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After several difficult years, 2020 has been particularly difficult for many value investors. The frustration of this has made me more willing to review my process and to evolve as an investor. I hope that some nuggets from my story can help you improve your process.

You may have noticed that value investing has underperformed the market—and especially fast-growing big tech stocks—over the past few years. I have seen plenty of serious analysis about how cheap value has become, and even more jokes about the death of value investing.

All of this has been less academic—and more painful—when I reflect on the underperformance of Curreen Capital, the fund I manage.

While we all implement our own particular form of value investing, lately many of them have told a similar story… of underperformance. From May 2018 through September 2020, whether you look at a large-cap giant like Berkshire Hathaway, or a smaller-cap index fund like Vanguard's Small-Cap Value – the result is under-performing the S&P 500 by 20%+ points.

This has been frustrating, but I believe that challenging times are some of the best times to reflect and evolve, and ultimately become a better investor.

Things came to a head for me in March and April of this year. Curreen Capital was down 44.4% in the first quarter, a painful coda to several years of disappointing performance. Adding to the chaos in my life, my wife gave birth to our second child in mid-April, in New York City, during a pandemic. This was a very stressful time, but all of this ultimately pushed me to reevaluate my investment process and find ways to improve it.

Stage 1: Circle the Wagons

My immediate first step was to pull back and restrict myself to only doing the things that I best understood and that had consistently worked for me in the past. This meant an almost-exclusive focus on spinoffs, with some scope to invest in companies that I already knew well, and eliminating anything else. I essentially put myself on hold while I regrouped.

Stage 2: Where Did I Go Wrong?

Throughout May and June I reviewed my own actions, the resulting outcomes, and re-read my investment bibles in search of insight to help me better understand where I could improve. The book that spoke to me most during this time was Peter Lynch's One Up On Wall Street, and I began to evaluate my past actions through the lens of that book.

Most of the lessons I took from my review were nothing new or profound, but with fresh eyes and a willingness to undertake some harsh reflection, they were meaningful. The two biggest lessons were that I had been “watering the weeds”, and that I had been expressing a view on the stock market. On watering the weeds: my success in adding money to investments that got cheaper for no reason seemed to have blinded me to the losses that I took from adding money to businesses that got “cheaper” because of weak operating performance. There is a big difference between no information and negative information, but I had treated them the same, and averaged down into both opportunity and danger.

I also saw that I am terrible at timing or valuing the market. I am likely to buy stocks at market highs, and sell them at market lows. It would be fantastic if I could do the reverse, but I do not have that ability. However, I seem to be more than capable of taking advantage of opportunities to sell good stock A to buy better stock B. The lesson is that I must ignore what the market may do, and instead be fully invested in the best opportunities I can find at all times. The portfolio will drop when the market drops, but there is no realistic alternative where I somehow sell at the highs and deploy cash at the lows.

Stage 3: Improve and Advance

By July I was working to improve my investment process. Certain observations stood out to me, and I worked to run them to ground.

Over the years, I had repeatedly seen businesses that I recognized as great, with long runways for growth, but they had rarely been attractively priced according to my upside-to-downside framework. In several cases, I had analyzed these businesses when they spun out of larger companies at what hindsight would show to be extremely low prices. Though I felt that value would have its day again sooner rather than later, I still wanted to get a better handle on investing in fast-growing businesses like these. I looked to Peter Lynch and re-read other books that I trusted on the subject, and then went looking for businesses to research. I still cannot use my upside-to-downside framework with fast-growers, and now believe that my framework is a marvelous hammer… but not every problem is a nail.

I had also seen director and executive share purchases at several of the businesses in the portfolio, while another had re-worked its compensation system to replace the stock-component with cash. The latter eventually filed for bankruptcy, while the former have performed surprisingly well. These observations drove me to spend more time learning about what tends to follow director and executives’ stock trades, which has proven to be an exciting new area of focus for me. I knew that buying was positive and selling was moderately negative, but research improved my intuition and sparked new ideas.

Personally, I also saw that—especially with two young kids—I no longer had time to waste on distractions. I have enough time to be a good husband and father, to invest intelligently, and to sleep… period. TV and movies, alcohol, staying up late, etc… those should mostly wait until the kids are older. To make this happen, I modified Ben Franklin’s checklist and gave myself a daily scoresheet: two points for each item that helps me, one for each positive, minus a point for each distraction, and minus two points for each item that is actively bad for me. Every night I review the day and mark my score on the calendar. It is a small nudge, but it has helped me consistently implement better daily habits for five months.

Conclusion

As painful as the past few years have been, with my own mistakes compounding value’s underperformance, I truly believe that this frustration is a blessing. A painful, character-building experience that I would not wish on anyone… but a blessing nonetheless.

When the wind is at your back and everything is going well, it is easy to ignore small errors and keep following the same playbook. But markets are dynamic ecosystems, as is life, and we must learn and change to thrive in it. Headwinds like value’s recent underperformance can drive us to adapt intelligently. I feel that I have fixed some glaring issues, focused on what I do best, and learned new and useful things that will help me continue to evolve in the coming years.

The past few years, and 2020 in particular, have been tumultuous for investors. I hope that you can use this disruption to break stale habits you may have, and drive positive change in your investing process.