

Navigating the New Volatility

Some market strategists had been warning of a market reversal, and had been telling us that low levels of volatility couldn't continue. If you keep forecasting a market drop long enough you'll be right. Even for those of us who don't focus much attention on market timing and therefore ought not to care, it's never pleasant watching the investments you like drop like a fridge hurled from a tenth story apartment.

So there's no insight here on market direction, simply an update on what we've been doing; which is mostly re-examining what we own and not selling. The collapse in crude oil resembles what you'd find in a full-blown recession, and markets are evidently pricing in such at least for the Eurozone with slower growth in China and Brazil among others. Lower oil reflects recently revised forecasts of slower demand growth from the EIA as well as increasing U.S. output. MLPs reacted fully like energy stocks this week even though their energy infrastructure businesses have limited direct sensitivity to oil and gas prices and are more driven by volumes and growth prospects, both of which appear good and unchanged.

Nonetheless, the seeming one-way train that has been MLP prices abruptly changed. The sharp correction allowed us to make minor portfolio upgrades in certain strategies. In recent days for our MLP Strategy we acquired a little more Plains GP Holdings (PAGP) which we like as the GP of Plains All America, and Markwest Energy Partners (MWE) an MLP with no GP to siphon away cashflows. We may add a little more PAGP on further weakness.

In our High Dividend Low Beta Strategy we added modestly to Spectra Energy (SE), a large pipeline operator whose stock price had dropped 15% from its recent high along with many other energy sector names. In our Low Beta Long Short (Best

Ideas) for similar reasons, we bought Enbridge, selling Coke (KO) following its recent strength (surprisingly, some stocks have been rising) after Pepsi's earnings report.

In Deep Value we added a small position in Monsanto (MON).

All of which is to say we are holding about 99% of the same positions we did at the beginning of the month, albeit at lower prices. Friday's midday bounce in MLPs almost felt like a market recovery even though stocks overall had another poor day. Kinder Morgan (KMI), Berkshire Hathaway (BRK), Williams Companies (WMB), IBM and Hertz (HTZ) remain among our biggest holdings across strategies.

Interest rates remain low and look set to stay that way a good while longer. We have further minor portfolio upgrades in mind if the market continues its correction. Unlike most prognosticators, we won't try and forecast it, but will simply be prepared.