

MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

1st Quarter, March 31, 2015			
	03/31/2015	% Change 1st Quarter	% Change Year to date
Dow Jones Industrials	17,776.12	0.33 % *	0.33 % *
S & P 500	2,067.89	0.95 % *	0.95 % *
Russell 2000	1,252.77	4.32 % *	4.32 % *
BC Aggregate BD Index		1.61 %	1.61 %
10 YR Treasury Yield	1.934 %		
30 YR Treasury Yield	2.544 %		

* *Includes reinvested dividends*

Napoleon's Glance

Carl von Clausewitz (1780–1831) was a Prussian officer who fought France unsuccessfully during the Napoleonic Wars. As a professional soldier, Clausewitz was involved in numerous military campaigns, but he is best known as a military theorist. His seminal work “*On War*” was published posthumously in 1932. Von Clausewitz was interested in the examination of war, utilizing the campaigns of Frederick the Great and Napoleon as frames of reference for his work.

In his writings, Clausewitz challenged the value of military intelligence in general: in particular he was quite skeptical of the accuracy of military intelligence.

“Many intelligence reports in war are contradictory; even more are false, and most are uncertain.... In short, most intelligence is false.”

Von Clausewitz termed this false information the “fog of war”. His observations on military intelligence were influenced by his experience in the Prussian Army, which operated in the fog of war due partly to the superior abilities of Napoleon's system but even more so due to the nature of war. Clausewitz acknowledged that the fog of war obscures what is actually happening. Confronting this challenge gives rise to military genius, personified by Napoleon Bonaparte.

Von Clausewitz describes a distinguishing characteristic of Napoleon's genius as Napoleon's glance, or as Von Clausewitz phrased it, his “coup d'oeil”. In French, coup d'oeil means a stroke of the eye or a glance. To von Clausewitz, Napoleon's glance is a sudden insight into the course of action to be taken, drawn from a broad and extensive knowledge of the past. One draws upon what has worked in past situations, but adapts that action to the situation at hand.

Von Clausewitz argues that coup d'oeil was the great secret of Napoleon's success. Napoleon was not an innovator; rather he studied in detail the winning campaigns of the generals who had come before him. Napoleon imitated their tactics but usually in new combinations tailored to fit the present situation. He put his army in motion with no particular destination until he saw a chance to win a battle. Napoleon actually passed up more battles than he fought and was particularly judicious in selecting which battles to fight.

In a key passage, von Clausewitz describes coup d'oeil as "the rapid discovery of a truth which to the ordinary mind is not visible at all or only becomes so after long examination and reflection." Utilizing Napoleon's glance in the securities markets would impart a significant advantage to the savvy investor.

As we "glance" at the current investing landscape and pore over our research, we are struck by the uncharted territory we have entered. Central bankers the world over have made the case for zero (or negative) interest rates since the financial crisis of 2008: the consequences of those extended zero rate policies are, as of yet, unknown. While the initial process of the extreme easing has caused both stock and bond prices to increase, the unusually long duration of the easing will lead to an increase in uncertainty and risk.

Value investing at its core is about managing risk. As noted above, Napoleon passed up more battles than he fought. Likewise, as value managers it is very important for us to fortify and shelter your portfolio in periods of increasing risk and uncertainty.

While the liquidity of cash provides safety in times of uncertainty, the yield on cash is unfortunately nil. As an alternative, we are adding Diageo to our portfolios. Tracing its roots to the mid 1700's, Diageo is a producer and distributor of alcoholic beverages. Brands include Guinness, J&B Spirits, Crown Royal, Johnnie Walker and Windsor to name a few. With a healthy balance sheet, strong cash flow and a 3% dividend. Diageo provides a low risk investment with an attractive total return outlook.

Like Napoleon, we gather intelligence to make disciplined investment decisions. As risk increases, Diageo provides a safe harbor while we await clarity from unconventional central bank policies.