

We are pleased to share this interview with MOI Global instructor Rudi van Niekerk, founder and fund manager at Desert Lion Capital, based in Cape Town, South Africa.

Rudi is a featured instructor at Best Ideas 2021.

MOI Global: What was the year 2020 like for Desert Lion Capital?

Rudi van Niekerk: 2020 was a roller coaster. We found ourselves caught in the perfect storm from February to April as sentiment was fearful and liquidity withdrew from the markets. South African equities suffered a double blow: first a broad-based sell down along with the rest of the world, and then, on top of that, the ZAR weakened as funds fled for cover to the USD. However, performance has bounced back more than satisfactorily in the second half of the year. It has been a crazy ride.

MOI: So, temperaments have been tested?

van Niekerk: I think that for temperament and investment character to be truly tested you must be exposed to multi-year periods of duress. This year's recovery of developed markets, especially in the U.S., came so swiftly and was so massive in magnitude, that many fund managers were still shellshocked and trying to figure out what to do when suddenly this rising tide started lifting all ships.

Investing is a very wicked game. How do we distinguish between luck and skill in the short run? In the long run, the most important skill to nurture is the ability to maintain a calm and clear mind, which enables you to view the world through an intelligent, informed, rational lens. Capital allocators love asking, "what is your investment approach; what is your process?" They are looking to see if your strategy is clearly articulated, quantified, coded - like a recipe, if you will - because they want to assess whether the process is logical and repeatable. Those questions in isolation strike me as myopic.

I enjoy long range precision shooting as a hobby. I can codify in a manual what process makes me a good marksman (so many factors play a role, e.g., bullet weight and BC; case preparation; powder and charge; rifle cleaning regime; equipment; interpretation of wind, altitude, distance, Coriolis effect and temperature on trajectory; body position; stretch regime; breathing technique, etc.). Since the process has been identified and documented, we can argue it is repeatable.

If the marksman continues to follow the documented process, he should continue to be successful, yes? Well, what if some exogenous factor throws him off course? Maybe the process is only repeatable under certain weather or temperature conditions, and outside those condition ranges the marksman completely loses the plot... or during one outing there is a noisy crowd and a lot of distraction, and the marksman doesn't know how to deal with it... or the marksman has some challenges in his personal life and the psychological strain is affecting his performance.

How much value does the so-called repeatable process deliver then? We need to understand the temperament of the fund manager to evaluate the probability of superior long-term performance. Process is important, but it can only be evaluated within the context of temperament, and it baffles me how few people actually pay attention to the latter. The ability to maintain a calm and clear mind, an even temperament, is crucial to maintaining direction during periods of duress or when navigating uncharted waters.

We operate in an environment that is constantly changing. Ben Graham style net-nets were a very smart idea in the 1950's and 1960's. However, that was before anyone could run a sophisticated net-net screen in a matter of seconds on his or her smartphone. The opportunity has been arbitrated away. I find it perplexing how some people try to run a fund by imitating Buffett or Graham or Walter Schloss or some other Superinvestor of Graham-and-Doddsville. I think that is a bit of an insult to Buffett or Graham or whoever else. They viewed the world through an intelligent, informed, rational lens at that point in time, and they acted accordingly.

The world has changed. If you cannot continue evolving as an investor, you are destined for obsolescence. Do we really think Graham would follow the same investment approach today as he did in the 40's or 50's? I highly doubt it. This insistence on codifying a static process because someone wants to evaluate whether it is repeatable seems dangerous. It stifles the mind from evolution and doesn't acknowledge that the investment greats of the past were innovators and trailblazers in their days. They were willing to take a different approach than the crowd.

Yes, of course there should be a recipe, and we should be able to write the recipe down. But in formulating process, one must keep an open mind. There could be several approaches, each best suited to a specific situation. Investment managers and allocators alike should seek to understand under what conditions a manager might shift processes to adapt, improve, evolve.

MOI: You are focused on South African equities only. Why don't you expand your investable universe?

van Niekerk: I am a big believer in specialization and focus. I cut my teeth on South African small- and mid-caps. There are no shortcuts to attain all those years of experience and intellectual property. I can expand my universe globally, but then I am also expanding our competition and simultaneously diluting our focus. I cannot compete in China with Dawid Krige (of Cederberg Capital) or in the U.S. with Scott Miller (of Greenhaven Road). Likewise, our dedicated focus on South Africa means very few people can compete with us. I receive writeups on SA stocks from other global fund managers all the time. Most miss some local nuance that often invalidates or at least handicaps the thesis.

The SA universe might be small, but it is attractive. The fragmented market is dominated by institutional groupthink. If you know what you are doing, you can find world-class, profitable, growing businesses trading at single digit earnings multiples. The opportunity is not the SA equity market, per se. I am not advocating going out and buying chunks of JSE All Share Index trackers.

The real opportunity is the sum of the many opportunities hidden inside the SA equities universe. If you want to access those you need a local guide. It is a very niched market. You want to partner with someone who has the focus, experience, intellectual property, and understands the nuances. There are very few who do what we do. How many alternatives are there to access a concentrated, SA-only portfolio, managed by a South African, via a U.S.-based dollar-denominated fund? It does not make sense to dilute our focus and expand our competition. We have a winning recipe for now.

MOI: How do you structure your days to perform optimally?

van Niekerk: I like routines and habits. Practiced consistently for long enough, habits become part of your identity and are performed almost effortlessly. When I think about habits and routines, I think about the ideal outcomes or states I wish to achieve and maintain. My ideal it is to have a calm and clear mind, to make fewer but higher quality decisions, maintain a healthy body, engage in meaningful relationships, and broaden my intellect and circle of competence.

I try to maintain a few cornerstone habits:

- Sleep 8 hours, 9pm to 5am.
- Train/exercise at least five days a week.
- Meditate daily for 30 minutes.
- Write in a gratitude journal.
- Dedicate time for reading and thinking.
- Take undisturbed walks.

My best insights tend to manifest after simmering somewhere in the mind for days, weeks, or even months, when I have been researching, reading, thinking. Then, usually when I am on an undisturbed walk, it just suddenly “appears”, with great clarity.

MOI: Do you have any advice for aspiring fund managers?

van Niekerk: Don't do it for the money. If you want to do it for the money, there are easier paths to riches that are more useful to society. To manage your own fund, you must be truly passionate about business, investing, and compounding. It's not a job; it's a lifestyle. Not a single day goes by that I am not thinking about business models, management teams, our portfolio, etc. My wife often jokes that she must schedule an appointment to talk to me because I am usually lost in thought.

If you want to manage other people's money, start with the end in mind. Determine what the ideal structure and set-up should look like five years from now and start with that today.

Learn from successful fund managers. You don't have to reinvent the wheel. There are a few self-made contemporary managers who seem to have cracked the code and they are generous in sharing their insights. People like Scott Miller of Greenhaven Road, Dawid Krige of Cederberg Capital, and Rob Vinall of RV Capital come to mind.

Be authentic. Read and interact widely, but use it as a source of inspiration, not imitation. No one can compete with you on being you. If you are truly passionate, put in the work, and constantly apply an intelligent, informed, rational framework, then success will come eventually with perseverance. Compounding in action is an astonishing, truly beautiful thing. Done right, it is immensely rewarding. Intellectually, emotionally... and financially.

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