***"Investors will frequently not know why security prices fluctuate"* - SETH KLARMAN**

Some Thoughts On The Volatile Market

The benign market that many investors have become accustomed to over the last two years has given way to what looks like a very different market environment. This abrupt change in character has resulted in hand wringing by many individual investors and prompts the need for some observations, based mostly on historical facts.

The markets of the past two years have been exceptional in their total lack of volatility as evidenced by the VIX (a widely followed measure of volatility often referred to as a *fear gauge*) that has hovered near all-time lows for much of 2017 and early 2018. Another measure is simply the record 404 trading days that the markets failed to decline by more than 5%. This quiescent period was viewed by many observers as the *new normal*. Then, in the blink of an eye, volatility returned with a vengeance last week and continued the carnage on Monday, February 5 with an intraday decline of almost 1,600 point on the DJIA before closing the day with a loss of 1,175 points. The damage done by this sudden and unanticipated volatility literally destroyed two leveraged inverse ETFs related to the VIX. These two ETFs declined by more than 80%, triggering a clause in their offering documents that led to their sponsors electing to close these funds and liquidate any remaining assets. To add insult to injury, after a snap back rally on Tuesday, February 6 of more than 500 points on the DJIA and a relative quiet but volatile trading day on Wednesday, February 7, the markets renewed their plunge today with a loss of more than 1,000 points on the DJIA.

So, what has happened to bring about this volatility? The U.S. and world economies are performing well, corporate profits are growing steadily and employment is low at 4.1%. While there has been a recent change in the leadership at the Federal Reserve, the new Chairman, Jerome Powell, has signaled that the policies of his predecessor will be continued under his leadership. Nothing appears amiss but the markets are now worried about the possibility of rising inflation, the possibility the Federal Reserve may raise interest rates faster in response to faster economic growth and the impact of increased issuance of Government debt to fund the massive tax cuts enacted late last year.

Undoubtedly, the above worries may have been a contributing cause but more likely the volatility has been exacerbated by the new investment products and services created to serve the "gamblers" in the crowd. Many new investment products rely on quantitatively driven methodologies that use algorithms to create trades to manage portfolio risk. On the surface, the beauty of these methods is that everything is mechanical with no human intervention. Thus, when the market declines, the model automatically sells stock to reduce risk, which drives down prices which then feeds on itself and creates the need for more selling. Frankly, these new methodologies are reminiscent of portfolio risk control popularized in the 1980s that were a contributing cause of the 1987 October Crash in which the DJIA declined 22% in one trading day.

So it is with the new generation of investors and the new products and services that purport to have vast advantages over the time-tested methods of the past but, in the end, contain the seeds for their own destruction. With this recent market action causing investors of all stripes to reexamine their strategies and their risk parameters, it is a good time to emphasize the guiding principles that drive the investment process at Metis Value Partners (MVP). Throughout the business careers of the MVP partners, we have always focused on balance sheet analysis and a disciplined examination of income statements while maintaining a focus on industry fundamentals. While we normally have low cash reserves, we use periods of market volatility to upgrade the quality of our three strategies by selling stocks that have performed well and replacing them with new stock purchases that suddenly become available at more attractive price levels.

In closing, we think the recent volatility is a return to the long term historical pattern of market fluctuations caused by the many and unending positive and negative forces that constantly impact the investing world. We are comfortable in this return to more typical market action and look forward to the opportunities that lie ahead. We appreciate your confidence in MVP and assure you that we are working hard every day to earn and keep your business.

Stephen Kent, Jr.

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