MOI GLOBAL

No Fear of Missing Out

This article by Abdulaziz Alnaim is excerpted from a letter of Mayar Capital.

> "I think that when we know that we actually do live in uncertainty, then we ought to admit it; it is of great value to realize that we do not know the answers to different questions." –Richard Feynman
>
> "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." –Mark Twain

That time of the year has now ended. The strategists/economists/bankers -the "experts", have collectively sent their beautifully-formatted reports, done their TV interviews on CNBC, and shared with all of us their "outlook" of where the S&P 500, treasuries, commodities, and major currencies are heading in 2017. The private bankers have paid their visits to their clients and shared their nuanced take on their "house's view", marginally differing here and there and further contributing to the charade of perceived accuracy and false sense of certainty.

Doubtless too, you've heard from the "cautiously optimistic" crowd, who have hedged their bets and will be able to claim predictive victory whether their clients' portfolios go up or down over the next twelve months.

The investment industry is obsessed with prediction, but the whole thing is nothing but a tremendous display of overconfidence. History shows us that the predictions that this group of "experts" make are no better than random. Under constant pressure from clients who demand answers, they find themselves unable to say: "I don't know". Perhaps the hardest three words to utter on Wall Street.

Yet the reason those pundits are usually wrong is not that they lack intelligence or data. It's because what they are trying to forecast is inherently unforecastable. Yet, unfortunately, the investment industry has trained its clients to expect confident predictions, and there's no short supply of experts willing to make them.

We take the opposite approach at Mayar. We embrace "I don't know". We believe that forecasting the future is always uncertain. Some predictions, like the level of the S&P in twelve months, are virtually impossible to make, so we don't pretend to. Instead, we try to make decisions that require us to make the fewest number of predictions as possible. My colleague Aubrey wrote to you last June about what he dubbed "Occam's Investment". That the investment that requires the least number of assumptions is likely to be the better one. We hold that principle dear.

We want to make investments that would produce satisfactory results for us over the long run without requiring us to predict with accuracy several dozen variables to the 2nd decimal point. We prefer to be approximately right instead of precisely wrong. We accept our fallibility, and know that every investment we make will have at least some uncertainty associated with it. That's why we demand a margin of safety.

We also accept the uncertainty associated with the time required to achieve our goals. Our investment strategy doesn't work every month, or even ever year. It works over time. It requires a long-term orientation and acceptance of the fact that we will have many short periods of under performance.

That acceptance allows us to make deci-sions that might have uncertain or potential negative short-term results, but are very attractive for the long run (see our Partnership Principles #3).

It means that in some periods we may sit on cash patiently instead of making investments that do not meet our criteria. When others are making money betting on the latest trend or fad, we smile and move on. We must genuinely have "No Fear of Missing Out" (No FOMO). It doesn't make us as interesting as "that guy" at the cocktail party, and we probably don't have the most interesting dinner conversations, and that's ok. We prefer boring. Boring works for those who wait. Boring is beautiful.

> "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." – Paul Samuelson

It is here that I must emphasize two very important points that the successful execution of our strategy requires: choosing the right partners, and nurturing a healthy relationship with them. We have been blessed to have an investor base that under-stands what we're trying to do. Our AUMs would have been many times larger had we been willing to accept any investor into Mayar, but we view our relationship as a partnership and a necessary condition of the success of partnerships is an alignment of expectations.

Nurturing a healthy relationship between partners is a shared responsibility. It is our duty to communicate with you honestly, clearly, and regularly. It is your duty to read what we write, ask intelligent questions, challenge us, and hold us accountable to the promises we make. That's the only way to make sure we are all on the same page.

A word or two about the market…

A hot topic of discussion these days is equity market valuations. If that is not the case in your social circle, you clearly have a much more interesting one than I do! We don't like to make top down judgements on which markets are expensive or cheap. Our approach has always been to go where we find attractive investing opportunities and let the asset allocation be the by-product of the available opportunity set. So, let us look at what has happened to our portfolio over the past two to three years.

Geographically, our North American exposure It is our duty to communicate with you honestly, clearly, and regularly. It is your duty to read what we write, ask intelligent questions, challenge us, and hold us accountable to the promises we make. 8 peaked at over 82% over the summer of 2014. During that time, over 14% of our portfolio was invested in Europe, and 3% was in cash (difference due to rounding). Today, we have roughly 56% of our portfolio in North America, 33% in Europe and the balance in cash.

You should read these changes to mean that we've been finding fewer opportunities in North America, more in Europe, and the rise in our cash balance means we've also found fewer attractive opportunities overall. Our valuation discipline has caused us to start reducing our holdings in North America sooner than we should have with the benefit of hindsight. But remember, No FOMO.

So what should you do now, and what should you expect us to do in the current market environment and the coming few months and years?

First, trying to time the market by getting in and out is impossible. We don't try to do that, and neither should you. We always invest cautiously, but you should expect us to become more cautious as valuations get higher, as is the case today. But that does not mean that we will sell out of the market and go and sit on some beach.

As long as our current holdings are trading at reasonable valuations, we will do much better by holding on to them, even if the ride becomes rockier. Time is the friend of the long-term investor. Compounding is magical. Stay out of its way!

We will adjust what and how much we own based on valuation, as we are always comparing our existing holdings with what is available out there today and to cash. We view our cash position as a by-product of our disciplined investment process. Cash is valuable not because of its relative return – essentially zero – but because cash gives us the option to take advantage of the opportunities that may come up in the future.

Therefore, you can think of our process as comparing our portfolio to both current and future investment opportunities and trying to deploy our capital to the one that presents us with the best risk-adjusted return.

Second, we must remind ourselves that equity markets are volatile. We are pretty much guaranteed to have 20-30% declines every few years and occasionally more, as we had in 2008. We don't know when these declines will happen unfortunately, and studies show that trying to jump into and out of the market to avoid them costs investors dearly.

> "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." –Peter Lynch

As long as the investor doesn't need the money within a year or two to pay for a life event, they are better off staying invested in the market and riding the occasional bump.

Finally, when you entrust us with your capital you should also expect us to manage it wisely across the market cycle. This is a key difference compared to investing in an index fund. As mentioned above, our geographic and asset allocation will change over time in a manner that we believe improves returns and reduces risks. There are periods where you should see us hold more cash and wait patiently.

We hope that you trust that when that happens it is for a good reason. And when the market serves us interesting opportunities within our circle of competence, you should expect us to act quickly and decisively and deploy that excess cash.

We remain comfortable with our current portfolio. It has a free cash flow yield of 6.6% and a forward PE ratio of 16x for a group of companies with substantially above-average balance sheets and returns on capital.

It's not dirt cheap, but it's still reasonable both relative to major indices and in absolute, especially because we believe the companies we own should grow at low single digit rates over the next few years.

Fund is only available to Professional Clients or Eligible Counterparties as defined by the FCA, and in compliance with local law. This document is not intended for distribution in the United States ("US") or for the account of US persons, as defined in the Securities Act of 1933, as amended, except to persons who are "Accredited Investors", as defined in that Act and "Qualified Purchasers" as defined in the Investment Company Act of 1940, as amended. It is not intended for distribution to retail clients. This document is qualified in its entirety by reference to the Private Placement Memorandum (together with any supplements there to,"the PPM") of Mayar Fund. Please see the section of the PPM on information required by Securities Laws of certain jurisdictions. This document is provided for information purposes only and should not be regarded as an offer to buy or a solicitation of an offer to buy shares in the fund. The prospectus and supplement of the fund are the only authorised documents for offering of shares of the fund and may only be distributed in accordance with the laws and regulations of each appropriate jurisdiction in which any potential investor resides. Investment in the fund managed by Privium carries significant risk of loss of capital and investors should carefully review the terms of the fund's offering documents for details of these risks. Mayar Fund follows a long-term investment strategy. Short-term returns will vary considerably and will not be indicative of the strategy's merits. This document does not consider the specific investment objectives, financial situation or particular needs of any investor and an investment in the fund is not suitable for all investors. Investors are reminded that past performance should not be seen as an indication of future performance and that they might not get back the amount that they originally invested. This document is confidential and solely for the use of MCA and the existing and potential clients of MCA to whom it has been delivered, where permitted. By accepting delivery of this presentation, each recipient undertakes not to reproduce or distribute this presentation in whole or in part, nor to disclose any of its contents (except to its professional advisors), without the prior written consent of MCA. Comparison to the index where shown is for information only and should not be interpreted to mean that there is a correlation between the portfolio and the index. The views expressed in this document are the views of MCA and Privium at time of publication and may change over time. Where information provided in this document contains "forward-looking" information including estimates, projections and subjective judgment and analysis, no representation is made as to the accuracy of such estimates or projections or that such projections will be realised. Nothing in this document constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. These materials and any tax-related statements are not intended or written to be used, and cannot be used or relied upon, by any taxpayer for the purpose of avoiding tax penalties. Tax-related statements, if any, may have been written in connection with the "promotion or marketing" of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor. Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments. Each prospective investor is urged to discuss any prospective investment in the Fund with its legal, tax and regulatory advisors in order to make an independent determination of the suitability and consequences of such an investment. No recommendation is made positive or otherwise regarding individual securities mentioned herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The information contained in this document is strictly confidential and is Intended only for use of the person to whom MCA or Privium has provided the material. No part of this document may be divulged to any other person, distributed, and/or reproduced without the prior written permission of MCA.