

Economy & Market Valuation

The stock market went through a lot of volatility in Q1 2016 but ended the quarter almost at the same level where it started in 2016. The stock market is now within a couple of percentage points of its all-time peak achieved in 2015. It looks as if all the fears about the slowdown in China and Europe, negative interest rates and interest rate hikes by Federal Reserve have gone away. As we said in our previous letter, the US economy is growing at a moderate pace and we estimate the risk of recession in the US this year to be very low. We did not sell any securities in panic during the recent downturn as our investment decisions are based on the premise that the US economy is not close to a recession.

Investment philosophy and Examples

As we mentioned in the previous letter, we booked some profit in our EBIX position and sold a portion of the stock, as we want to stay disciplined. Our target for any stock is to be no more than 10% of the portfolio and EBIX was more than 10% of the portfolio because of the recent gains in its share price. It is not a hard rule but we want to follow it so that the portfolio does not get concentrated in a few companies. EBIX is up more than 25% since we sold a portion of it, but it is a good problem to have.

Many of you might have noticed new entries in the portfolio such as Liberty Media Corporation Sirius XM (LSXMA) and Liberty Braves (BATRA). In fact, the old Liberty Media (LMCA) was split into three tracking stocks. The formula for the split is a little complex. The portfolio can show a misleading loss for your shares of LMCA. If you

really want to calculate the true profit/loss for LMCA, you can use the formula below

$$1 \text{ old LMCA} = 1 \text{ LSXMA} + 0.1 \text{ BATRA} + 0.25 \text{ LMCA}$$

The same is true for shares of Ferrari (RACE). We did not buy RACE, but acquired shares in RACE as a spinoff from our holdings of Fiat stock (FCAU). We believe that RACE and BATRA do not fit in with our long term value oriented philosophy and we plan to divest (sell) these two positions in the coming days.