LOH-GRONAGER PARTNERS

WHAT MAKES A SUCCESFUL VALUE INVESTOR?

IN CONCLUSION

After X Parts to our Multi-Part Series, we now need to establish (objectively of course) if we have been successful in answering the question that we initially set out to answer:

What makes a successful value investor?

When I look back at the principles that we have discussed over the past year, it strikes me that individually none of them seems particularly special. I also doubt there is anyone who read them and vehemently disagreed with any of them or doubted the importance of their application in the investment process. However, there must be a reason why there is only one 'Warren Buffett', who's returns we examined in the introduction, and why no other investors returns even come close. The reason for this I think, is simple, as human beings, in the end, our emotions almost always get the better of us, which is what leads us to fail. Buffett is not emotional; in fact, he is the opposite, he is entirely rational, and it is this rationality when applied over the long-term coupled with extreme patience and perseverance that has produced has exceptional results.

Successful investing is hard, and that is why having a disciplined, repeatable, adaptable and long-term investment strategy makes sense. Ben Graham laid out the fundamental principles of value investing three generations ago. Despite the enormous changes in the world and markets since then, these principles have in my opinion, stood the test of time:

1. Treat a share of stock as a proportional ownership of the business.
2. Buy at a significant discount to intrinsic value to create a margin of safety.
3. Make a bipolar Mr. Market your servant rather than your master.
4. Be rational, objective and dispassionate.

What Buffett added under the guidance and encouragement of Phil Fisher and Charlie Munger, was a single additional point:

5. It is better to buy a wonderful business at a good price than a good business at a wonderful price.

And to this list, I would add:

6. Patience is key in identifying exceptional businesses, in knowing when to buy them, how long to hold them and when to sell them.

We have also explored the qualities of humility, passion, focus and decisiveness. To me, Charlie Munger captured a near perfect balance of them all when he said 'It would not be too much to say that it was obvious to me that I could not have a big edge over everybody else and all securities. In other words, it was obvious to me that if I worked at it, I would find a few things in which I had an unusual degree of competence. This is where I could make significant returns.' As an investor you need to go to where the opportunity set is greatest to create an edge. To achieve exceptional returns, you must be able to ignore the index, as you must do something different from it. Permanent capital helps significantly as it allows concentrated investors to ride out the short-term fluctuations of the market when it moves significantly against them.

To be a successful investor, you must be wise beyond your years, unemotional, rational, and objective. When you find a business who's discounted future cash flows are worth significantly more than the present value of the business you must act decisively, buy a meaningful amount, and then wait patiently for the rest of the market to agree with you. All human beings feel emotions, but the great investor perfectly balances risk aversion and opportunity to reach rational conclusions. This is the exact opposite of most people, who swing wildly between delight when they're feeling optimistic (and the market is no doubt rising…coincidence much?) and fear when they're feeling pessimistic (and the market is undoubtedly falling…no coincidence here!). They become greedier as prices move higher and more depressed as prices fall, the exact opposite of successful Value Investors. As Buffett says:

'The Stock Market is designed to transfer money from the Active to the Patient.'

Value investing is a lot like a journey. Your objective is to get from the stormy seas on which you emotionally and physically feel every upwards and downwards motion of the market, to the heavens where you float above it all. The emotional journey in the beginning will eventually lead you to be at peace with the market no matter how it behaves. Through our passion for finance and business we will build our own circle of competence. Through our search for truth, we will have to discover things about ourselves, some that we will like and some that we will not, but both will need to be incorporated into our investment process. Being humble in our successes and embracing our failures will make us both better people and better investors. There is only one investment heaven, but there are limitless paths to get there, you must choose your own.

To condense all X Parts into a single (long) sentence and to answer the question: What makes a successful value investor? (deep breath): Make investment decisions rarely, and only when the investment is well within your circle of competence, when it has a significant margin of safety and when you do commit, commit a significant amount of capital, while thinking like an owner and investing for the long-term.

I trust you have enjoyed our journey together, as the investing legend, Charlie Munger says, 'In the investment business, all knowledge is cumulative' and in this spirit, we wish you continued success on your journey!

Yours sincerely

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