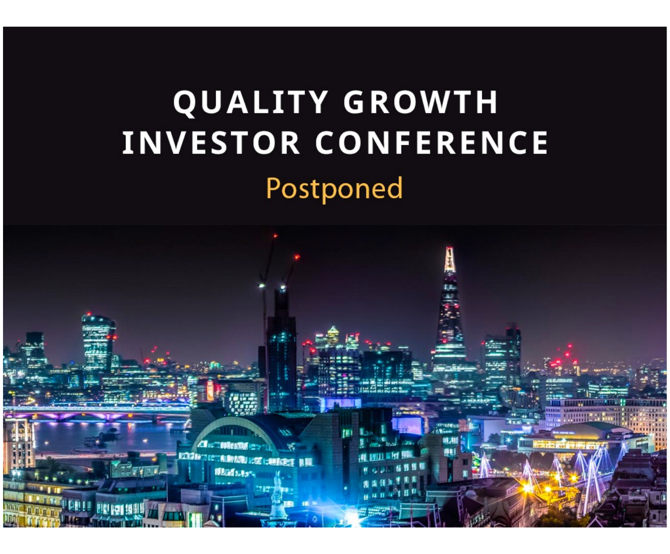
Issue 45 – April 2020

During the COVID-19 pandemic we will be turning Value Investor Digest in to a monthly (rather than quarterly) publication.

We will also be featuring videos with speakers at our conferences past and present. These videos will be sent first to conference ticket holders and will then feature in the following monthly issue.

This issue features articles and letters from Charlie Munger, Jonathan Ruffer, David Samra, Howard Marks plus 10 more articles below.

READ FULL ISSUE ONLINE



Charlie Munger WSJ Interview: "The Phone Is Not Ringing Off the Hook"

"Well, I would say basically we're like the captain of a ship when the worst typhoon that's ever happened comes. We just want to get through the typhoon, and we'd rather come out of it with a whole lot of liquidity. We're not playing, 'Oh goody, goody, everything's going to hell, let's plunge 100% of the reserves [into buying businesses].'"

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The Value Investor Who Sold Lysol Stock — And Bought Oil

"Samra remembers a conference late last year when value managers insisted that the spread between value and growth was so wide that it was time for the category to outperform. 'I said the reality is that value stocks look statistically cheap, but in a downturn, they'll perform far worse than some of these steadier businesses.'" **(Full quote from Value Invest New York)**

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Memo from Howard Marks: Calibrating

"One way to think about the balance between offense and defense is to consider the "twin risks" investors face every day: the risk of losing money and the risk of missing opportunity. At least in theory, you can eliminate either one but not both. Moreover, eliminating one exposes you entirely to the other."

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Ruffer Q1 2020 Investment Review

"This is a far harder market to navigate than the crisis of 2008 – or the one before it at the turn of the century; in both cases the market dropped by 50%. In the first, you needed to observe just one rule of the road: avoid the tech and media stocks completely. In the second, you needed to know one thing – that loads of borrowing would give way, dislocatively, to loads of de-gearing."

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Revisiting Warren Buffett's October 2008 Op-Ed in the New York Times

"To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now."

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Alex Roepers: There Are Opportunities in Mid-Cap Companies

"Names that we like at the moment [include] a company called DXC Technology...it is an IT service company, much like an Accenture or what IBM does for many people; it is consulting services for hardware, software, peopleware - supplied to thousands of companies around the world. They are embedded with their customers, they onboard them in the cloud on AWS et cetera...We certainly can see the stock going to $30, if you're at $30 you're looking at a PE of 10, of earnings in a year and a half from now. So very cheap, very solid balance sheet."

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Great Depression Is Closest Parallel to Pandemic, Warns Odey

"This is not like 2008-9, nor 2001-2, nor even 1989-92. The fall in global gross national product for this year will echo 1931-2. That was a terrible time when countries and institutions disappeared and characters like Adolf Hitler seized their chance to take over Germany."

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Embracing Bears: The Value in Avoiding Homophily

"If you look at the excess returns that Warren Buffett has delivered over the last 30+ years vs the S&P 500 you will find the following. That the three greatest years of outperformance were all in negative index years, secondly you will see that all the underperformance periods are found in positive index years. In other words it is no problem underperforming in up years, it is the down year when things matter."

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Somerset Predicts 'Once in a Generation' EM Opportunity

"Market dislocations of this magnitude happen rarely, perhaps once or twice in a generation, and have historically provided excellent entry points for investors. Given the continued uncertainty, it is clearly not out of the question for markets to sell off further from here but even accounting for this, on any reasonable time horizon we still see this as a very attractive entry point."

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Winton Centre: How Much 'Normal' Risk Does Covid Respresent?

"This suggests that COVID-19 very roughly contributes a year's worth of risk. There is a simple reality check on this figure. Every year around 600,000 people die in the UK. The Imperial College team estimates that if the virus went completely unchallenged, around 80% of people would be infected and there would be around 510,000 deaths. So, roughly speaking, we might say that getting COVID-19 is like packing a year's worth of risk into a week or two."

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Orbis Video: Will Growth Stocks Beat Value Stocks Forever?

"When you look back at history it is very clear: growth stocks really are better companies. They do genuinely grow faster. But they also underperform on average and the reason they underperform is that the growth they managed to deliver tends to be on average less than the growth that's expected and baked in to share prices."

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Charles Heenan from Kennox Podcast with Merryn Somerset-Webb

"I believe that the world has changed and you just need to be super-careful about every risk you look at. But back to the big question: are assets cheap? I think some assets are unbelievably cheap - but be selective - be very, very selective. Be very careful about what you buy."

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Spectator USA: Will Coronavirus Kill the Eurozone?

"As the eurozone went off a cliff, the only unified European response to the outbreak of coronavirus was to ignore Italy's call for help. In mid-March, Italy, its medical supplies exhausted, triggered the EU's civil protection mechanism. Olaf Scholz, Germany's finance minister, dismissed pan-EU action as 'premature'. Not one of its euro-friends came to Italy's assistance."

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Michael Burry: Lockdowns Are Worse than the Disease Itself

"If COVID-19 testing were universal, the fatality rate would be less than 0.2%. This is no justication for sweeping government policies, lacking any and all nuance, that destroy the lives, jobs, and businesses of the other 99.8%"

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Richard Oldfield: Thoughts on Recent Market Declines

We sat down with Richard Oldfield on Thursday 12th March 2020 to talk about the recent market declines. We are very grateful to Richard, who has been both a speaker and a moderator at the London Value Investor Conference since it started in 2012, for sharing this thoughts with us.

Read more

Quote of the Issue - VID 45
(from our collection of investment quotes)

It is worth noting that few institutional money managers invest their own money along with their clients' funds. The failure to do so frees these managers to single-mindedly pursue their firms', rather than their clients', best interests.

Economist Paul Rosenstein-Rodan has pointed to the 'tremble factor' in understanding human motivation. "In the building practices of ancient Rome, when scaffolding was removed from a completed Roman arch, the Roman engineer stood beneath. If the arch came crashing down, he was the first to know. Thus his concern for the quality of the arch was intensely personal, and it is not surprising that so many Roman arches have survived."

Seth Klarman, Margin of Safety