

Introduction to Value Investing

General Meeting:
10/9/2018

Who are value investors?



Warren Buffett



Benjamin Graham



Seth Klarman



How much are you willing to pay for this apple?

Your valuation: \$3.50

Market valuation: \$2.50

What does this assume?

“In the short run, the market is a voting machine but in the long run, it is a weighing machine”

- Benjamin Graham

In context of the markets...

Market Summary > The Coca-Cola Co NYSE: KO

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46.48 USD **+0.61 (1.33%)** ↑

Closed: Oct 8, 6:03 PM EDT · Disclaimer

After hours 46.44 **-0.040 (0.086%)**

1 day

5 days

1 month

6 months

YTD

1 year

5 years

Max



The philosophy

We cannot predict the future.

1. Long-term – buying a piece of the business
 1. Contrast to speculation
2. Fundamental Analysis
3. Management
4. Conservative
 1. Margin of Safety
 2. Circle of Competence
 3. Swing Once, Swing Well
5. Contrarian & Market Pricing

Long-term Approach

1. How long is long-term?
2. Contrast to other fundamental analysts and long/short approaches
3. Will the business survive in 30 years? 40 years? When I die?
4. Pretend your grandfather has just passed away, and he left you his business to run. You are dirt poor. If this business fails, you will have nothing left. What would you do?

Fundamental Analysis

What makes a business a good one?

1. Competitive Advantages
 1. Moats
 2. Economies of Scale
 3. Margin structure
2. Nature of the industry
3. Different financial and accounting measures
 1. ROE, ROA, ROIC
4. Qualitative data explains and drives the quantitative data

Management

"When you have able managers of high character running businesses about which they are passionate, you can have a dozen or more reporting to you and still have time for an afternoon nap."

1. Capital Allocators
2. Understanding of the business
3. Motivations and character

Being Conservative

“But even if you were the founder of the business, do you really know what the cash flow will be for next year? You can’t say with absolute confidence that you can predict the future business development for the next 10 years. Very few people can do that. There are too many uncertainties.”

- Li Lu

1. Can’t predict the future
2. Most important rule: do not lose money
 1. Trying to play a game that we win majority of the time – it’s not a gamble
3. Tune out optimism & Eliminate biases

“Dude. Cryptocurrency is the FUTURE. General ledgers! Decentralized money! We need to invest now – have you SEEN these returns??



Bitcoin

Oct. '17 ~ Dec '17



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Bitcoin
Oct. '17 ~ Oct '18



Margin of Safety

1. Buy at a discount
2. Accounting for possibility that things just don't go the way you expect them to
3. Difficult to find margin of safety in top-down investing



Market price: \$3.50
Our valuation: \$3.10

Do we want to buy?

Circle of Competency

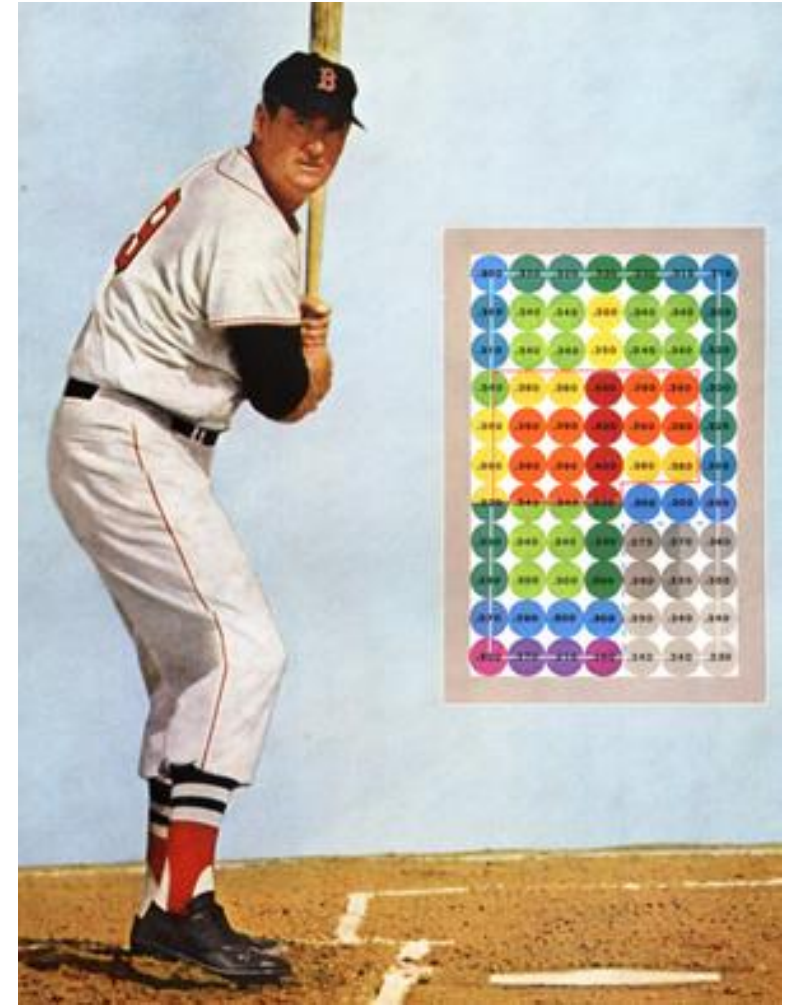
“If you can’t tell the edge of your circle of competency and if you step outside of your circle, you will be destroyed by the market at some point.”

1. Know what you know, Know what you don’t know

Swing Once, Swing Well

"What's nice about investing is you don't have to swing at pitches. You can watch pitches come in one inch above or one inch below your navel and you don't have to swing. No umpire is going to call you out. You can wait for the pitch you want."

-Warren Buffett



Ted Williams

Contrarian & Market Pricing

*Okay – it sounds good in theory. We are bargain hunting for stocks. But are there bargains?
Where do we find them – it's not like there is a Costco for stocks... right?*

1. Be careful about big names that are heavily covered
2. Structural opportunities
 1. Small-cap equities
 1. Fund restrictions
 2. Short-term market exaggerations
 1. Be wary of a bull market, search for mispricings in bear markets
 3. Differences in mindset
3. Hidden assets & hidden liabilities
4. Be creative & track research
5. Understand how the market is pricing the security
 1. What if stock drops 50%?

Q&A... or Clarification

...Also check our website if you are interested in more resources & feel free to reach out

Next GM: Intro to Macro Investing