

TURN DOWN THE VOLUME: HOW SMART INVESTORS MANAGE MARKET "NOISE"



PERPETUAL INVESTMENTS
06/08/2015

If you choose to turn on, tune in, and never drop out, noise is everywhere. Here's why good investors need to block it out.

Thanks to the 24 hour news cycle and digital technology we can choose to be connected to all kinds of information – the latest news, updates and insights - and trivia, rumour and mistruths! Data from all over the world can bombard as well as bedazzle.

This can be a challenge for investors. The never ending flow of information, opinion and commentary on markets, economics, companies and securities means that an investor who is tuned into the minutiae of intra-day news might get stuck in a quagmire of market noise.

Noisy prices

Tradeable securities are constantly subject to fluctuating prices as an array of market participants, with different objectives and timeframes digest information and make buy or sell decisions. Investors focused on long-term performance can find the monitoring of short-term price movement simply represents another source of market noise.

Markets prices don't always reflect what an asset is worth. The smart investor knows that market prices can, and do, diverge from intrinsic or fair value and sometimes, for prolonged periods.

Investment guru George Soros once noted: "I contend that financial markets never reflect the underlying reality accurately; they always distort it in some way or another ..."

It is, in fact, when market prices are dislocated from fair value that investment opportunity abounds.

Think like the Oracle of Omaha

One of the greatest investors of our time, Warren Buffett, is often referred to as the 'Oracle of Omaha'. This moniker pays homage to his talents as an investor and the location of his successful investment company *Berkshire Hathaway*, in Omaha, Nebraska (population 400,000).

Buffett has often said that his distance from Wall Street has helped him maintain

clarity and perspective. “It’s very easy to think clearly here. You’re undisturbed by irrelevant factors and the noise generally of business investments,” Buffett said. “If you can’t think clearly in Omaha, you’re not going to think clearly anywhere.”

Perhaps it is this distance and perspective that has supported Buffett’s style of contrarian investing: buying quality businesses that are **not** market darlings.

Buffett makes an excellent point about the importance of avoiding market noise when making investment decisions. Thankfully, moving to Omaha isn’t the only option for good investors making sound investment decisions.

Good investors mute market noise

At Perpetual, our team of investment professionals use a number of approaches to drown out market noise. Chief amongst these are:

- adherence to a **solid investment process** - one that has been proven through market cycles and tested in varying market conditions
- **conviction** to confidently build positions in quality companies - this is critical during periods of heightened market stress and hysterical news flow
- **regular meetings** with company management to build a thorough in-house understanding of a company and the industry in which it operates.

Interested in learning more? Watch Perpetual’s investment experts discuss how they stay focused on fundamentals and avoid the distractions of market noise.