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HOW TO RESPOND TO ‘GET ME OUT OF THE STOCK MARKET NOW‘

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By David Marcus

Based on my conversations with several financial advisors over the past few weeks, it seems clear that all of them are hearing the same message from most of their clients: ‘Get me out of the stock market now, at any price.’

To be sure, the global equities roller coaster ride we’ve been on, with its twists and turns, slow climbs and sheer drops, is not for the faint of heart. But it can be good for those FAs and investors who understand that the bottom of a steep descent is the point where you get ready for the climb to the next peak.

Lingering doubts about the U.S. economy, coupled with anxiety about a debt crisis in Europe and fears about a spreading contagion, have taken a toll on global equity markets over the past several months. When the other shoe dropped, and Standard & Poor’s downgraded the U.S.’s AAA credit rating, it triggered a full-fledged panic among investors around the world who began selling indiscriminately.

All that indiscriminate panic selling drove down stock prices dramatically and created some very attractive buying opportunities for those investors with the discipline and focus to act on the tremendous bargains that became available. As active value investors, we look for catalysts such as management changes and restructurings that we believe have the potential to drive a company’s valuation higher. The recent global equity sell-off and the resulting volatility are likely to accelerate those catalysts.

Already, we’re seeing companies around the world making moves they would not have been able to even a month ago. Some are buying their competitors at greatly reduced prices. Others are realizing that the best investment they can make is in themselves and have announced huge stock buy-back programs. Merger and acquisition activity is also accelerating, with Google’s $12.5 billion purchase of Motorola Mobility Holdings representing just the tip of the iceberg.

We view the crisis as a chance to sift through the rubble and find the gems. On the worst days of the sell-off we nibbled at the stocks we liked, buying companies around the world that we had been watching at prices that made sense. We also added to our positions in companies we already owned.

For example, here in the U.S. we increased our holdings of iStar Financial (Ticker: SFI), a U.S.-based commercial mortgage REIT. The company has been benefitting from an uptick in the real estate market and recently announced a plan to buy back 15% of its stock.

We also added to our position in Genworth Financial (Ticker: GNW). While some Wall Street analysts and investors see Genworth as a perpetual disappointment, we see it as significantly undervalued and took the opportunity to buy on the dip. We’re also increasing our investment in the financial sector generally, including Bank of America, JP Morgan, and Capital One via warrants issued during the TARP program

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- Some
- None

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Heading To Europe
Outside the U.S., we see unique and unprecedented opportunities to capitalize on the European crisis. At Evermore Global, we can and do invest everywhere in the world and right now we're making a stand in Europe, adding to add to our holdings there even as others are bailing out. Three companies in particular stand out:

Highlight Communications is a Swiss media powerhouse. It owns sports rights, movie rights, and does major event marketing. The company is 50% owned by Germany's Constantin Medien, itself a major sports and event-marketing company. With Highlight Communications currently trading at less than seven times earnings, we are buyers.

Madrid-based *PRISA* is Spain's largest cable television company and the world's leading Spanish and Portuguese-language media group, with a presence in 22 countries. It recently underwent a restructuring, which is one of the catalysts we look for as something that can unlock a company's true value. When most investors hear “Spain” and “restructuring,” they can't get out fast enough and it's a stampede to the exits. We're crashing into them running in.

Balda is a German company that makes plastic cases for mobile phones and medical equipment. It also owns a 17% stake in a Taiwanese company called TPK that manufactures touch screens for iPads and smartphones. We see that stake alone as being worth 11 Euros per share. With Balda currently trading at around 6 Euros, we're getting the value of the Taiwanese company plus Balda for free.

Looking Ahead
It's clear that the U.S. is not going to be the last sovereign nation to see its credit rating downgraded. More are coming, and probably sooner rather than later.

The best advice FAs can give their clients is to stay calm and act based on common sense, not fear. Even with more sovereign nation credit rating downgrades, almost no country (with the exception of perhaps Greece) – especially the U.S. – is really in danger of default, but that probably won't prevent another round of panic selling.

Currently, we're sitting on about 25% cash in our portfolios. This enables us to take advantage of buying opportunities as they present themselves. However, just because investors are selling indiscriminately doesn't mean we will be buying indiscriminately. We'll continue to do what we've been doing: nibbling around the edges and scooping up the treasures that get thrown out with the trash.

One of the truisms of investing is that in a panic, people always go home. In other words, investors stick to holdings in their own countries and dump everything else. That creates volatility but also opportunity.

FAs should be preparing for those opportunities now. If they and their clients wait for everyone else to come back, those stocks won't be available at bargain prices. In investing, as in life, if you're the first one to the party you have your choice of what you want. If you're late to the party, all that will be left is what others didn't want.

David Marcus is chief executive officer and lead portfolio manager at Evermore Global Advisors, a mutual fund manager using an active value investment discipline to find undervalued companies around the world.

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