

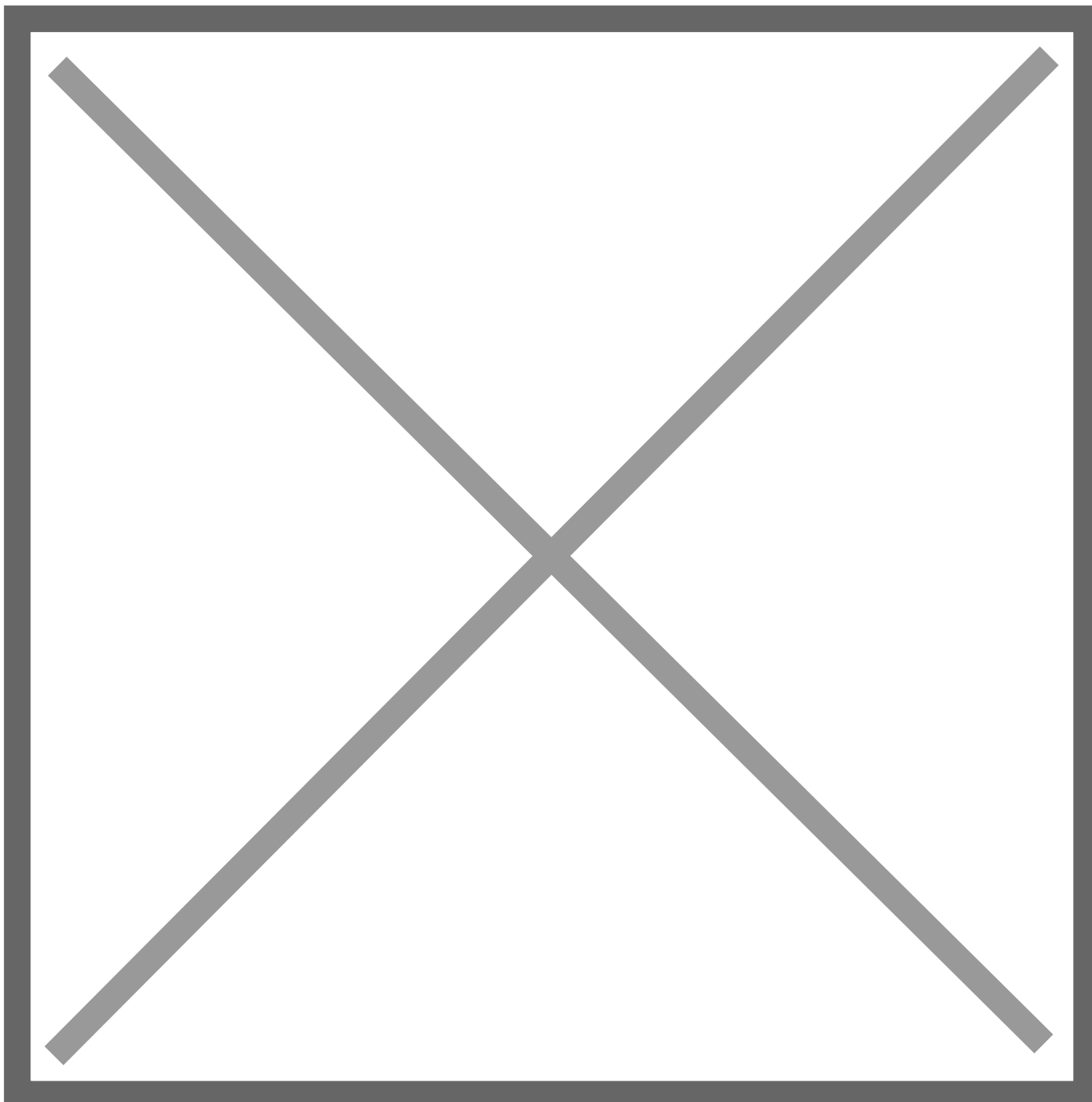


Insights, Tacit Thought | Weekly Investment Insights

A Price for Everything

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It is often written that “uncertainty creates opportunity”. While this sounds trite, it is nevertheless true. Uncertainty can create opportunity through low prices. All investors know that Brexit has effected the UK equity market negatively; this is not however a one way street.



The chart above shows that there has been a steady increase in private equity buyouts of UK companies after the Brexit referendum in 2016. In the first half of 2019, the amount of money invested by private equity buyers has surpassed levels seen in the last 10 years. This is a telling sign as it has long been our core view that whatever the outcome of Brexit, the UK economy is dynamic enough to at least maintain its size and more likely to grow it in line with historic rates.

So, as has happened in every economic cycle, private equity buyers understand that the value of a business is not necessarily well reflected in daily stock prices. To them, and us at Tacit, volatility is both a blessing and a curse. The blessing is that it allows perfectly good businesses to trade below what a rational private buyer will pay for the business. The curse is that volatility in itself can be a risk if people believe it is telling them something useful and act on it by selling down more volatile holdings.

Over the last year, all of our strategies at Tacit have had lower volatility than our peers while achieving similar levels of returns. While we don't explicitly target low volatility, what this shows is that our performance has matched our peers even as we have held lower equity exposure.

What has held back performance over the last year has been our exposure to UK holdings. We can't predict the time and date these holdings will start to reflect their true values in the market. What we can say is that low valuations are often the only catalyst needed to make an investment thesis work. And based on the increased private equity buyouts of publicly traded UK companies shown in the chart above, other investors are starting to take notice and are no longer waiting for a resolution to the Brexit saga.

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