

# Northstar Notes

*“Every life is many days, day after day. We walk through ourselves meeting robbers, ghosts, giants, old men, young men, widows, brothers-in-love, but always meeting ourselves.”*

*– James Joyce, Ulysses*

## A Note on Volatility

The loud chorus of opinions, advice, and sensationalized news from the financial media has picked up again. Stocks, we are told, are “cratering,” and markets, when they aren’t “imploding,” are “plunging” to lows not seen in months (months!!). A new “Period of Volatility,” we are told, is taking hold, and financial cosmonauts point to China’s “Great Fall” (and here we thought it was the Great Wall that was visible from outer space). The language of the financial media, it seems, is suddenly limited to descriptions of either (a) calamitous disaster, or (b) the movement of a line on a chart. As entertaining as it can be to watch, it is better for us to avoid this destructive stampede of raging bulls and bears, and we wanted to take some time to share our perspective with you.

Many financial pundits and news outlets want us to believe that the information they provide is meaningful in itself. Stock prices and measures of volatility, they implicitly claim, are like measurements in physics—just as no one doubts what velocity means or what temperature means, no one should doubt that, for instance, volatility means risk. Over the years, we have found this approach to be fundamentally misguided. Instead of blindly following trends in the outside world that are out of our control, we choose to first look inwards and take stock of our own values and beliefs. Only in this

Tuesday, September 15, 2015

The Northstar Group, Inc.  
405 Lexington Avenue  
Suite 37A  
New York, NY 10174  
Phone: (212) 883-9595

way can we make sense of new information. Only in this way can we arrive at meaningful definitions of concepts such as “risk” and “volatility” and, in doing so, begin to direct our behavior in ways that affirm our principles.

Our core value is, and always will be, to help secure financial dignity for our clients over the long term. Through this lens, it’s clear that volatility does not equal risk. The added price volatility of investing in magnificent companies over cash-like instruments should hardly take away from the tremendous wealth-generating power of these companies over the long term. In fact, even as red banners flash on TV screens and talking heads warn of further calamity, we have been diligently at work trying to identify new opportunities to own wonderful businesses at rational prices.

---

*“I can calculate the movement of stars, but not the madness of men.” – Isaac Newton*

---

In the 1720s, when Isaac Newton was asked about the South Sea Bubble and volatility in the stock prices of the day, his response was telling: “I can calculate the movement of the stars,” he said, “but not the madness of men.” Three hundred years later, despite an array of financial bells and whistles, “animal spirits” continue to play an important role in the short term swings of the stock market. Here at Northstar, we can’t calculate the movement of stars any more than the madness of men, but we have found that our values and beliefs help us navigate the noise of contemporary finance. So, we remain committed to what we wrote you last year: “instead of careening from crisis to crisis, we choose to stand on the shoulders of giants” by owning shares in marvelous corporations with a long term outlook.

But what about the Great Fall of China? What about rising interest rates? Greece? The oil supply glut? Surely these are real issues and not just animal spirits?

Tuesday, September 15, 2015

The Northstar Group, Inc.  
405 Lexington Avenue  
Suite 37A  
New York, NY 10174  
Phone: (212) 883-9595

Over the past thirty five years we've seen the issues of the day pass before us like Joyce's whimsical menagerie of robbers, ghosts, giants, old men, young men, widows, and brothers-in-love. While these issues come and go with the news cycles, our values and investment philosophy have served us well through them all. We live in very exciting times, and our world is changing fast and in unprecedented ways. Gargantuan quantities of information are at our fingertips, oil and energy production grows consistently more efficient, and billions of people are poised to be lifted out of subsistence in the developing world. Structural challenges are as inevitable as the cyclical swings of our markets, but we see nothing here that remotely challenges the long term health of first-rate businesses. Instead, the big picture remains largely unchanged: ownership of well-run businesses is one of the greatest long-run wealth generating forces ever known.

September 15, 2015

*Material discussed is meant for general illustration and/or informational purposes only and it is not to be construed as tax or legal advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary; therefore, information in this newsletter should only be considered when coordinated with individual professional advice.*

*This newsletter is produced for the benefit of clients of The Northstar Group, Inc., an investment advisor registered with the Securities and Exchange Commission. Comments and opinions offered here are not solicitations to buy or sell any security. Furthermore, these opinions are those of Northstar's principals, Henry Asher and Linda Ray, and are not those of Royal Alliance Associates.*

*Securities offered through Royal Alliance Associates, Inc., Member FINRA & SIPC.*

*Advisory services offered through The Northstar Group, Inc., a Registered Investment Advisor, which is independent of Royal Alliance Associates, Inc.*