



## BLACK AND BLUE

On October 15<sup>th</sup> 1987 I headed off on a few days holidays. The holiday wasn't anything too exotic, just a short trip to Kerry staying with my cousins in Tralee. I had the golf clubs in the boot of the car and if the weather was kind to me I was hoping to go out that Monday to Ballybunion and play their world famous links. It just so happened that the Monday in question was "Black Monday", October 19<sup>th</sup> 1987. The weather that morning wasn't great and I was in two minds as to whether I should bother trying to play. I remember listening to the news but I cannot remember exactly what was being said. All I know is that there was a sense of panic and I felt that I should get back to the office to be part of whatever was going on.

To put things in context I should point out that at the time I was the newest member of the team with about 11 months experience. I was still more at home with investment theory learned in college rather than the reality of day to day volatility in stock-markets. At the time I didn't realise that although all my colleagues had more experience than me, they were generally still relatively new to the game. There was no one who had been actively investing through the highs and lows of the 60s, 70s and 80s. There was no one who had gone through anything that remotely resembled the 20% fall of "Black Monday".

It must have been late afternoon or early evening before I made it back. The whole team was still at the office. Everyone felt that this was likely to be a repeat of 1929. (If anyone disagreed with that view they did not express it). The consensus view was that there was a real danger of a global recession and that therefore the prudent thing would be to reduce exposure. With the benefit of hindsight it might appear as if people got themselves too worked up about the possibility of a 1930s style depression but at the time there was a genuine sense of global panic and nobody was sure if governments or central banks would or could do the right things.

In order to reduce equity exposure I was told to put on orders to sell all of our holdings in Japan. I was the young rookie so I did what I was told. I stayed in the office and put on the sell orders. At midnight Tokyo opened but Tokyo had a system of daily maximum ups and downs. The maximum a stock could fall was approximately 10% in any single day. If potential buyers were below the 10% down limit there would be no trading at all and that is exactly what happened that day. I cannot remember exactly what time I went home to bed but it was clear that nothing was going to trade.

The next day Central banks began to respond to the crisis with a series of coordinated interest rate cuts. The consensus among my colleagues remained that we should cut back on our equity exposure. I did not even attempt to contribute to the debate as I felt helpless and unsure. I was asked to work through the night to liquidate our holdings in Japan. That night there was a bounce back and we did manage to sell the Japanese portfolio.

The following day I was asked if I would be willing to work nights for the foreseeable future as there was a sense that the crisis was not over and that Japan

would be most likely to have a significant fall and start a second wave of collapse. The sense of real fear remained. As we all now know, that second wave never happened.

A couple of weeks later I was told that I could return to my normal work week.

I have told this story because the memories of “Black Monday” came flooding back to me on what has now been labelled “Blue Monday”, January 21<sup>st</sup> 2008. In a strangely ironic way I was once again away from my office on the morning of January 21<sup>st</sup>. I was in Monaghan staying with my wife’s family in the place that has inspired the name of this company, the stony grey soil of Killeevan! Generally speaking when I am in Monaghan I tend not to watch the markets too closely as there is no broadband access easily available in Killeevan.

That morning I didn’t even listen to the news but it just so happened that January 21<sup>st</sup> was the day that Philips had their results. As I am a shareholder in Philips I was curious to find out about what was being said about the results.

At about 3.30pm I went into the Hillgrove Hotel in Monaghan town to get a coffee and log on to their free broadband network. Naturally enough I had a quick look to see how the overall markets were doing. I was surprised to see the scale of the falls on European markets. I knew that in dealing rooms all over the world there would be rookie dealers who would be stunned by it all just as I was back in 1987 and there would be some more experienced dealers who were selling at any price (little did I realise what was going on at Societe Generale).

There were the usual headlines on the news and the experts were being brought out to explain what was going on. “Global Recession”, “Sub Prime Crisis”, “Banking Crisis”, etc, etc. In circumstances like this it is very hard to remain unemotional.

When you are down thousands of euros and when it sounds as if you will be down even more in the coming weeks and months the temptation is there to panic and sell. You would not be human if you did not feel these emotions. It was very easy to feel blue that “Blue Monday” but this is exactly the type of situation that I have written about before when I wrote my August 06 opinion piece. This is where I genuinely believe that the stock market is driven by emotions, where professional investors worry about whether they will have a job in a few weeks time rather than being able to think about the long term. This is where professionals struggle to believe that in the long run shares will generate a return greater than cash and tend to think about whether there is a “Kerviel”, Leeson or Rusnak in their team. This is where professionals stop listening to the Philips conference call and go into crisis meetings to discuss what to do.



Jerome Kerviel the infamous Societe Generale trader.

Now I do not know just how bad things are going to be in the coming months. Maybe I should panic, maybe I will kick myself for not having sold and bought back cheaper but I felt reassured when I listened to the Philips conference call. Management appeared relatively confident about their own company and they pointed out that they had gone through recessions before and survived. They felt confident enough to increase their dividend and have made some large acquisitions recently.

In fact before January 21<sup>st</sup> two of my holdings had reported results that were reasonably good. Linear Technology and Ascendas Real Estate (both mentioned in previous opinion pieces) had results and again were confident enough to increase their dividends.

To repeat myself I believe that I can own companies like Philips, Linear Technology and Ascendas Real Estate through whatever economic environment comes along as long as it isn't a 1930s depression type economy. As I mentioned last month I acknowledge the possibility of a deep recession but I think a short mild recession is a more likely outcome. In 1987 we avoided depression, after the first gulf war we avoided depression, after the Asia crisis we avoided depression and after the dot com crisis we avoided depression. I have been involved in markets through all of these major crisis situations and each time there were genuine fears of depression but instead we have had a series of mini cycles avoiding the massive boom and busts. There are some commentators who believe that a deep recession is required to "cleanse" the world of bad practices. They appear to believe that we need to teach people that debt is dangerous, that complex financial products are dangerous and that we should return to a world of greater prudence. Ironically I believe in achieving these aims but I think that a deep recession is the wrong way to do it. Ordinary people get hurt the most in a recession not the sub-prime financiers. Chuck Prince with his \$30m payoff will not go hungry but many working class people might if they lose their jobs. Tackle these issues in other ways but do not criticise the Federal Reserve for trying to prevent a deep recession.

Even if it is a fairly long recession I will continue to have the comfort of believing that I own good companies that should survive the problem period.

The last few weeks may have left me "Black and Blue" but hopefully time will heal the bruises..... Watch this space!