operate in Wall Street with complete disregard of all the sound principles through which they have gained success in their own undertakings. Yet every corporate security may best be viewed, in the first instance, as an ownership interest in, or a claim against, a specific business enterprise.

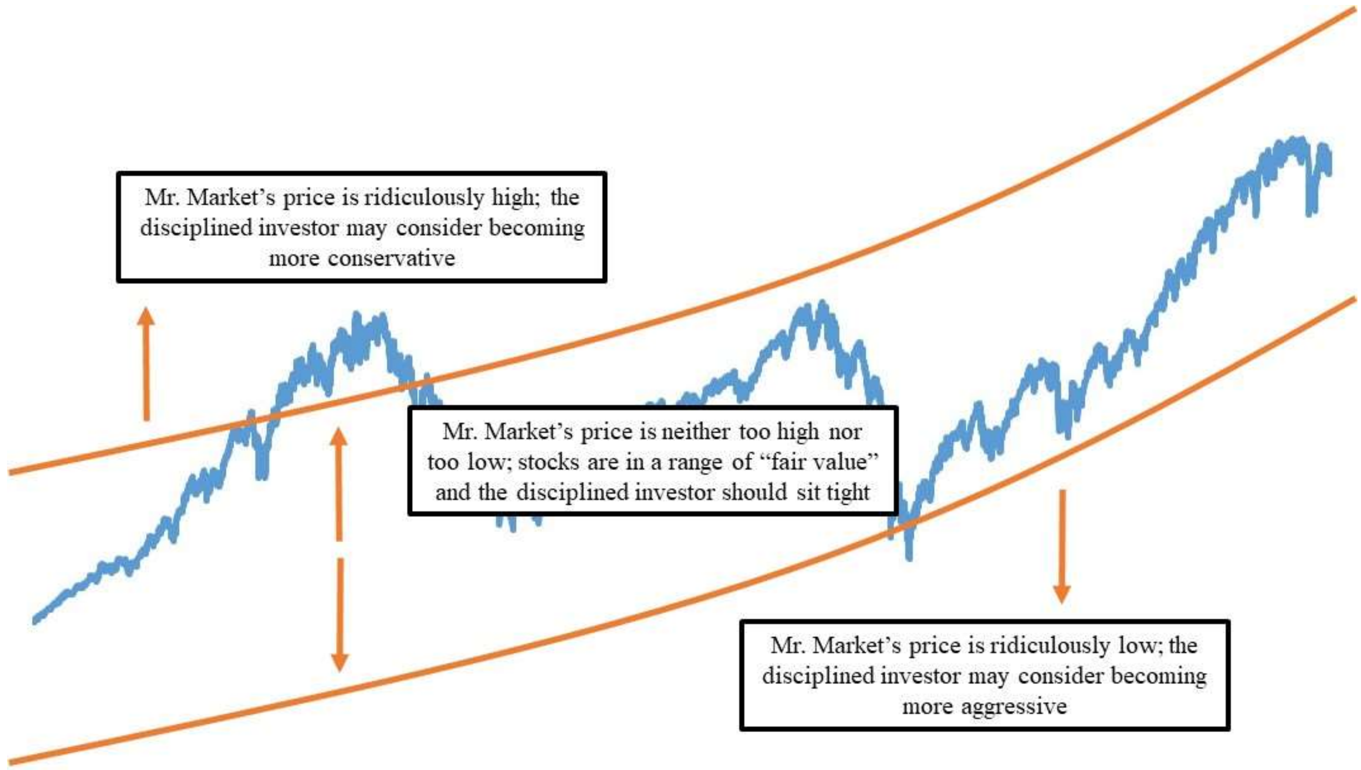
Graham uses the wonderful parable of "Mr. Market" to teach investors how they should think about stock market prices:

> Imagine that in some private business you own a small share that cost you $1,000. One of your partners, named Mr. Market, is very obliging indeed. Every day he tells you what he thinks your interest is worth and furthermore offers either to buy you out or to sell you an additional interest on that basis. Sometimes his idea of value appears plausible and justified by business developments and prospects as you know them. Often, on the other hand, Mr. Market lets his enthusiasm or his fears run away with him, and the value he proposes seems to you a little short of silly.
>
> If you are a prudent investor or a sensible businessman, will you let Mr. Market's daily communication determine your view of the value of a $1,000 interest in the enterprise? Only in case you agree with him, or in case you want to trade with him. You may be happy to sell out to him when he quotes you a ridiculously high price, and equally happy to buy from him when his price is low. But the rest of the time you will be wiser to form your own ideas of the value of your holdings, based on full reports from the company about its operations and financial position.
>
> **The true investor is in that very position when he owns a listed common stock. He can take advantage of the daily market price or leave it alone, as dictated by his own judgment and inclination**. He must take cognizance of important price movements, for otherwise his judgment will have nothing to work on. Conceivably they may give him a warning signal which he will do well to heed – this in plain English means that he is to sell his shares because the price has gone down, foreboding worse things to come. In our view such signals are misleading at least as often as they are helpful. **Basically, price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies**. [Emphasis in bold added.]

We illustrate Graham's parable with the following graph. It is a bit busy, but we think it might be the most important concept in our entire investment philosophy:

[10] Although it should be pointed out that these gains are shown *before* inflation. Results after inflation may be less satisfactory during some time periods. For instance, inflation was quite high during the period ending in 1975. However, the larger point that stock returns look much less volatile over longer time periods remains.

[11] Buffett calls particular attention to chapters eight and twenty. *The Intelligent Investor: The Definitive Book on Value Investing. A Book of Practical Counsel*, edited by Jason Zweig.



We occasionally encounter successful entrepreneurs who want nothing to do with the stock market, preferring instead to make only private investments in businesses or real estate because they deem them to be less risky. But they regard stocks as risky simply because the price moves around from day-to-day and year-to-year. If the entrepreneur was forced to list his business or real estate for sale *every day*, he would no doubt get wildly different bids based on economic conditions or investor sentiment. Yet he wouldn't feel any richer or poorer. The situation is no different when you own public stocks. **The fact that you can buy or sell stocks every day should be an asset to the investor, but many investors turn it into a liability. Mr. Market is there to accommodate you, not to burden you.**

[In the Appendix, we also present Warren Buffett's useful summary of Graham's Mr. Market parable.]

Warren Buffett Reflects on Stock Prices
In his 1997 letter to Berkshire Hathaway shareholders, Buffett provided an excellent perspective on stock prices that investors would be well-served to adopt:

> A short quiz: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise, if you are going to buy a car from time to time but are not an auto manufacturer, should you prefer higher or lower car prices? These questions, of course, answer themselves.
>
> But now for the final exam: If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the "hamburgers" they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.
>
> For shareholders of Berkshire who do not expect to sell, the choice is even clearer. To begin with, our owners are automatically saving even if they spend every dime they personally earn: Berkshire "saves" for them by retaining all earnings, thereafter using these savings to purchase businesses and securities. Clearly, the more cheaply we make these buys, the more profitable our owners' indirect savings program will be.

> Furthermore, through Berkshire you own major positions in companies that consistently repurchase their shares. The benefits that these programs supply us grow as prices fall: When stock prices are low, the funds that an investee spends on repurchases increase our ownership of that company by a greater amount than is the case when prices are higher. For example, the repurchases that Coca-Cola, The Washington Post and Wells Fargo made in past years at very low prices benefitted Berkshire far more than do today's repurchases, made at loftier prices.
>
> At the end of every year, about 97% of Berkshire's shares are held by the same investors who owned them at the start of the year. That makes them savers. They should therefore rejoice when markets decline and allow both us and our investees to deploy funds more advantageously.
>
> So smile when you read a headline that says "Investors lose as market falls." Edit it in your mind to "Disinvestors lose as market falls – but investors gain." Though writers often forget this truism, there is a buyer for every seller and what hurts one necessarily helps the other. (As they say in golf matches: "Every putt makes someone happy.")

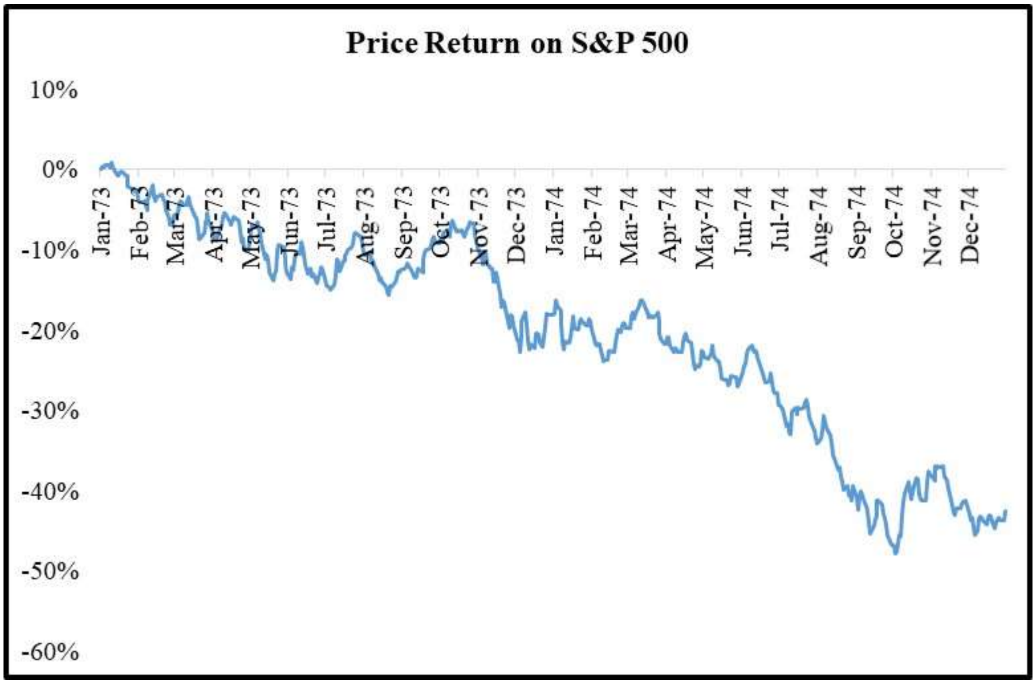
On the fiftieth anniversary of Buffett's control of Berkshire Hathaway (2015), he penned an essay that reflected on the company's history and its future. The essay included a section detailing how Berkshire Hathaway stockholder should think about their investment and the potential movements in its stock price:[12]

> First and definitely foremost, I believe that the chance of permanent capital loss for patient Berkshire shareholders is as low as can be found among single-company investments. That's because our per-share *intrinsic business value*[13] is almost certain to advance over time.
>
> This cheery prediction comes, however, with an important caution: If an investor's entry point into Berkshire stock is unusually high – at a price, say, approaching double book value, which Berkshire shares have occasionally reached – it may well be many years before the investor can realize a profit. In other words, a sound investment can morph into a rash speculation if it is bought at an elevated price. Berkshire is not exempt from this truth.
>
> Purchases of Berkshire that investors make at a price modestly above the level at which the company would repurchase its shares, however, should produce gains within a reasonable period of time. Berkshire's directors will only authorize repurchases at a price they believe to be *well below* intrinsic value. (In our view, that is an essential criterion for repurchases that is often ignored by other managements.)
>
> For those investors who plan to sell within a year or two after their purchase, I can offer *no* assurances, whatever the entry price. Movements of the general stock market during such abbreviated periods will likely be far more important in determining your results than the concomitant change in the intrinsic value of your Berkshire shares. As Ben Graham said many decades ago: "In the short-term the market is a voting machine; in the long-run it acts as a weighing machine." Occasionally, the voting decisions of investors – amateurs and professionals alike – border on lunacy.
>
> Since I know of no way to reliably predict market movements, I recommend that you purchase Berkshire shares only if you expect to hold them for at least five years. Those who seek short-term profits should look elsewhere.
>
> Another warning: Berkshire shares should not be purchased with borrowed money. There have been three times since 1965 when our stock has fallen about 50% from its high point. Someday, something close to this kind of drop will happen again, and no one knows when. Berkshire will almost certainly be a satisfactory holding for *investors*. But it could well be a disastrous choice for speculators employing leverage.

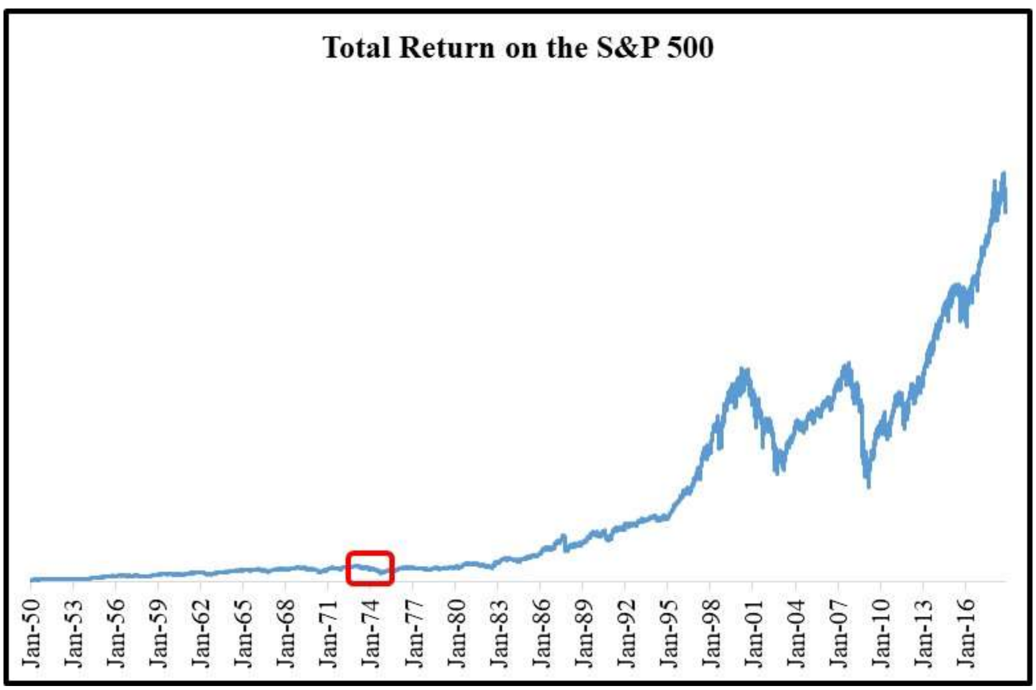
[12] Again, this is not a recommendation to buy or sell shares in Berkshire Hathaway, but instead is meant to serve as a useful illustration of the concepts explored in this white paper.
[13] Buffett uses the term intrinsic business value to define how much a given business is intrinsically worth, regardless of what price the stock market assigns to that business.

Conclusion
Rational thinking is all about adopting the right perspective, and intelligent investing is no different. For the long-term investor, this means understanding what he or she owns – shares in actual businesses – and seeing the forest for trees.

The early 1970's was a painful time for stock investors. Stocks fell over 40% in 1973-74:[14]



But this drop looks much different from today's vantage point:



[14] Yahoo! Finance.

Today, the 1970's bear market hardly registers as a blip on the long-term record. Now we don't mean to go too far: bear markets should not be ignored nor minimized. They cause real issues for investors and companies and they can be particularly problematic for retirees withdrawing money from their investment accounts.

That being said, for the truly long-term investor who doesn't plan to tap his or her investment accounts for a long time, bear markets should be viewed from a long-term horizon. As terrible as 2000-02 and 2008 were for stock market investors, we believe they will eventually resemble the 1970's bear market – a small dip on the long-term record. As long as stocks don't reach truly unjustified prices (as they did in Japan in the late 1980's, for instance), the long-term trend should well outweigh short-term hiccups. And as Buffett argues, short-term price weakness is actually *beneficial* to the long-term investor who continues to invest new money in the stock market. Investors must guard against the kinds of emotions that push them to sell stocks at inopportune times due to panic and fear.

APPENDIX: Warren Buffett Summarizes Ben Graham's Mr. Market[15]

Whenever Charlie and I buy common stocks for Berkshire's insurance companies (leaving aside arbitrage purchases, discussed later) we approach the transaction as if we were buying into a private business. We look at the economic prospects of the business, the people in charge of running it, and the price we must pay. We do not have in mind any time or price for sale. Indeed, we are willing to hold a stock indefinitely so long as we expect the business to increase in intrinsic value at a satisfactory rate. When investing, we view ourselves as business analysts – not as market analysts, not as macroeconomic analysts, and not even as security analysts.

Our approach makes an active trading market useful, since it periodically presents us with mouth-watering opportunities. But by no means is it essential: a prolonged suspension of trading in the securities we hold would not bother us any more than does the lack of daily quotations on World Book or Fechheimer. Eventually, our economic fate will be determined by the economic fate of the business we own, whether our ownership is partial or total.

Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.

But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy."

Ben's Mr. Market allegory may seem out-of-date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and betas. Their interest in such matters is understandable, since techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising "Take two aspirins"?

The value of market esoterica to the consumer of investment advice is a different story. In my opinion, investment success will not be produced by arcane formulae, computer programs or signals flashed by the price behavior of stocks and markets. Rather an investor will succeed by coupling good business judgment with an ability to insulate his thoughts and behavior from the super-contagious emotions that swirl about the marketplace. In my own efforts to stay insulated, I have found it highly useful to keep Ben's Mr. Market concept firmly in mind.

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[15] Berkshire Hathaway 1987 letter to shareholders.

Following Ben's teachings, Charlie and I let our marketable equities tell us by their operating results – not by their daily, or even yearly, price quotations – whether our investments are successful. The market may ignore business success for a while, but eventually will confirm it. As Ben said: “In the short run, the market is a voting machine but in the long run it is a weighing machine.” The speed at which a business's success is recognized, furthermore, is not that important as long as the company's intrinsic value is increasing at a satisfactory rate. In fact, delayed recognition can be an advantage: It may give us the chance to buy more of a good thing at a bargain price.

Sometimes, of course, the market may judge a business to be more valuable than the underlying facts would indicate it is. In such a case, we will sell our holdings. Sometimes, also, we will sell a security that is fairly valued or even undervalued because we require funds for a still more undervalued investment or one we believe we understand better.

We need to emphasize, however, that we do not sell holdings just because they have appreciated or because we have held them for a long time. (Of Wall Street maxims the most foolish may be “You can't go broke taking a profit.”) We are quite content to hold any security indefinitely, so long as the prospective return on equity capital of the underlying business is satisfactory, management is competent and honest, and the market does not overvalue the business.