



# How to beat the pros

Find what you're good at – and exploit it, urges Roger Montgomery

**A**S AN INVESTOR, it's sometimes easy to be overwhelmed by the sheer volume of things competing for your attention. The scale and diversity of the financial marketplace, with its different asset types, product structures, service providers and investment styles, can make for a daunting challenge.

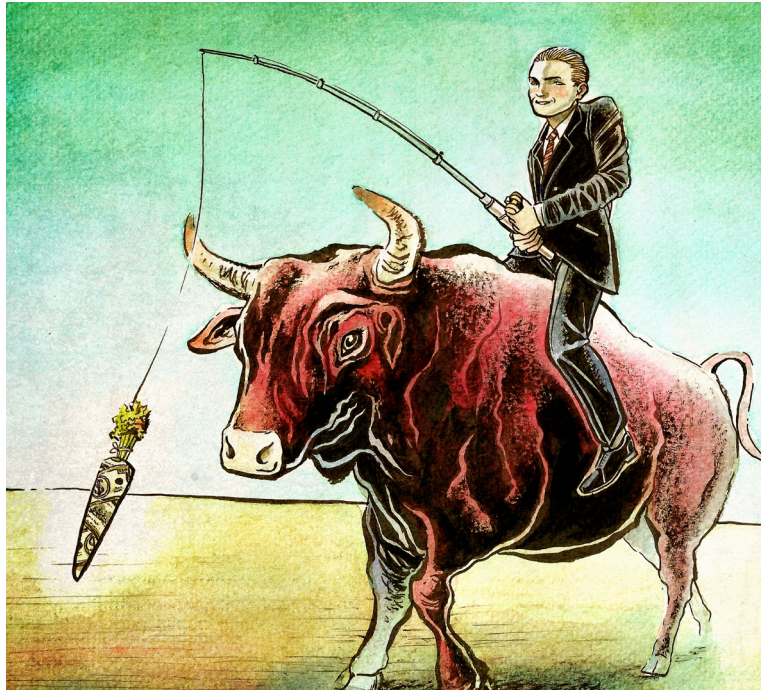
Even if we look only at the more limited space of listed equities, the options are very wide: there are about 2000 shares listed on the ASX that an investor could cast a net around. How does anyone make sense of this huge list of possibilities, particularly as we await the commencement of reporting season?

The answer is: you don't need to. Much like a medical specialist who focuses on, say, orthopaedic surgery, we believe that investors can do very well if they have a clear idea of what they are good at and concentrate on that.

At Montgomery Investment Management, we have a full team of experienced professionals, an industry network and powerful technology, but, even still, the list of things we can't do well is longer than the list of things we can do well.

For example, we have limited ability to accurately value businesses that are at an early stage of development and not yet profitable, or those that have gotten into serious trouble and are in need of lifesaving repairs. We have difficulty accurately valuing businesses whose income is hostage to macro-economic forces beyond their control – for example, resources companies that sit high on the cost curve and rely on elevated commodity prices to earn reasonable profits.

In fact, businesses that we can't accurately value make up a large percentage of the list-



edge that will allow you to do so, and exploit it.

It could be that you have an aptitude for reading trends and identifying which companies or which parts of the economy are likely to prosper in years ahead. It could be that you have a head for numbers and a willingness to dive deeply into financial statements, or experience in a particular field that allows you to judge the virtues of companies in that field.

Whatever it is, to stand a good chance of beating the market you need to know what your edge is, and you need to focus on it to the exclusion of other opportunities. For example, if you don't have a good sense of whether BHP Billiton is cheap or expensive, then you are

unlikely to advance to meet your objective by buying BHP shares from someone who does.

When it comes to honing your edge, there are a few simple but important angles that retail investors can exploit that may not be available to larger investors.

One of the more important of these is an ability to explore smaller companies that may not have enough liquidity to allow large investors to manoeuvre. Another is patience – an ability to hold the line when prices fall without good reason, or to stay in cash when valuations are no longer attractive – without fretting about the short-term performance numbers of your holding.

Combine these with a bit of diligent analysis, and you stand a decent chance of beating the pros.

*Roger Montgomery is a portfolio manager at Montgomery Investment Management. For his book, Value.Able, see [www.rogermontgomery.com](http://www.rogermontgomery.com).*

ed issues on the ASX, and we won't invest unless we have a confident assessment of value. We are left with fewer than half of all the ASX-listed companies eligible for our consideration. And that is fine. We know that a number of these businesses will prove to be spectacular investments and, if we do a good job identifying them, we will get good results for our investors.

And that is the key – being able to do a good job on it. Beating the market means having an edge over the market, something that allows you to do a better job than the next investor. At Montgomery, the foundation of our business is that – in the particular section of the market we focus on – our technology, experience and process discipline allow us to do this.

If you don't have the time and inclination to try to beat the market, then investing in "the index" is a sensible way to apply the listed equities portion of your capital. However, if you do mean to do better than the market, then you need to clearly identify the