

All-Weather Investments – the Global Contrarian Strategy

Content Highlights:

1. The equity market rallied a lot since March this year, do you think the rally is sustainable?

- At the beginning of the year, there was a general consensus that we were heading for a great depression, there was a lack of confidence in the markets and we were in a negative feedback loop. I think where we are now is clearly economic environment that is improving, we see it in emerging markets, they have recovered a lot faster than developed markets, and we're now in a positive feedback loop.
- The emerging markets are the markets that had actually went down the most last year. So if you went down 80% last year, and you go up 100%, you are still down 60%. But the key here is, if you ask if the market rally is sustainable. The market is mostly developed markets, they're 80% of the market, and they're only up between 15 to 20% this year.
- If you look at US, Europe and Japan, the economic data in those markets are improving rapidly. It hasn't improved as quickly as in the emerging markets, but it's certainly improving. So, I do believe that the market rally is sustainable and can go higher.

2. What is value investing and what is your approach to invest?

- Value investing is buying great companies at a big discount. So our approach in value investing is based on 3 principles: Marginal Safety in the Business, Margin of safety in the valuation, and catalyst to unlock the value.
- Marginal Safety in business is buying a company that is a leader, that may have a high market share, but it certainly has a distinct competitive advantage. It's a business where you don't have to worry about 2 or 3 years down the line there's a competitor going to come in so as to wipe out the profitability in that particular business. Margin of safety in the valuation is buying a great business at a discounted price, if you think that company is worth 10 dollars a share but you are buying only 5 dollars per share so you can generate a significant return.
- If you really bought \$5 per share, then that has to be some sort of event in the future that's going to unlock that value for you. So there has to be some sort of event that allows the market to reassess the value of the business, and that's the catalyst and that's very important in the process.

3. Does your kind of investing work well in a bull or bear market?

- It does work well in a bull or bear market. It works well over a 2 to 3 year time horizon. And times when the markets are acting irrationally, where it may not work as well.
- For example in 1999, when some technology stocks went up 100%, that was a speculative move, our process, our approach to investing would lead us away from technology companies. In the short term, we may underperform.
- Another example in 2008 Q3, when the market was acting completely irrational. We owned stocks, say in emerging markets that were monopolies that traded down to 2 times earnings.

When a monopoly trades down to 4 times earnings, we will buy it. But last year, some of them traded down to 2 times earning.

- In the short term, the value investing approach can cause you to underperform, but over the 2-3 year time horizon, you will generate upside return.

4. Are there any markets you particularly like?

- Brazil, we think Brazil is positioned very well in the financial crisis; it didn't have a credit bubble or a housing bubble. It's self-sufficient in energy, materials, and agriculture. Lastly it has been through so many financial crisis in the past that has the confidence to get through this one.
- India, a lot of young people there, also there are a lot of low-hanging fruits in terms of productivity improvements. Productivity improvements lead to higher real wages, and higher real wages lead to sustained GDP growth. So that is very favorable in the long term for the equity markets in India.

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