

The Wisdom of Michael Price

It's not often that value investors have an opportunity to hear unedited investment advice from someone who has not only assembled a market-beating track record over decades but has also served as mentor to other accomplished value investors, including Seth Klarman, Meryl Witmer, and David Winters. Investing legend Michael Price spoke at the London Value Investor Conference in May 2013.

Michael F. Price has managed money since 1974 when he joined Mutual Series under Max Heine. Price became partner in 1982 and took over Mutual Series after Heine's passing in 1988. He amassed a market-beating track record, significantly growing the firm and selling it to Franklin Templeton in 1996. Michael Price now manages a "family office" that [continues to file quarterly forms 13F-HR](#) with the SEC.

Michael Price on Portfolio Construction

What struck me about the speech was the emphasis Michael Price placed on portfolio construction rather than simply idea assessment. Typically, fund managers pitch ideas at investment conferences, with little mention of how a position might fit into a broader portfolio. Instead, Price spent quite a bit of time discussing the composition of his portfolio, why he is comfortable holding cash, and how he thinks about increasing or decreasing position sizes over time. Price does not use short-selling as a risk management or return maximization tool. He runs a long equity portfolio, two-thirds of which typically consists of equities trading at roughly 40% discounts to Price's intrinsic value estimate. The remaining one-third of the portfolio is in special situations, such as merger arbitrage trades, activist-influenced securities, and other event-driven situations.

In response to a question toward the end of the session, Michael Price explained his preference for a widely diversified portfolio of several dozen equities, in which the top five positions may each account for 5% of the portfolio, the next five positions for 3% each, with the remaining holdings at roughly 1% each. The questioner posited that Price may be underselling his proprietary research by allocating only 5% to his best ideas. Price explained the relatively low allocation as a personal preference that may have developed over the course of his career as a mutual fund manager. In those funds, Price was known to hold more than 100 securities.

Michael Price on Specific Opportunities

Price mentioned a few current ideas in his speech. He highlighted oil and gas company **Hess Corporation** (HES), which as of the date of the speech was the subject of an activist campaign by Paul Singer of Elliott Associates. Price put the intrinsic value estimate of HES south of Singer's \$130+ per share estimate, calling the shares worth roughly \$100 each. He explained his investment rationale by tallying up the votes likely in support of Singer, concluding that Hess management might be forced to settle and start implementing Singer's key demands. Actions like divestitures of non-core assets and share repurchases should create shareholder value given the recent trading range of Hess shares.

Michael Price also outlined his thesis on **Hospira** (HSP), a manufacturer of generic drugs. Hospira shares plummeted when regulators closed the company's largest plant, piquing Price's interest. He compared the sudden decline in market value to the potential cost of

returning the plant to acceptable standards, arguing that investors had shaved off too much equity value in response to the bad news. Michael Price used to Hospira to make a broader point about value investors coming in to pick up shares from growth investors when the latter give up on a company despite the existence of strong long-term intrinsic value.

Michael Price on Berkshire Hathaway

Somewhat surprisingly, Price was not very generous in his comments for Warren Buffett's conglomerate, calling it anything other than a value investment. He put Berkshire's asset value around \$130,000 per share and seemed to indicate he viewed Berkshire akin to a closed-end fund, with the latter typically trading at a roughly 20% discount to NAV. Price did not seem to put much, if any, franchise value on Berkshire Hathaway, a surprising judgment. He also appeared to prefer going to sparsely attended public company annual meetings rather than Berkshire's annual meeting, which routinely draws tens of thousands of shareholders from around the world.

Wisdom, But Not Gospel

I found Price's comments articulate and valuable. However, it helps to remember they represent the wisdom of just one successful investor. I would disagree with Price's downbeat assessment of Berkshire Hathaway, as the latter has worked hard to build up a culture that translates into significant long-term franchise value.

In terms of portfolio construction, I gravitate toward the more concentrated end of the spectrum, preferring to allocate more than 5% of the portfolio to my best ideas. Will I change my position sizing preference following Price's statements? No, but it's good to note that one does not need to be particularly concentrated in order to achieve an acceptable long-term outcome.