> **"Confronted with the challenge to distil the secret of sound investment into three words, we venture the motto, Margin of Safety."**
>
> **-- Benjamin Graham**

While many investors claim to wait for the "fat pitch", history shows few actually act when the opportunity presents itself. The concept has its roots in baseball; waiting at the plate with the bat on your shoulder until the pitcher (Mr. Market) throws a pitch that you're confident you can hit.

Rather than waiting, the average – and even professional – investor takes a mighty swing at more than his fair share of pitches, fat or otherwise.

There are various behavioural reasons why investors are impatient to deploy their money; fear of being too far away from their peer group (herding), fear of missing market upside while waiting, thereby looking foolish (also herding), fear of holding cash, or possibly being unable to according to their "mandate"; or fear of being wrong and losing their job (if a professional).

In our investment lifetime, the mother of all fat pitches was thrown by Mr. Market in 2009. Between May 2007 and March 2009 (during the last recession), the decrease of 55% in the S&P/TSX Diversified Bank Index was astounding, with all of the major banks experiencing a decrease of at least 50% over the period. It took twenty-two months to erase half of the value of our major banking system and, once fear was gone, it took investors only eleven months to replace it.

Put another way, investors that were fully invested in bank stocks in May 2007 saw a 50% erosion of their market value while pundits everywhere were forecasting the collapse of our financial system. But, had they been patient, their accounts would have fully recovered eleven months from the deepest part of the decline. In addition, their accounts would have appreciated an additional 34% to the end of last year. That is a great example of the value of patience.

But what if you didn't own a bank stock in May 2007? Then the opportunity in March 2009 was the classic fat pitch.

More recently, the pitcher's arm is warming once again. Thanks to a variety of events, the collapse of oil prices in the past six months is affording investors another opportunity to purchase high quality companies at a significant discount.

Case in point – our recent purchase of Pason Systems. Pason is the market leader in technologically sophisticated tools used onsite at drilling rigs, with over 93% market share in Canada and 60% in the US and Latin America. Their products become more vital as drill formations become more complex and technically challenging; for example, horizontal drilling in Argentina has been a successful application. They have competitors, but compete on high quality service with over a third of their employees operating as field technicians. Their high quality service gives the company pricing power, with average pricing 15-20% higher than their closest competitor.

Fear of pullbacks in drilling activity (as a result of lower oil prices) has reduced the PSI share price by over 50% in the past four months. With an average return on capital in excess of 15% and no debt, we believe the company is well positioned to withstand the current environment.

As many have noted, we've seen oil prices retrench seven times since the 1980's averaging approximately 35% each time. The current environment is similar to the 1980's and the effects are the same – great companies like Pason Systems are offered to long term investors at deep discounts to their intrinsic value.

A final thought. We love the fat pitch at Laurus but recognize our role is not just to buy value, but to create value. Value creation for our clients is derived by focusing on our ownership of great companies and knowing them extremely well, our dedication to, and expertise in, one particular strategy, and our zealous pursuit of exceeding client expectations.

When offered the occasional chance to "hit one out of the park", we'll do so. But every other day, we'll be happy batting singles.

6-1400 Cornwall Rd,
Oakville, ON L6J 7W5
(p) 844.430.5501 (toll-free)

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INVESTMENT COUNSEL