

## Talks at Google: John Mihaljevic on Idea Generation

John Mihaljevic participated in the “Talks at Google” series in 2014, sharing his insights into investment idea generation. The talk was based in part on John’s book, [The Manual of Ideas](#). We are grateful to Saurabh Madaan for the invitation.

*We are pleased to provide the following transcript as a courtesy. The transcript has been edited for space and clarity. It may contain errors.*

It’s such a pleasure to be here at Google, and I thank the Bay Area Office for the invitation, which I was tremendously excited to receive. I don’t think I could have made it here applying for a job, so this is my entree, if you will. I want to talk about idea generation, and specifically, from an investment angle, the “secret” to finding great investment ideas. I put secret in quotation marks because there really is no secret.

How do we think about investing? It has a lot to do with how we view the stock market because when it comes to investing in public companies, we are transacting in a global stock market. It’s very liquid - you can buy and sell at any time. I think there’s a lot of confusion out there as to what the stock market really is, not to mention the multitude of approaches. It’s in the interest of the financial community and Wall Street to make it seem overly complicated so that you will give them your money and think that they’re doing such a great job for you that they deserve to get paid a lot when, in reality, it isn’t that complicated.

Economist John Maynard Keynes criticized the stock market by calling it “a beauty contest.” The idea is that many investors, even professional ones, will choose companies based on what they think other people think of those companies. Everybody’s trying to play a guessing game where they are picking the “prettiest” company. However, it’s not the one they think is the prettiest but the one others will think is the prettiest. You can take that to the third degree and fourth degree and so on, and it becomes self-referential. Since a lot of people invest this way, this is how the stock market might act in the short term. It’s highly unpredictable, and everybody is trying to outguess everybody else, but that’s not how you can be successful in the long term.

By viewing the stock market as a parimutuel betting system, we’re getting a bit closer to the essence of it because it’s not about guessing the prettiest face or the best company or what others will think. If there is a company out there like Google, the game becomes pretty easy. What becomes harder is calibrating that judgement versus what you have to pay to buy that company in the stock market. As Warren Buffett’s partner Charlie Munger says, sometimes it’s really easy to see which horse is most likely to win a race. Still, that horse will have odds which pay three to two, and some other horse that doesn’t look as fast may have odds of 100 to one. Then it becomes much more difficult because, probabilistically, the best horse isn’t going to win 100% of the time. What if the horse with odds of 100 to one can win 5% or 10% of the time? It may be the better investment, or the better bet in this case. Warren Buffett says, “We simply attempt to be fearful when others are greedy and greedy when others are fearful.” This really speaks to those odds because if everybody in the world believes a company will go bankrupt, the odds on it may be so great that if it doesn’t, you could do great even though it may still be a mediocre company.

In its essence, the stock market is merely a conduit to ownership. Google would be a great company whether it’s publicly traded or not. It would still have the cash flow and the customers it has, so you

don't need the stock market to make Google or any other company valuable - it's just a place to buy and sell stock in companies. As for what a stock is, the legal definition tells you it's a partial ownership of a corporation. That's what you're buying when you invest in a stock. It may not seem so because it's easy to transact online. When you're looking at a stock ticker, it's easy to forget that what you're really buying is ownership of a real-life business.

You'll hear of numerous strategies. You'll hear of people trying to invest based on charts. They'll look at different bands and try to guess when the stock is breaking out or not. However, this is removing yourself from the essence of what a stock is. When you do that, your chances of success go down dramatically, because if you invest based on a chart and lose all your money, there's no recourse. You can't say, "The chart looked good, and in every other case, the stock did go up when that happened." There's no connection between that and what a stock legally is. Legally, it's ownership of a business, so if you invest in a company and you're right, you can, in the worst case, take the recourse and acquire a majority of the stock, kick out the board of directors, put in your own directors and management team, and take full ownership of the company. In this case, you're getting to the essence of what a stock really is, and if you invest based on that essence, you'll be far more successful because you're as close to the truth as can possibly be.

As regards the mindset you need to be a successful investor, many will have the "small fish" mindset. Let's say you have \$100,000 to invest. You have a bunch of companies, their stock prices, and their market values. (Market value is simply what it would take to buy the whole company at the current stock price.) If you have the "small fish" mindset, you might say, "Well, \$100,000 buys a few thousand shares of any of these companies. My \$100,000 is insignificant, it doesn't move the needle on these companies or the market as a whole." The reason it's the wrong mindset to adopt is because your portfolio may be small, but your role in the market is not insignificant - the market is supposed to function efficiently because even small investors think about how well company A is going to do and how much they have to pay to buy it. You really shouldn't think about the scale of your portfolio but the scale of the companies you're investing in.

The "chief capital allocator" mindset is what I think successful investors adopt no matter how much money they're investing. Looking at the same companies through this prism, you suddenly realize, "Wow, I can either buy all of Toyota for \$99 billion or spend roughly the same amount of money to buy all of Ford, GM, and the rest." You may still decide that owning all of Toyota is the smarter investment, but at least you'll be aware what your decision implies. You're no longer thinking, "I can buy a few thousand shares of Toyota or some other company, and it's all the same thing." Here, you realize what you're doing. This mentality of really thinking about investing as an owner is very much in line with the legal essence of stocks.

When it comes to idea generation, there are so many different ways to find potential investment ideas. You may hear it from friends, see it on message boards, or read about a company in the newspaper. You could do a quantitative stock screen, searching for the cheapest companies based on some metric. Overall, idea generation is the easy part. We can overload ourselves with ideas - there are about 10,000 publicly traded companies in North America alone and probably 20,000 to 30,000 worldwide, so there's a ton to choose from. Where successful investors achieve their success - or, as they call it in the industry, their alpha or edge - is in assessing the investment opportunities. I could give everyone the same potential company to invest in, and someone will say, "Wow, that's great. I want to buy," while another one will go, "No way." If you can get that decision right, you're going to be successful.

Let's dwell some more on the mentality to think of a business as an owner and whether we'd want to buy the whole of it if we could. A company will usually have real assets, especially if it's an old-school company that maybe has factories. Take General Motors - it has got factories and various tangible assets. You'd want to ask whether this company, at the stock price it is today, is trading for more than

it would take to recreate it from scratch. You're not going to be able to recreate it exactly the same from scratch, but the idea is how much capital it would take to recreate the earnings flow and the basic business. If it's selling for a lot more in the stock market, you're not going to buy that stock because what that's saying is there's an incentive for a competitor to come in as it can recreate the same company for less money than the stock price implies. If the company is worth \$2 billion in the stock market, and you could recreate that business for \$1 billion, there's an incentive for someone with a lot of money to come in, create that company for \$1 billion, take it public immediately, and then sell the stock for \$2 billion in the market. If a business is trading above its replacement cost, we're going to eliminate it from consideration. If it's below, we go to the other extreme, which is liquidation value.

Liquidation value means what a company is worth dead today. If you were to shut down the business or sell it and liquidate all the assets, how much money would you have left over? Sometimes companies do sell below that. An example is the oil shipping industry. When it is doing badly, it's generally doing so badly that no one wants to own these stocks. On occasion, they will sell for less than the scrap value of the metal used to build the ships. The CEOs of these companies will then say, "The turnaround will come next quarter. Okay, maybe in a year." However, after two or three years, they will themselves start selling the ships for scrap. If they do it, and the stock is trading for less than scrap, you're going to make money even though the business looks like it's going under. That's another easy one. You would take control of the company, liquidate it, and make money.

Beyond those upper and lower bounds, you'd be looking at the actual earning power of the company. This is where most companies end up unless we're in a 2008 financial crisis type scenario where many are selling for less than their liquidation value. At this point, you'd look at how much a company is really earning and how much you'd have to pay in the stock market to acquire the whole business. There's no right or wrong answer. You would decide what kind of return is good enough for your savings. If a company is earning \$1 billion a year, and it takes \$10 billion to buy it in the stock market, that's a 10% annual return. Maybe you want to know if those earnings will grow over time so that the 10% in year one will be 11%, then 12%, and so forth. Are the earnings declining? In such case, you'll want a higher initial percentage yield. Even if the earnings are going to decline, if you can acquire it for 2x current earnings, you're making a 50% return. If you can buy the whole company and get half your money back in earnings in one year, you'll probably be fine even if those earnings go down slowly over time because within two to three years, you've got all your money back, and whatever comes after that is just gravy.

You're making a decision whether the earnings yield (earnings before interest and tax divided by what the company is worth in the market) exceeds the return you require, you move on in this diagram. If it doesn't, you eliminate the particular company from consideration.

Next, we are looking at the business itself. Forget the stock market. We want the company to make as much money as possible in earnings or cash flow relative to the capital it takes to build it. If I need to have a factory which costs me \$1 billion, and it then throws off \$10 million a year in profit, that's a 1% return and probably not good enough. Plus, a factory is not a safe investment, so you really want to know how good the business is. Google, for example, doesn't take a whole lot of capital, and it throws off plenty of free cash flow relative to that capital, which is why it's a great business.

That's the kind of business you want to be in because when you buy a stock, the company is not going to pay you out all of its earnings every year. If it just took its earnings and paid them out, you may not even care how good of a business it is because you're getting those earnings. If you were buying a company with a 50% earnings yield, and it paid everything out, you'd get your money back in a little over two years, and that's fine. Since most companies will retain those earnings in the business, you care very much about when they do and what the return on that capital is. Some companies pay

dividends, which are usually a portion of the earnings. They won't pay out their whole earnings, maybe half if you're lucky. In this case, you may care a little less because you are getting some cash back, but where you're not getting cash back, you want to know what kind of return this company is getting on the cash which stays in the business. If it's a great business like Google, the problem becomes that it's very hard to reinvest the cash because the business doesn't require a lot of capital. Take one year's worth of free cash flow for Google - if it could be reinvested in the business at the returns Google is currently getting, that would be phenomenal. However, it's not a capital-intensive business, so that free cash flow builds up, and over time, there's tens and tens of billions of cash on the balance sheet.

If we like the quality of the business as measured by the earnings divided by the capital employed in the business, then it's a good potential opportunity. It still doesn't mean it's a great investment, but you've eliminated all candidates which are not good enough. When you reach this point, it becomes more of an art which company you choose to invest in.

With regard to value-oriented investment approaches, you might have heard of value investing and growth investing. Growth investing is usually of the other mindset or just the mindset of "whichever company will grow the fastest is where I want to invest." What you're failing to consider is what happens if everyone else thinks it's going to grow the fastest so it is super expensive, and you may not make any money. If the company has any kind of disappointment - for example, it misses a quarter by a penny - the stock can be down 20% in a day because there was no value there. We want to buy things which are more valuable than what we're paying for them in the stock market. Among the well-known approaches in this area is the Benjamin Graham style, or "deep value." It deserves to be mentioned first Benjamin Graham wrote the book on value investing, *The Intelligent Investor*. Today, the style is called deep value because you focus mostly on the assets. A shipping company with its ships and the scrap value would be deep value.

**Q:** I have a question. How do you find companies which maybe have those ships and trade for less than that?

**A:** You're going to look at the financial statements. Every company will have a line item on its balance sheet called PPE (property, plant, and equipment). For a shipping company, that's where its ships might be. It may have a footnote in its annual report listing out the ships. It won't necessarily tell you the market value of those ships, but it might give you some detail such as how much they've depreciated so far. You'll have to dig a bit deeper if you want to know the market value of specific ships or specific real estate.

You could use a quantitative stock screener which looks for companies whose market value is less than tangible book value. Tangible book value is what's left over for the shareholders once you satisfy all the liabilities, like debt. Then you have to do your own research to decide.

To get back to the value-oriented approaches, Joel Greenblatt, a highly successful investor, has written a book called *The Little Book That Beats the Market*. In it, he talks about a "magic formula," which is essentially a way to screen for companies with the characteristics of potential investments. It looks at two factors. One is the high earnings yield, or cheap is a business is, and the other is the high return on capital, or how good a business is. Historically, a mere mechanical screen of companies ranking highly on those two metrics has outperformed the S&P 500 by several percentage points a year. Over time, that is a huge number due to compounding.

Then we have what I call the Carl Icahn style, which is sum-of-the-parts investing. You may have heard of Carl Icahn as one of those activist investors who will buy a big chunk of a company, maybe 10%, and then try to tell it what to do so that the stock would go up. Usually, these investors look for a company with different parts to it, and if you add up the value of all the parts, it's materially above

what the whole company is trading for in the stock market today. That can happen quite often, maybe because a company has a core business investors are focused on and value the company based on that. Alternatively, there may be something totally unrelated the company owns, like some big piece of real estate or some other business.

The approach I call “jockey stocks” relates to companies run by a great jockey. It’s the horse racing analogy where you have CEOs who are great not just at running the business but also at what they do with the cash the business generates because once the cash is there, there are many options. You can destroy or create a lot of value in a company based on what you do with the cash. It’s especially relevant for corporations with a ton of cash on their balance sheet. You might make an acquisition or overpay for another business just because you fear you will miss out on the next trend, so you take that hard-earned cash and waste it. Alternatively, if there’s a financial crisis and the stock gets hit and is trading way below what it’s worth, the company could take the cash hoard and buy its own stock in the stock market, creating huge value.

I’m not a huge fan of buckets because once you get into that, it becomes more mechanical. You find a company, and all of a sudden, you’re thinking what bucket it fits in and how to analyze it while it should be just common sense. You should take a company, imagine you own the whole thing, and think like an owner, from scratch. Nonetheless, let’s touch on some of the key features these types of companies have.

The deep value companies, where you’re buying some factory-type business for less than it would cost to create the factory, are generally hated stocks. If you look at it historically, people have generally overreacted on the negative. Jeroen Bos, a successful investor who goes after these hated companies, says it’s contradictory that you buy what no one else wants and then outperform. It takes a certain mindset to be comfortable doing it because everyone around you will say that you are not very smart. Imagine if an investment doesn’t work out. You’re really going to not feel very smart because everyone was telling you all along. Even when people start off like this, they can’t sustain it for very long because after a while, they think, “You know what? It’s too hard, so I’m going to move on to one of the more comfortable approaches where you buy great companies and pay more for them, but at least no one’s going to tell me I’m making an obvious mistake.” But then, they do outperform. It’s the reward for the discomfort, if you will.

In the chapter on deep value, one of the takeaways is that we start with the price of the stock. When you talk to Jeroen Bos or some other investor who focuses on these hated companies, the first thing they’ll talk about is how cheap the stock is. They don’t care what the company does as long as they can get the bargain basement pricing.

Nexen Tire is an example of such a company. It was presented at one of our online conferences for investors. This is a tire manufacturer in Korea with a few different types of stock, so you can invest in this company in several ways. While the common stock is cheap, there’s another way – through the preferred stock, which carries no voting rights but confers the same economic benefits. Moreover, you’re getting the exact same thing 50% cheaper than other people are paying for the common stock simply because it’s a bit more well-known or has more trading going on. Sometimes people will care a lot about liquidity in a stock, but how much it trades has nothing to do with how much it’s worth. If you own a house, it trades at zero but is still worth whatever it’s worth. The preferreds trade at a big discount to the common, and that’s one example of a deep value investment.

**Q:** Can you explain the point about preferreds carrying no voting rights but conferring the same economic benefits?

**A:** Depending on the class of stock, the voting rights may be a bit different, which simply means

whether you get to decide who is on the board of directors and things like that. Companies do it for different reasons. I think Google has two or three classes of stock. The purpose is to make sure the founders retain operating control of the company and can make the decisions needed for the future. You wouldn't necessarily want an outside investor coming in, buying up enough shares to get voting control, and then doing something which may move the stock in the short term but destroy value in the long term. One way to prevent this is to sell non-voting stock or shares with fewer votes to public investors so that they can never gain a majority of the vote. These preferreds have no voting rights, but there is also the fact that this is a Korean tire manufacturer, so even if you're buying the stock with voting rights, there's no practical difference because you're not going to be able to influence it either way. The voting rights are not worth much, but you're getting the same economic benefits - if the common shareholders get \$1 dividend, you'll get \$1 dividend, but you're paying half the price for the preferred stock.

**Q:** [inaudible]

**A:** These shares can stay cheap for a very long time. If the company is smart or cares about the value, it could sell the other stock in the market and then use the money to buy back the much cheaper preferred. Sure, the disparity could continue, but would you rather buy the one at 50% discount? Maybe it stays at a discount, maybe not. The discount could get wider, but probabilistically, I think you're much better off buying it at a discount. It turns out that over time, they do tend to work out because some large shareholders would move in and start putting pressure on the management to eliminate this disparity.

**Q:** [inaudible]

**A:** Preferred stock is often a better security because it ranks ahead of the common. In case of bankruptcy, it may have certain preferences. However, many investors are too focused on liquidity and put such a premium on it that even though the preferred is a better security, it may trade at a large discount to the common. To a long-term investor, this makes no sense. You can buy that preferred slowly and sell it slowly, and over time, you're going to make more money.

Some examples of sum-of-the-parts are quite obvious. They're typically huge companies. Vodafone, the UK-based mobile phone carrier, owned a large stake in Verizon Wireless in the US. Verizon Wireless is publicly traded, so the value of Vodafone's stake was so great that the rest of the company was being valued extremely cheaply, but investors didn't care to see it for a while. It's hard to predict these things, but it usually works out, and you make a great return even though you didn't quite know when that disparity would be removed. Sometimes it makes sense to analyze the different parts of a company separately and then sum up the values to decide what this business is really worth.

A side comment here: whether you're adding up different parts or just using an earnings yield, you really need to know or have an estimate of what a company is worth before you can even think about investing in it. If you don't know what you think a business is worth, there's no basis for making an investment decision. This is something often forgotten.

Sometimes you'll hear someone say, "You should buy Apple stock because the company is coming out with a new iPhone." There's no reference in that sentence to how much you have to pay for Apple. It could be \$100 billion or \$200 billion. Maybe the fact that it's coming out with a new product is already reflected in the market value. If the new product is not quite great, the stock goes down, so you really need to think about what this business is worth in the stock market and what you value it at. If you had the resources, how much would you want to pay to own all of the company and make money off its cash flow?

Nesco, an exhibition and IT parks company in India, is a classic example of sum-of-the-parts. You have this little company with \$50 million cash. It owns a big plot of land near Mumbai airport. Both of those things together are already worth more than what the whole company's trading for in the stock market, so you're getting the actual business for free. This may or may not be a good deal, but at least you found something that looks interesting. If it sold the land or gave back the cash to shareholders, you'd get your investment right back and you'd own this business.

As for the "magic formula," we're talking here about two-factor screening - looking for cheap stocks and good companies. Alon Bochman is an investor who focuses on that. An interesting finding is that if you gave people lists of companies ranking highly on these two factors and told them to use their own judgment to choose which ones to invest in, they do worse than the mechanical screen. It's interesting, but also somewhat intuitive because we go back to the discomfort of owning hated businesses. If they're that cheap, they're usually companies which have fallen on hard times. When you're looking at that list, you're going to want to eliminate any company that doesn't feel quite right, but they're priced so cheaply that they'll actually outperform.

Let me conclude by noting that there is no magic to this. The only way to do well in the long term is to find businesses you're comfortable with, and they are cheap enough in the stock market for you to feel that the return you're getting will make it worthwhile. Ben Graham has said the stock market is a voting machine in the short term and a weighing machine in the long term. In the short term, you have the beauty contest. When you turn on CNBC, they're always talking about what's going to happen this quarter or even today or tomorrow. That's just noise. There's no signal there. In the long term, there's the mystery of how you go from a voting machine to a weighing machine. Over time, the earnings of the business come in, and people settle down. Whatever emotion they had on that day dissipates. When the oil spill in the Gulf of Mexico happened, BP's stock got killed because it was operating the well responsible for the disaster. That was the voting machine. People were saying BP would go bankrupt. Then they started to think about the scenarios. How much could the company have to pay? Even in the worst-case scenario, if they had to pay \$20 billion to clean up the oil spill, they'd still be undervalued because the stock had gone down so much. Over time, it went back up because people realized what BP was actually worth.

*The following are excerpts of the Q&A session:*

**Q:** The market price is representative of the current prediction other people have made. So, if you want to find an investment opportunity that is worthwhile, you have to make a better prediction. You have to find one where others have made a bad prediction. Is this feasible for a small-scale investor to be worth the time actually?

**A:** That's a great question. The stock price does reflect the opinion of the market. It's not the actual stock price but the market capitalization, which is stock price multiplied by the number of shares outstanding. It'll have a prediction built in, but you don't necessarily have to outsmart the market on the prediction because you can just decide what you're comfortable with. If the company is earning \$1 billion in free cash flow or net income per year and is selling for \$10 billion, that's a 10% yield. If you're fine with that and the company growing very slowly, you're going to make money. The market may expect it to grow faster, but it won't take away your 10% yield. It does get dangerous when you're buying very expensive stocks, because your yield from the business is so low that you are betting on something great happening. That's where outsmarting the market becomes much more important. If you're only sticking with things you're totally comfortable with, you don't need to worry too much about what the market is predicting.

**Q:** What are the top three to five positions in your personal portfolio?

**A:** I won't get into it simply because that can age fairly rapidly. Although I view myself as a long-term investor, circumstances can change, and I don't want to make any recommendations here. Besides, you shouldn't accept recommendations from anyone because they're not necessarily going to tell you when they sell the stock they told you to buy. Generally, I want to only buy a stock where I am excited if it goes down 50% because then I can buy even more. If you have that mindset, you're going to be a lot pickier because when a stock goes down 50%, you usually get really scared. You need to know what you think a company is worth and then be comfortable with the downside. You really need to do your own work.

**Q:** Since you're a value investor, would you say you don't invest in areas like biotech, where the company's not public yet and there's no revenue?

**A:** That's right. A biotech company could be worth a lot even if it has no revenue, but that's beyond my capacity to judge. Warren Buffett once said you need to know your circle of competence, but what's even more important is to stay within it. It can be small, but if you stay within that, you'll do well. It's okay to say you don't know enough. In fact, that's what I would say with most companies in the stock market. To use a baseball analogy, again from Buffett, it's a no-strike-called game, meaning you don't need to swing at every idea coming your way. The only thing that matters is that you're right on the companies you do buy. Mind you, you're not going to be right on every one, so stay within your circle of competence, and you'll do much better than if you venture outside of it.

**Q:** Thank you for a great presentation and a great book. In the book, you mention using American Association of Individual Investors (AAII) data to filter for some of the buckets. I wonder if you have recommendations on how one uses raw data in countries outside the US. I know you're based in Europe. How does one do it in Europe or any of the other countries?

**A:** The existing data for the US stock market is far more robust than what's available out there for Europe or other markets. If you're looking at companies listed on the New York Stock Exchange or NASDAQ, even foreign companies, you can screen for those very cheaply. An AAIL subscription is about \$300 a year, but the databases which will do a good job on Europe and the rest of the world may cost \$20,000 or \$30,000 a year. If you want to go the low-cost route, there's really no great solution for Europe or Asia. You may end up relying a lot more on the primary documents and doing the work yourself, which, of course, makes it hard to screen across many companies. You'll be digging one by one unless you're willing to pay quite a bit of money.

**Q:** You run a very well-respected newsletter. How do you go about looking for these companies? You obviously don't go one at a time. Do you use a database?

**A:** We've developed a few different idea generation methods over time, and we have an internal database which fills in some of the holes in more widely available databases. We'll use that and also some more serendipitous ways of generating ideas, for example, filings by well-known investors to see what they own in Europe. We've built that internally over time, but if you want something off the shelf, it's probably going to be fairly pricey to cover Europe and Asia.

**Q:** Would you say that for an individual investor, the lowest-cost option after the databases available in the US would be to subscribe to a newsletter like yours?

**A:** I'm not sure about the lowest-cost option. If you're looking to screen mechanically, the Manual of Ideas won't be the right tool because we don't allow you to screen on our whole database. We select ideas and present them each month. I'm not sure what service you would want to go with for screening.

**Q:** Is there a danger in picking stocks that are very public and many people might be buying as fanboys? An example would be Google and Microsoft, which have somewhat similar market caps. The price-to-earnings ratio of Microsoft is twice as low, so technically, it makes twice as much money as Google. Is there a reason why Google, just because it is seen as cool, could attract a lot of attention? Microsoft is half the price of Google as measured by P/E, so does that make it the better investment?

**A:** It's very hard for me to judge, so it's impossible to say. You are right in saying the market is making a judgment that Google will do much better in the future than Microsoft. Otherwise, you would want to buy Microsoft because you're getting twice the bang for your buck. To illuminate this with some sample numbers, Google and Microsoft were the same market value. The way Microsoft is currently valued, it is making twice as much money as Google. In absolute terms, it's not true because Google has a bigger market value. That's just a judgment every investor needs to make, but you can look at other things if you're not comfortable making that judgment. Generally, that's not an extreme situation. Usually, you'll find much more extreme situations than that, like Research In Motion trading at 1% of the valuation of Google. Something that extreme can also be more rewarding if you're right in some aspect. With Microsoft and Google, the judgment becomes pretty difficult to make, and it may also depend on your time horizon and other things.

**Q:** You follow many different investors of all different sizes in terms of how much capital they manage and how popularly they are known outside the value investing circles. Who would you rate as the top two or three investors, not just from a performance point of view but as people you look up to and whose shareholder letters you look forward to reading? I'm talking about people who have really meaningful insights but are not popularly known.

**A:** There are many investors I admire. If you want people who are not well-known, Phil Ordway does exceptionally good work. He's an up-and-coming fund manager that I think will do very well. I'd also put Bruce Berkowitz and David Einhorn among the people I respect the most. There's a list of investors in the book, and we update the list for our monthly edition all the time. We want to keep an eye on people who have had good track records and who we know do great work on the companies they invest in.

**Q:** Are there specific fund managers whose shareholder letters you look forward to?

**A:** It's sometimes hard to get on some of these lists because these people manage private partnerships and are not allowed to mail the letters out widely. Phil Ordway has a letter, as does Michael Shearn. Seth Klarman's letter is also great, but it's sometimes hard to get.