LOH-GRONAGER PARTNERS

WHAT MAKES A SUCCESFUL VALUE INVESTOR?

PART VIII – PATIENCE

Given this is now Part VIII of our Multi-Part Series (published monthly), I may be testing your patience, but as we are going to see, patience is an essential skill in every successful investors toolbox and even more so, it is required to help us to answer the question:

What makes a successful value investor?

Although economists like to disagree about most things, one thing that they can (mostly) agree on is the broad definition of 'Investing' as 'an action that defers consumption in the present, in the hope that one will be able to consume more in the future.' It follows logically from this that investors expect a positive return so they can 'consume more in the future' despite the presence of risk or 'hope'. A mathematician might say that the net present value of the positive future expected returns minus the present value of the potential future loss must be positive for the investor to go ahead, i.e. the investment must represent a net present value positive proposition. Regardless of whether you agree with the economists, the mathematicians or with my own definition of investing as 'the allocation of capital to the markets / businesses / opportunities where it can achieve the highest return relative to the risk of permanent capital loss.' What is clear is that time plays a key aspect in the process.

The ability to delay gratification today for the possibility of greater future gratification requires time to pass or patience. As perhaps the most famous economist of his age John Maynard Keynes wrote:

'Investment is intolerably boring and over exacting to anyone who is entirely exempt from the gambling instinct; whilst he who has it must pay to this propensity the appropriate toll.'

Patience in investing encompasses the concept of 'beneficial inactivity' which is at odds with what we would usually expect. As human beings often associate activity with success and importance. By nature, human beings as we have already discussed have a tendency towards impatient, and instant gratification. Why else would all cultures from the ancient Egyptians to the present day Chinese have a predilection to a greater or lesser extent for gambling? Gambling is clearly a negative net present value activity (the house always has an edge) and is thus a 'present moment' consumption activity as opposed to the delayed consumption activity of investing. As we often confuse activity with ability, this leads many money managers to constantly churn their portfolios, looking for the next hot thing, this is not investing, it is in fact...you've got this...gambling!

It is the same distinction between investing and speculating (which is another word for gambling), as Buffett wrote in Outstanding Investor Digest (OID) in 1997 'If you're an investor you're looking at what the asset is going to do; if you're a speculator, you're commonly focusing on what the price of the object is going to do, and that's not our game.' As Value Investors we are looking for net present value positive bets, and the best of these come around very infrequently and are realised over long periods of time. As Munger quipped on the same topic at Berkshires 1998 AGM 'Around here, I would say that if our predictions have been a little better than other people's, it's because we've tried to make fewer of them.'

This long-term investment strategy requires extreme patience. Wall Street (short hand for any sell side institution or anyone trying to sell you a financial product or advice) actively encourages short-term behaviour. The reason being that they are paid through commissions on activity. Investors ironically tend to reward this behaviour as they tend to wonder why they should pay a manager if he is not actively buying and selling all the time. Poignantly, it is for precisely this reason that an investor should focus on the long-term rather than the short-term. By lengthening their investment time horizon, an investor can vastly expand their prospective investment opportunity set. The competition for which, disappears as the rest of the market focuses on the next quarterly earnings release rather than the next 5–10-year trajectory of the business. Thus, with less competition, excess returns are more readily available. Always remember that not doing anything is also a decision, a serious decision, when it comes to your own portfolio management, and it should be treated as such, we make our money in the holding.

As a concentrated value investor your interests are directly opposed to those of Wall Street and the crowd. Your job is to meticulously select and cultivate a small number of exceptional business and then hold them. You are rewarded for your inactivity. Always beware the saying 'you'll never go broke taking a profit' no one may ever have gone broke, but no one ever got rich either, great fortunes are made by buying and holding. On this topic, a child once asked the question at the Berkshire AGM 'How can I become rich?' to which Warren replied:

'Charlie and I always knew we would become very wealthy…but we weren't in a hurry…after all if you're even a slightly above average investor who spends less than you earn, over a lifetime you cannot help but get very wealthy – if you're patient.'

I trust you have enjoyed our journey together so far however, if our paths diverge from here, then 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

Ardal Loh-Gronager
Managing Partner
LOH-GRONAGER PARTNERS

DISCLOSURES

To the extent communicated in the United Kingdom ("UK") or capable of having an effect in the UK, this document is provided for informational purposes only, and has been approved by Loh-Gronager Partners Limited a limited liability company registered in England and Wales with number 13519621 and is authorised and regulated by the Financial Conduct Authority under FCA number 956608 for the conduct of investment business in the UK.

The registered address of Loh-Gronager Partners Limited is 23 Berkeley Square, Mayfair, London W1J 6HE. Please note that the rules under the UK's Financial Services and Markets Act 2000 relating to the protection of retail clients will not be applicable to you as a professional client and that any potential compensation made available to "eligible claimants" under the UK's Financial Services Compensation Scheme will also not be available to you. Tax treatment depends on the individual circumstances of each client and may be subject to changes in future.

The information provided herein constitutes marketing material. It is not investment advice or otherwise based on a consideration of the personal circumstances of the addressee nor is it the result of objective or independent research. Any information including facts, opinions or quotations, may be condensed or summarised and is expressed as of the date of writing. The information provided herein is not legally binding and it does not constitute an offer or invitation to enter into any type of financial transaction.

If you are not a client of Loh-Gronager Partners Limited (hereafter "LG Partners"), please note that this document has been provided to you for information purposes only as an example of the type of products we are able to offer to you should you become a client of LG Partners. This document is provided to you for your information and discussion only. The provision to you of this document does not constitute an invitation or inducement to buy or sell any security or other financial investment, nor does it constitute an advice or personal recommendation. Should you wish to invest in any products, you will have to go through our KYC, Compliance and Due Diligence procedures, which can be initiated by contacting: ir@LohGronagerPartners.com.

The information provided herein was produced based upon information, including market prices, data and other information, believed to be reliable by LG Partners with the greatest of care and to the best of its knowledge at the time of writing and are subject to change at any time without notice. They are derived from sources believed to be reliable. LG Partners is under no obligation to ensure that such updates are brought to your attention. The product(s) mentioned in this document will put your capital at risk. Past performance is not a reliable guide to future performance. Potential investors should refer to the fund documentation before considering any investment and read the relevant risk sections within such documentation.

LG Partners provides no guarantee with regard to the content and completeness of the information and where legally possible does not accept any liability for losses that might arise from making use of the information. If nothing is indicated to the contrary, all figures are unaudited. The information provided herein is for the exclusive use of the recipient. It may not be reproduced, neither in part nor in full, without the written permission of LG Partners.

Your Personal Data will be processed in accordance with the LG Partners privacy statement accessible through the official LG Partners website https://www.LohGronagerPartners.com. In order to provide you with marketing materials concerning our products and services, LG Partners may process your basic Personal Data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can opt-out from receiving these materials at any time by informing LG Partners: info@LohGronagerPartners.com.