

Why Bother With Deep Research in Investing?

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This is a lesson I learned the hard way, certainly paying too much for it. However, as an optimistic slow learner, I hope that this investment in myself will become very profitable in the future, and that it will at least benefit some MOI Global members.

Every investor should certainly do his best in order to avoid losing money and I believed for too long that trying to know as much as possible about the companies I owned was one of the best things I could do to achieve that goal. Quite surprisingly, my experience in investing showed me how wrong I was.

Let me put that statement in perspective: I only invest my own money and don't have billions of dollars under management, so I can invest in any public company, anywhere in the world. As a consequence, my statement above perhaps doesn't apply so well to big institutional investors with tens of billions of assets under management.

Nevertheless, I sincerely believe that anyone should aspire to have the simplest possible investments in his portfolio as, in my opinion, the simpler the investments are, the less risky a portfolio is, and the greater becomes the likelihood of getting satisfactory results.

Willing to improve my investing skills and hoping for better results in the future, I recently reviewed all the investments I made in the last 14 years, trying as hard as possible to eliminate the bias that the outcome of each investment is known today and to focus only on the process of investment selection only using the data available at the time I made my investments.

My conclusion is that my biggest mistakes have been the following:

- 1) I made too many investments,
- 2) The smartest looking investments never yielded a satisfactory result (at least not yet).

A great example of my failures has been an investment in a holding company, where I spent years to analyze and gather data on each of its subsidiaries in order to calculate the net asset value of the company as a whole as correctly as possible... The current outcome is an annualized performance worse than -20% per annum. Talk about being rewarded for deep research...

I also had some bad adventures with commodity producers in the past, where I had placed bullish bets on some commodities by buying what I believed to be best in class companies. It turned out that buying the commodity outright would have been a much better idea, although certainly not as rewarding as just concentrating on my simpler investments.

To be honest, I can't find any single instance in my investments when trying to be smart paid off for me: in the best cases, the performance of these investments was really low when compared to the simplest investments I owned.

But there is also a very positive finding in the analysis of my past investments: I can't yet find any single instance when making obviously cheap investments did not pay off outrageously well.

Let me give some examples of those to clarify what I mean by obviously cheap investments.

In the beginning of 2016, Picanol, a Belgian company, had its operating assets appraised at EUR 811 million, and anyone (even me!) could read and understand the appraisal report.

Meanwhile, shares of the company were trading at a price of EUR 40, giving the company a market cap of EUR 708 million, less than the appraised value of its operating assets alone. In addition to these assets, the company had a significant net cash position and owned almost a third of Tessenderlo Chemie, a public company in Belgium that had a market cap of EUR 1.2 billion at the time (which, by the way, I also believed to be significantly undervalued, but this wasn't even important).

How on earth could all of this be valued at only EUR 708 million when the operating assets alone were worth significantly more than that?

Well, the market only briefly disagreed with the above statement, as the price of the Picanol shares quickly more than doubled.

In similar vein, I had been lucky in to invest last September in Japanese companies trading significantly below their net cash position, with very profitable operations coming in for free. In addition, these companies were brilliantly buying back huge amounts of their own shares, thus significantly increasing their net asset values per share. Annualized returns on those investments are currently all well above my wildest expectations, while the thesis cannot be any simpler to formulate and follow.

In the same vein, I would sometimes stumble on short duration senior bonds of companies with solid balance sheet with yields to maturity above 30%. The companies would also be buying back their bonds in the open market to profitably reduce their debt... It didn't require an MBA to understand that lending at such a rate to creditworthy borrowers can indeed prove a very profitable endeavour.

A list of similar simple patterns could go on for a while, but I think my point is clear at this stage: I believe that the simplest and easy to follow investments are certainly the best way to reduce the likelihood of losing money and these investments tend to provide great returns.

As the wise Charlie Munger once said: "There are no points for difficulty at work or in life."