Investor type 2: the tester of patience, the value investor

March 12, 2011

Marcus Padley

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This week we look at another potentially adoptable self-managed super trustee identity, the "value investor".

When I moved from being an institutional broker (talking to fund managers) to being a retail broker (talking to private clients) I remember taking a call from one of my sharemarket-interested brothers-in-law who declared to me that "I'd like to do things the Warren Buffett (that's him in the photo) Way".

"Well that's just grand," I remember saying, "and just how do you intend to do that? Get the annual reports of the top 200 companies? Analyse the balance sheets, assess value, go into the sharemarket and find that 'Wow!' everyone's wrong and you're right, buy the company for a below-value price and wait for natural forces to adjust the share price allowing you to sell at a profit?"

"And just when are you going to do that? Between running a company, being a father and periodically indulging yourself in one of the most time-consuming 'divorce sports' know to man, cycling?"

"Sorry, my friend, but it just ain't happening."

When the only organ you have left that still pumps blood is your brain, I can think of no better way to spend your time than scanning the market for "value-based" opportunities in a captivating game of "genius or idiot".

It is the perfect cerebral exercise, and at a time of your life when having somewhere warm to go to during the day is a marital necessity, organisations like the AIA, ASA and ATAA offer an increasingly social side to the activity with numerous opportunities to get out and about with "PLU" (people like you).

But while all our organs are functioning and while we are all busy having a life, taking the time to learn about and practise the art of value investing is simply not practical. We would quickly trip over the value investor's Achilles heel, patience. Value investing requires patience, and a lot of it.

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Most of us don't have it. Most of us can't shut our eyes to the volatility in the sharemarket. Most of us are incapable of fulfilling the sentiment behind those million "value investment" quotes that are "oh so sage" but "oh so impractical" because most of us can't afford another global financial crisis; most of us are on the "edge" of our financial tolerance already and there is not a man among us whose faith in assessed value in the long term would not crack if the edge of our financial envelope approached in the short term. We are too raw from the GFC. We are too financially finely tuned.

The essential qualities of successful value investing are time and money. You have to be wealthy because you cannot play patience with money destined for school fees and a mortgage and you have to have time, to wait for something that you think you've seen but that the market may never see.

On top of all that, one of the fatal flaws with a complex assessment of value is that you could be wrong. An assessment of value involves myriad facts that might change and assumptions that may not be fulfilled. Only years of dedication and experience can narrow the odds. I cannot tell you how many value investors identify value in companies that will go bust. It's because the companies lie and the assumptions are wrong. How would you know that from your unit in Bendigo?

But look, I've killed the dream without telling you the good bits. The good bits are that if you do have the time and you do learn the skills and you do have the "financial patience" then value investing has integrity. It is also one of the few approaches that do not offer some tempting but unrealistic shortcut.

At its worst, it is a great filter for identifying bad stocks. At its best, it is a disciplined structure for share assessment that works. If you can do it, it knocks the socks off any other. For those that want to pursue it, let me plug Roger Montgomery's book *Value.able*. It'll get you started without having to read boring old textbooks. It's on Montgomery's website - www.rogermontgomery.com

Marcus Padley is a stockbroker with Patersons Securities and author of sharemarket newsletter *Marcus Today*. For a free trial, go to marcustoday.com.au. His views do not necessarily reflect the views of Patersons.