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Member profile: Spotlight on Roger Montgomery

Roger Montgomery SF Fin is a renowned value investor who founded his boutique business, Montgomery Investment Management, in 2010 following a successful career as an analyst and public company chairman.

Montgomery discovered his flair for value investing - a strategy of selecting equities for less than their intrinsic worth – after he was given a copy of the book *The Warren Buffett Way* from a mate.

He discusses with Vish Teckchandani the key principles of value investing, important lessons for analysts aspiring to become portfolio managers and about his use of social media in business.

Roger Montgomery
Founder, Montgomery Investment Management

Finsia: Roger, in your view, what are the key principles of value investing?

Roger Montgomery: What I think I've brought to the value investing philosophy, in Australia at least, is the idea that there really are businesses that no matter how low the price, you shouldn't buy them.

That's unconventional because many people think that there's a price for everything and you can make money buying anything. I don't agree with that.

I think you should only invest in the very best businesses and if you're buying poor quality companies, you're less likely to be investing and more likely to be speculating and we try and avoid speculation at every turn.

So our philosophy is a very simple one: we treat the stock market not as a place to bet up or down on, because that's gambling, we treat the stock market as a place where we can buy pieces of extraordinary Australian businesses run by some very extraordinary people. That's the first thing.

The second thing is that we are very, very patient and we only buy businesses when they're trading at a substantial discount to our estimate of their intrinsic value.

Finsia: What is particularly important about analysing the debt-to-equity ratio and return on equity ratio of companies?

Roger Montgomery: They're vital to understand. Let me say this - a business that generates very high rates of return on capital and returns on incremental capital in a sustainable way, while also employing little or no debt - not always - but often suggests that it has a competitive advantage of some description.

If that is the case and we can identify it, it's more than likely that those high rates of return on equity will persist. High rates of return on capital and incremental capital are very good explanatory variables for share cost performance in the long run.

Finsia: What is your advice to analysts out there who are aspiring to move up and become portfolio managers?

Roger Montgomery: Two things. One is not to think about stocks but to think about businesses, and the other is not to think about percentages but to think about your clients.

Many people in funds management treat investing as just a numbers game and it doesn't worry them if they lose 'X per cent' on a particular day. For us however, it matters a great deal because that represents a lifetime of the blood, sweat and tears of our clients and so it's very important that we don't lose money.

I think that's lost in the investment game. Most people forget about that relationship and think only about the returns and it's really important not to be dispassionate about other people's money.

Finsia: We've heard analysts recently critcise Australian corporates for having "lazy" balance sheets or in other words, too much cash. Do you think this criticism is warranted?

Roger Montgomery: Whenever I attend a company briefing at a stockbroker's office and I hear an analyst tell the CEO that they've got a lazy balance sheet, I know that someone is fresh out of university and not someone who's ever run a business.

We won't ever use that expression, but we can see that corporate debt in Australia has declined significantly over the last five to seven years and so they are better armed to do stupid things with their money or with the bank's money.

The time will come when confidence returns and they'll start doing silly things again but just as everybody else gets excited we'll probably be heading to hibernation.

Finsia: You have built a substantial following via social media platforms including YouTube, Twitter, a blog and Facebook. What communication strategies do use to build such a strong profile?

Roger Montgomery: We don't do anything that's shatteringly unusual, we just try and use every avenue possible to communicate with our investors and to communicate with the wider public about what we think is going on.

We know that the field of investing and the share market can be confusing for many people. We also know that we have the ability to simplify that and we have the ability to boil it down to its most important elements.

We're happy to share that with people because it means, one, they'll be better educated and, two, it gives people confidence that we know what we're doing. Every day that we communicate a message we're putting our head on the block and we're saying this is what we think.

We're only as good as our investment returns and our investment returns in turn stem from our ability to identify these things, so it's sort of a virtuous circle. We're keeping ourselves accountable at the same time as we're educating investors about how to invest better.

Finsia: Would you encourage others in the industry to use social media in order to strengthen their personal brand?

Roger Montgomery: I think if they understand what people are looking for and they're adding to the investment debate rather than just increasing the noise, then they'll be warmly received.

But if they're just adding to the noise and it's just another person screaming 'buy' or screaming 'sell', then it probably won't be successful.

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