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Words of Wisdom and Advice for Aspiring Value Investors

Albert Einstein reminded us some time ago to “strive not to be a success, but rather to be of value.” In the world of money management, there are many *successful* people managing large pools of capital. However, few of them are *of value* to their investors. Warren Buffett and Charlie Munger are exceptions to the rule, not only because they have delivered superior investment returns to Berkshire Hathaway shareholders, but also because they have been of value to all of us as teachers on investing and life.

Below, we are pleased to share selected words of wisdom and advice to aspiring investors excerpted from our conversations with some of the more experienced value investing practitioners in our community. We hope these words will be *of value* to aspiring investors and, in the process, contribute to our shared global value investing community.

Jean-Marie Eveillard, Senior Adviser, First Eagle Funds

“When our younger daughter was six or seven years old somebody asked her at school, what does your father do? And Pauline didn’t have the answer. So that evening when I came home she said she was embarrassed, so she said, hey what do you do? And I didn’t feel like particularly at the end of the day, I didn’t feel like explaining to a six-year old money management, so I said Pauline, I will tell you how I spend my time.

And I said to Pauline, half of my time is spent reading, because I had read or heard that Warren Buffett was a voracious reader, which he is. So I said to myself I don’t have his skills but if I read voraciously maybe it will help me too, which it did I believe. And the other half of my time I spend talking with my in-house analysts. And Pauline said, reading, talking, that’s not work. So I said sorry, Pauline but that’s just what I do.”

Chuck Akre, CEO, Akre Capital Management

“I’ll tell you a quick anecdote. There is a financial writer who used the *nom de plume* of Adam Smith years ago, his name is Goodman I think. And back in the 1980s, he interviewed Warren Buffett and he said, well, what advice can you give somebody who wants to be a good investor? Warren said, well, just learn about all the public companies. So he said, oh, you couldn’t possibly mean that? There must 7,000 public companies. Warren says, well, just do what I do, start with the As.

Most of us are not blessed with the kind of mind and capability that he has, and so I would just say, it’s been hugely important to me to be curious and passionate about it. And if you go back and read…of things that Warren Buffett suggested that one had to have to become a successful investor. And among them were things like control greed and so on.

Be curious and read everything you can get your hands on and try to identify the people who’ve been winners and then try to identify why they have been winners. What it is about what they’re doing that causes them to be successful? I mean that’s all I’ve ever done, and try to create a system that works for the way I’m wired and allows me to get along in the market. That’s all there is to it, be curious, interested and uninhibited.”

Brian Bares, Founder, Bares Capital Management

“Conceptually, from an investment process and philosophy standpoint, obviously the

Berkshire Hathaway annual reports going back and even his partnership letters are a great source for understanding the concept of viewing a stock as a business, fundamentally, and understanding that to be successful in the stock market, you need to be successful in owning businesses that compound high rates over time. I think that's the fundamental tenant that I took away from the Buffet/Munger philosophy.

I think the more Munger influence of buying high-quality business over time that compound because of that convergence between stock price and intrinsic value is probably even more of a fundamental tenant of our process. I think anything by the two of them is great. All of the books that have been written about them I devoured in my early investing career.

I like business biographies. Business biographies tend to just show how passionate people who live and breathe their business have created something out of nothing, such as the Sam Walton biography. I recently read a biography of In and Out Burger on the west coast, which I thought was really great. So, anything that you can get your hands on, modern business biographies have been extremely beneficial in understanding the characteristics of management teams that are exceptional, especially because they all don't look identical but there are some common personality characteristics.

I think the McKinsey book on valuation was very helpful in constructing our original DCF models. I think more than reading the entire finance section at Barnes and Noble, a better approach would probably be to start reading as many annual reports that you can get your hands on because that's what's really happening in American publically-traded small businesses. You start to get a feel for what exceptional looks like by doing that.

Everybody in our office, oddly enough, even though it's kind of an individual investor tool, reads Value Line cover to cover every week, the paper edition. It's just mental weight lifting for us to get a sense for what returns on capital, returns on sales, and common-size financial statements look like for particular industries over time, and you can sort of see that "Hey, the precision instrument industry has really delivered fantastic results for investors over time" and "Hey, look the airline space has really done the exact opposite," and you can start figuring out what industries and sectors are doing really well and which ones aren't, and that can help hone your investment process a little bit and focus your time and energy on the right places."

Rupal Bhansali, Chief Investment Officer – International Equities, Ariel Investments

"For someone who's starting out, they should try to absorb a lot of information because you do need to have an antenna. Insights are developed when you connect the information, when you process the information, when you interpret the information. So that will come with experience and acumen and know-how. But it does not obviate the need for collecting that information. So it's not easy.

They should read and learn from someone who's been in the profession as up close and personal as they can. So the first thing they should do is try to find a job with someone who actually has a great long term investment track record because you learn from others. That's why it's like osmosis. You see people, how they process information, how they interpret it and it sort of gets into your DNA and your consciousness. It's almost subliminal.

And you will form your own rhythm, and you'll apply that know-how and knowledge at your own way because this is a very creative exercise but at least you will have learned from someone so that will speed up your process of creativities, as I like to think about it, as opposed to constrain it."

Charles de Vaulx, Chief Investment Officer, International Value Advisers

"Besides the classics, Ben Graham, of course, I think Berkshire Hathaway annual reports. One has to not only read them, but re-read them. I'm very fond of Vladimir Nabokov, the writer of *Lolita*. He said, "a good reader is a re-reader". I think some of the books that are a must would be Peter Bernstein's book about risk, *Against the Gods: The Remarkable Story of Risk*.

I believe that awareness of history, in particular, economic history, financial history, history of how technological improvements and technological breakthroughs have impacted the world, and history of geography — are important, so I think some history books are a must. Financial history, there's a wonderful historian who passed away a year or two ago, Charles Kindleberger, who many people know. One of his most famous books is *Manias, Panics and Crashes*, but he also wrote more in-depth books. One is called, *The Financial History of Western Europe*, and there are other books that are a compilation of many of his essays, and I think these are very valuable. There is a great book by David Kynaston called *City of London*. It goes back 300 or 400 hundred years and basically walks through the financial history of the world through what happened in the city of London.

Some reading that delves into behavioral finance and psychology can be very interesting. Daniel Kahneman's books should be read along with *Poor Charlie's Almanack*, which has transcripts of many of the speeches that Charlie Munger has made over the years.

Otherwise, for anyone who begins as an investor, I would recommend books by John Train. Some 20 or 30 years ago he wrote, *The Money Masters*, where you have a chapter on Ben Graham, one on Philip Fisher, one on Warren Buffett and so forth ,and then ten years later John Train wrote, *The New Money Masters*, with Peter Lynch, Mario Gabelli, and so forth. The advantage of those books is that you have one chapter on one money manager, and that book helps the reader understand that there are many ways, many recipes to invest money, and each of these ways has its own internal logic and own set of rules. If someone who starts as an investor reads the book, he or she will appreciate that there are many ways to do it, many ways to cook, and he or she will probably be able to, based on his or her temperament, identify and find some affinity with one of those investment styles, whether it's George Soros or Paul Tudor Jones or Ben Graham with the cigar butts, or Philip Fisher. I think *The Money Masters* and *The New Money Masters* are great books to read to begin in our business."

Tom Gayner, Chief Investment Officer, Markel Corporation

"I read endlessly. John Wooden, the basketball coach at UCLA during their dynasty is a hero to me. General Grant is a hero. Warren Buffett is a hero. Pick some good heroes and read everything you can about them.

I also like reading about history, psychology, and human nature, technological progress and scientific thought. The world is a fascinating place and you will never run out of rich material if you want to keep understanding more and more.

I think I saw a recent interview with Seth Klarman where he said something like, "value investing is the marriage of a contrarian and a calculator." Some books, like Twain's, the histories and biographies help you with the human nature and contrarian side of that equation. Some books, like the ones about science and technological developments, along with the accounting homework I did a long time ago, help you with the calculator side. Both elements are essential. Each is severely limited without appropriate balance and understanding from the other side.”

Robert Hagstrom, Chairman, SAM Investment Management Committee

“As students of the Buffett methodology, we’re becoming well-versed in the mechanics of it, well-versed in the procedures if you will. But we need to be spending a little bit more time on the issue of rationality. Buffett not only has the process and the mechanics down perfectly, but he has the rationality, the temperament that allows him to apply it and not get thrown off course.

And the mistakes that people make as they adopt the Buffett methodology is they get thrown off course by the emotional aspects of it. The irrationality of it all. We need to spend more time talking about that.”

Paul Lountzis, President, Lountzis Asset Management

“Greg Alexander [at Ruane, Cunniff & Goldfarb] once said to me: ‘You really learn from your mistakes’ and he’s so right. And so I try to reflect on ideas over the years that I’ve done right and especially those that I’ve done wrong: What could I have done better? What could I have known? What could I have not known?, and I find that very, very helpful to assess your performance and assess the exercising of your judgment. And that’s how you learn.”

Atticus Lowe, Chief Investment Officer, West Coast Asset Management

“For somebody that wants to get into the business, especially a younger crowd, interning is great, multiple internships to get different senses of different types of experience. We have an active internship program here at West Coast. And reading is a great resource whether it’s reading books on investments or just reading 10-K’s, annual reports, proxies – things of that nature, the more the better. We all have a passion for that, learning about businesses.”

Howard Marks, Chairman, Oaktree Capital Management

“I keep going back to what Charlie Munger said to me, which is none of this is easy, and anybody who thinks it is easy is stupid. It is just not easy. There are many layers to this, and you just have to think well. I can’t tell you how to think well. Some people get it, some people don’t.”

“There is no secret method for any of this stuff. You just have to be aware of concepts, smart in their application, and it helps to be an old man, or an old woman, so that you have the experience that helps.”

David Nierenberg, Founder, The D^3 Family Funds

“And so, what would you say to someone other than the fact that you want them to read and think extensively, and at the very same time that they do it broadly, to drill a “T.” So that in the vertical part of the “T” you also build substantive expertise in a far narrower domain where you can establish true competitive advantage relative to what other investors might know. If you do both of those things and you keep doing it and you keep learning, you’re going to be fine even if you don’t have a Yale degree.”

Lisa Rapuano, Portfolio Manager, Lane Five Capital Management

"You can practice this craft anywhere. I don't think that if you're young and you know you're a value guy, but you're stuck in a growth shop or you know you're an Asia guy and you get stuck in the Europe shop or whatever, I think you can learn anywhere. Too many people spend too much time needing a defined path and this is a very fluid business. You have to just sort of go with the flow sometimes. It's also really hard to get a job so sometimes you just have to take what you can get and do your best wherever you are.

But I don't think your job defines your philosophy necessarily, unless you get to run your own shop. Then you get to define your philosophy. But everyone works for someone, I work for my clients, everyone works for someone and so you're always going to be able to be differentiate between what you are expected to do for your job and what you want to do for yourself, and you have to sort of figure out how to balance those things.

Too many people hold out for the perfect thing, and too many people have very, very strident views when they're too young to have strident views. You need to develop and you need to learn. You can learn from anyone, anyone who has been successful in his business has something to teach you. Even the technician, even the momentum guy, even an economist, there's something to learn from all of these people.

So I think that it'd be great to end up with the perfect match, with the perfect place that's perfect for you. But in fact, unless you've started it, it's not going to be perfect. So go with the flow, learn what you can, figure it out. Be glad that you're somewhere and try to find the best from whoever it is that you're working with."

Robert Robotti, President, Robotti & Company

"As I always say…I'm not smarter than the average guy, I'm not more connected than the average guy, I'm not any of those things. And if I can be successful at investing, that means you can be successful at investing.

Therefore, the capabilities are within most humans to be successful, if you have an idea of what are businesses, how do they run, what are the drivers in terms of future economics and can you identify businesses that the market isn't looking at properly. And that's easy enough to do in certain cases because the market does have a very short term focus. And so by having that longer term focus, it's not so hard to identify a couple of companies that the market isn't getting right."

Tom Russo, Partner, Gardner Russo & Gardner

"Stretch out your time horizon. Think five years and not five minutes. When you are presented with ideas always ask critically about the prejudice that may be expressed by the source of an idea. That came to me from the study of history. And the quick answer there is to say whenever someone says "Truth," say, "Who says?" Understand the bias of a person who tells you something. It's very good for critical thinking."

Larry Sarbit, Chief Investment Officer, Sarbit Advisory Services

"It comes down to one good place to start and that is read Benjamin Graham, read Warren Buffett's annual reports to shareholders which are easily accessible on the web. They weren't accessible on the web because there was no web when I started investing back in the 1980's. Read those, and read them all, and then reread them because he presents the most rational,

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the most logical, and the most business-like approach to investing.

That's where I learned to invest was reading Buffett, reading Graham, or many other people who have written in this fashion and understand the power of this investment philosophy. That's the place to start. If you get off in the right foot in this business and once you grab that concept that Buffett's talking about and Graham's talking about, it'll guide you for an investment lifetime.

But as Buffett says grabbing the concept of value and behaving in a rational business-like fashion is like an inoculation. It either takes you immediately or never takes you. It either grabs you or it will never grab you. It's not something you learn gradually, it's not something you pick up on a slow basis. You either get it or you don't. So read that stuff and read it early. The earlier you read it the more likely it is to grab your mind, and it's the right way to go in my estimation."

Kenneth Shubin Stein, Portfolio Manager, Spencer Capital Management

"It's very important to do something you're passionate about. Life is highly unpredictable. We have no idea about our future health, our future wealth and a lot of things in life are just hard to predict. Therefore, it makes all the sense on the world to do things that we're passionate about now and today.

Suffering for a long period of time in the hope of some future payoff is generally not a good idea. One needs to do that to some degree to follow trades or professions and we all have to get through the grunt work to learn our crafts whether it be doctors, lawyers or investors. But it's really important to follow passion I believe. Oftentimes, there's a way to learn how to follow passion profitably. That's not always the case but it's often the case.

With students, I always suggest that they go into fields they care about and they enjoy because it's just much more fun if you enjoy the process. I love what we do, I love what I do. I really enjoy being part of my company, I love being part of Columbia and overall it's all great. It's a lot of work but I really enjoy it. If I did not enjoy it, it would just be torture because it is a lot of work.

My first advice would be enjoy what you do. In terms of becoming a professional investor, one, I would say most people don't need to. You can learn to be a very good investor and invest very profitably over your whole life without doing this professionally. Everybody needs to handle their retirement accounts and their savings accounts. These are very useful skills for everybody including just knowing you don't want to be an active investor, and a very smart decision is for a lot people to say I'm not going to try to pick individual stocks and bonds. I'm going to go into index funds and you're guaranteed to outperform more than half the professional money managers in the world if you just do that.

Just understanding how this works is important. It's very competitive. If you can do something else profitably and enjoy it, there are a lot less competitive areas to go into. And if you do still want to pursue being a professional investor, and try to outperform the market over a long period of time then it's very important to be a lifelong learner, to have a passion for learning.

Learning comes in all sorts of places. There's experiential learning. There's didactic learning. There's a host of ways to acquire wisdom. Something Munger has talked a lot that I appreciate the longer I do this is this is not a business of who's the smartest. There are a lot of very smart people that don't end up doing well in our business. Being smart always helps if one is as smart as Buffett and Munger, I'm sure that's fantastic but most of us are not.

It is a business of acquiring some worldly wisdom and I believe all of us can acquire worldly wisdom over time by trying to get better at this and trying to think better. A book that greatly impacted me was *Poor Charlie's Almanack*, along with the essays of Warren Buffett or his annual letters, and a lot of what Ben Franklin wrote. *Poor Charlie's Almanack* pulls a lot of this together in one book. I've read and reread that book several times and each time I do, I seem to get something else useful out of it, some other nugget or pearl of wisdom. For me, that's what's been helpful."

Michael van Biema, Managing Partner, Van Biema Value Partners

"Certain people have, for lack of a better term, I will call funny ways of thinking about the world. They naturally think in an off-colored or contrarian, or whatever you want to call it way. It's both fun and fascinating to listen to these people and listen to how they perceive various situations and various companies. They perceive them in a different light, and where the rest of us may see a very standard manufacturing company they will see something that actually is quite different, intriguing and should be valued in a completely different way…

The way we think about the world is basically a manager has two skills. He has the skill of being a stock picker or a good stock analyst, company analyst, and that skill is reasonably easy to identify and reasonably easy to document over time. The much more difficult skill is can he, does he know how to run a good portfolio and will that portfolio generate good returns over the long term?

We have certainly had managers who are great stock analysts and lousy portfolio managers, and therefore generated poor to mediocre investment returns. It's unfortunate because they have half the skillset there but they don't have the entire skillset. You got a guy who has a lot of raw talent but not in the right places necessarily. He'd do better if he wasn't quite as good an analyst than he was a better portfolio manager."

Amit Wadhwaney, Portfolio Manager, Moerus Capital Management

"It is important that anybody who goes down this path be aware of a few things. Know yourself. There's certain kinds of things that value investors do which are not fun. Fun in terms of patience, fun in terms of due diligence. This is grunt work, this is hard work, it's very unglamorous.

I would tell you growth investors have a far more glamorous life. That's the fun end of the business. Their companies are always growing, they always look good, they have high ROEs. It's always wonderful. We're at the other end of the spectrum. We do the unpleasant stuff, we deal with these terrible companies, terrible countries, companies facing difficulties, companies which may need recapitalized. There's all sorts of stuff. So know what you want to do. Value investing may or may not be for you. That's item number one.

But notwithstanding that, if you really think value investing is for you, there's a lot of stuff that's been written about value. Books that come to mind – again, this is in no particular order – obviously Marty [Whitman]'s first book, his original copy of *The Aggressive Conservative Investor* was, to me, a great book. As I said before and I will say without being bashful, the book's a damn turgent read. It's a deadly read but it's a very bright book. It's full of a lot of ideas. Then, of course, are the other books that he's written, namely *Value*

Investing, A Balanced Approach. Those will get you going. And then, of course, Seth Klarman's book, *The Margin of Safety* which also came out, I believe it was in the early '80s, if I recall. Seth's book was a fabulous book, a great book. It's a much more user friendly book. So there is that.

Then, of course, if you enjoy special situation investing, there's Joel Greenblatt's book *[You Can Be a Stock Market Genius: (Even if You're Not Too Smart!)]*, it's got a very odd title. It's actually a very bright book. I think it's a very clever book. Again, I'm not a fan of mechanical investment formula. If that's what you do Joel has another book about that. Most recently there's Howard Marks' book. Howard Marks is a great writer. The book is a very nice, easy summary of what we do, what he does. There's no question there's lots of wisdom encapsulated in Howard Marks' book, which is a really worthy read.

So if you've made it through all that stuff and you actually read Graham and Dodd's book, you really want to pursue it, the only way to do it is by doing it. Doing it is, I believe, a process of some degree of apprenticeship with somebody who is going to actually teach you. You can learn generalities. There's an art of recognizing these things. There's an art of not being freaked out by these things and these auctions where they're staring you in the face. There's an art of recognizing things that are sometimes very subtle, things that could hurt you. That's very important. You can only learn that by doing and you do it by ideally working with an experienced person. I mean, it's obviously easier said than done, finding the right person who's actually looking for somebody, or the right temperament to be a mentor. But that's probably the way to do it."