March 2014 Monthly Comment written 28 March 5 PM CDT

We publish March's comment one workday early due to travel as we leave tomorrow for Moldova and Ukraine. Through today, we estimate we've lost 1.1% in March and 0.7% for Q1; obviously, these figures will change with trading Monday, March 31 (and Sunday, March 30 in Iraq and Oman). Through March 28, most of the global indices we cite have total net returns within two percentage points of break-even, either plus or minus, for March and within one percentage point of break-even for Q1. The notable exception is the MSCI Frontier Markets (FM) Index, a standout recently, with a 3% gain in March and a 7% gain in Q1. As mentioned last month, this advance has been narrow. GCC countries are up 4% in March and 12% for Q1. Ex-GCC, the MSCI FM index is up 1% in March, but down 2% for Q1. We have only 2.4% GCC exposure. Our portfolio metrics are little changed, with trailing PE and price/book at 6.8 and 1.0, respectively; a 4.7% weighted average dividend yield; and a 19.6% weighted average return on ending equity.

Ukraine continues to dominate headlines and we expect this uncertainty to remain for a long time, just as several Middle Eastern countries remain unsettled more than three years into the Arab Spring. Ukraine is presently 6% of our portfolio. We have lost 15% in Ukraine in March and 24% in Q1, with about two-fifths of the quarter's loss coming from currency. It now takes 11.01 hryvnia to buy a dollar whereas it took only 8.24 entering 2014. On March 3, we decided to freeze our Ukraine positions for one year, with a checkpoint in six months to verify that decision. This means, barring extreme valuation changes, we don't intend to buy or sell anything while Ukraine is in the freezer. We decided this when, for two consecutive weekends, the picture changed materially between the time we left the office Friday night and the time we returned Monday morning. On the last full weekend of February, President Yanukovych went from inking a political transition deal on Friday to fleeing Kiev the next day. This victory for the West was short-lived. On the next weekend, within 24 hours of us publishing our February comment, Putin knocked down one of the pillars of our potential optimistic scenario when his Crimea game plan—a slow motion, *fait accompli* invasion—echoed that of Georgia in 2008. On a positive note, the IMF did announce a $14-$18 billion bailout loan yesterday—another pillar of our optimistic scenario. We also wrote last month that frontier country risk was last this high in Q1 2011. It was our experience then—being unable to predict fast-moving events in Egypt and Cote d'Ivoire—that led us to freeze Ukraine now. Trying to follow every political twist and turn of a country changing rapidly from day to day is exhausting, all consuming, and potentially detrimental to performance. Human nature makes us prone to three mistakes: 1) selling unwisely when the news is at its most grim; 2) being a premature contrarian and buying too early, failing to imagine just how bad things can get; and 3) missing an important development elsewhere in the world as we obsess over a crisis country. Putting Ukraine in the freezer eliminates these three risks for now. On the other hand, it introduces at least two other risks. First, we may fail to buy more at a low point. Having invested a lot in Ukraine in the past two years at PEs of 3, however, we don't feel obliged to buy more. Second, we may fail to sell before prices drop further. We discount this risk also. Liquidity has dried up, and given the low valuations we started from, we are not inclined to sell. We made our decision to invest in Ukraine already—the freezer rule keeps us invested for now, come what may. Warren Buffet frequently explains that one secret of his investment success is doing nothing. We actually think our best chance of success long-term in Ukraine is to force ourselves to do nothing in the short-term.