Q&A WITH WALLY WEITZ

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Q: What factors have predominantly driven weakness in equity and credit markets?

Wally: We focus on fundamental factors. Our take is that equity valuation levels have been high, driven in part by Fed liquidity injections, and that recent price weakness represents prices coming back in line with companies' business values. Economic fundamentals have generally not been strong and have deteriorated in certain industries and geographies, but we are not expecting a serious recession of the depth of 2008-09.

Q: What do you believe to be the major drivers in this market weakness?

Wally: China and oil have been in the headlines and offer specific worries that can stimulate selling. We believe that part of the market's problem is that many investors have felt compelled and/or safe to be fully invested as long as the Bernanke/Yellen "put" provided a floor to the market, even though they may have had little conviction that prices "belonged" at those higher levels. With signs that the "put" was fading and with little conviction, selling may have become the path of least resistance.

Q: Have you made any recent changes to portfolio risk levels?

Wally: We have been net buyers of selected higher-conviction stocks as valuation levels have become more attractive. Thus our net exposure to stocks has risen modestly, but we believe overall portfolio risk levels have decreased as the stocks we own have become cheaper.

Q: If the market were to decline more, would you be more likely to add or reduce market sensitivity?

Wally: We would expect to be net buyers if the stocks we like participate in further market weakness. We do not have a mechanistic formula for adjusting our market exposure, but our goal is to be more aggressively positioned as valuation levels become more attractive.

Q: Between now and year end, do you think the S&P 500 will rally, stay flat or finish down from where it is today?

Wally: It seems likely that 2016 will, on balance, be more volatile than 2015, and we would not be surprised to see swings of 10% or more in both directions. Generally speaking, as long as the underlying businesses we own are performing well/growing, we are happy to see volatility and look forward to the attendant opportunities to take advantage of mispriced stocks.