

The Investment House Quarterly: June, 2015

Index %	YTD 2015	2014	2013
S&P 500	+1.23	+ 13.69	+32.39
Barclays US 20+ Yr Treasury	-5.26	+27.48	-13.88

Source: Morningstar

The Price Is Right. Isn't It?

Long time investors know well the old saw that the equity market has risen, on average, about 9% per annum over a number of years (8.91% over the last 20 years, to be exact, according to Morningstar). But as we have often pointed out, such a ride is not necessarily a smooth one. Many wide fluctuations of 30% and more in either direction are contained within that quiet, well-behaved term “average.”

So too with individual stocks, even over as short a period as one year. This week's reaction to Google's earnings announcement is a case in point. As the chart below shows, over most of the last year, Google stock hovered quietly between \$500 and \$600 per share – a range of about 20% - and for much of the time, traded right in the middle of that range, around \$550. Until last week. Then, suddenly, in *one day*, a company with over \$400 *billion* in market cap gained over 16%, and in only one trading week, gained over **25%**!



With so many professional and amateur investors alike evaluating every scintilla of information about such an important company, how can such a thing be possible? Can the value of such a large, well-known business really change 25% in *one week*?

The answer to this reminds us of the age old difference between *price* and *value*. For example, most of us pay next to nothing for our water, and we think of it as *free*. The price is effectively zero. On the other hand, should we be deprived of it, we quickly realize that there are few other things as necessary to life as water. The value is incalculable. But, under conditions of plenty, we often forget the intrinsic value of things, until something happens which *reminds us*: we may know the price of many things, but occasionally we forget the *value* of everything.

Such is the case in investing too. A great company bought at the wrong price will prove a disappointing investment, no matter what. But where a great company is bought for a fair price, there is no guaranty in public markets that there will be a gradual, linear, or even timely agreement on its value. Things may take a long time to sort themselves out. And when they do, just as when we discover the value of water after one full day without it – the new appreciation of value may be sudden.

So, in investing, the price is *not* always right. And we are glad of it. For it is this forgetfulness about *value* which creates the best investing opportunities for us.

The Investment House LLC (“TIH”) is a registered investment advisor with the U.S. Securities and Exchange Commission (SEC).

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