

QV UPDATE

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Value & Values Investing

Last week, a few fortunate QV'ers made the pilgrimage to Omaha, Nebraska. We were among the thousands present to hear Mr. Warren Buffett and Mr. Charlie Munger pass on wisdom. The forum was a discussion of Berkshire Hathaway, business, and intelligent investing at the Annual General Meeting (AGM).

Most striking was the duo's emphasis not only on value investing, but also personal values. This theme was captured in the 2014 Annual Report as well. Speaking of culture, Mr. Buffett writes "If our non-economic values were to be lost, much of Berkshire's economic value would collapse as well. 'Tone at the top' will be key to maintaining Berkshire's special culture." For skeptics of intangibles like culture, the longevity and success of Mr. Buffett and Mr. Munger's 56 year business partnership should speak to the merit of a value and values based investment approach.

We concur. At QV, without values such as integrity, humility, transparency, and hard work we would be nowhere. Sustainable results are outcomes of doing the right thing, the right way. Below are some insights from the AGM and the most recent annual report.

Lessons on Doing the Right Thing

On becoming an intelligent investor: Think of stock ownership as a percentage of business ownership. Focus on what the business's earnings power will be five to ten years out. Contemplate the competitive advantages and long-term threats to the viability of the business. Benefit or capitalize on market fluctuations, don't be susceptible to them. Buy when others sell, sell when others buy.

On time horizon: Investment analysis is prospective, especially as investing is "the transfer to others of purchasing power now with the reasoned expectation of receiving more purchasing power". How prospective should one be? Two data points from the AGM and annual report provide help. Unable to reliably predict market movements, Mr. Buffett recommends potential investors purchase Berkshire Hathaway shares only if expecting to hold them for at least five years. The hold period considered on a tangible asset such as a farm was

also put forward. Would you buy and sell a farm within one year?

On debt: Using borrowed money to purchase stocks is characterized as an investment sin, because anything can happen anytime in the markets. From a corporate perspective, Berkshire Hathaway remains committed to maintaining its financial staying power. This goal will be met by using debt sparingly to limit future cash requirements and having available liquidity at all times.

Lessons on Doing Things the Right Way

Quality of character was a recurrent theme. When Mr. Buffett's investment partnership was closed down, he chose Sequoia's Bill Ruane to send his investors to 'because he was a good person'. Admirable characteristics posed were doing more than your fair share, taking less credit than you deserve, seeing things the way they are, and approaching things rationally.

Learning from mistakes. According to Mr. Munger, nothing produces more wisdom than getting whacked in the nose. The duo's past experiences investing in bad businesses was identified as helpful to identify good businesses. A key lesson was the duo's humility and willingness to admit mistakes and move on. For example, when posed a question about the macro environment and inflation, both partners deferred. Citing how wrong they had been thus far on their interest rate outlooks. Some poor decisions were also spoken to. Mr. Buffett takes responsibility and explains his mistakes this way, "I was not misled: I simply was wrong in my evaluation of the economic dynamics of the company or industry in which it operates."

Like Mr. Buffett, we also believe our non-economic values are equally integral to our process as our investment philosophy. Core investment principles and operating values will never change at QV. Our clients can expect we will continue to manage risk by buying above average business at a below average price. However, our clients can also expect continuous improvement through a commitment to learning, growth, and admitting mistakes. We thank our clients for their commitment and faith in QV.