The Warren Wonder From Down Under

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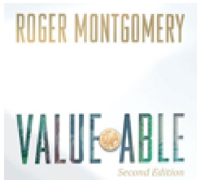
"Valu.able" – by Roger Montgomery



When I started investing I read as many books as I could on Buffett and value investing. But the one thing that irritated me was that a majority of the examples were US companies. I like the US market and thanks to GuruFocus, I hold some US stocks, but I really wanted to stick to "home." Now thanks to Roger Montgomery's book "Valu.able," I (and US investors) can get excellent valuations on Australian companies using value investing principles.

"Value.able" is Roger Montgomery's first book, one in which he has succinctly translated Buffett's style and principles and developed them into a practical framework for investing. For beginners, the book is a great way to get the "condensed Buffett." For more experienced investors, Montgomery has developed an excellent formula for working out (quickly I might add) a company's intrinsic value.

So, although it is a cliché, "Value.able" does actually have something for both the beginner and the experienced investor.

Be Patient

"You won't run out of opportunities. But if you swing too often and miss, you will run out of money." (Valu.able, p.58)

One of Buffett's attributes and one extolled by many value investors is the necessity "to wait for the fat pitch" – that is, the opportunity to maximize the probability of succeeding is tied to your ability to be patient and simply wait for the opportunity to arise. Many investors, including those managing mutual funds, show little ability to be patient, a problem that leaves many of their clients poorer.

The structure of Value.able cleverly assists the beginner in taking this patient path (and building patience along the way). Part 1 (Think Like an Investor) and Part 2 (Identifying Extraordinary Businesses) take the beginner through what needs to be considered before actually calculating the share price of any company — just like Buffett does. "If you are not in a hurry then 'Value.able' will be an essential companion" (page XXIII).

Buffett has stated that he first looks for good companies, then calculates their intrinsic value and then finally looks at the price. Part 1 and 2 of Value.able give you the lowdown on what makes a great company. This helps you identify what types of companies to invest in without searching endlessly. Of course this means still looking at many companies, but with Montgomery's assistance any investor can assess relatively quickly whether a company is worth further research.

Instead of just rushing to value a company (using his formula set out in Chapter 11), Montgomery ensures that you first gain a deep and thorough understanding of just what makes a good company and a good investment. Chapter 2 (Buy Businesses, Don't Trade Stocks) and Chapter 3 (Value, Not Price) are excellent chapters for beginners to understand that the share market is more than just numbers.

But numbers seduce. Let's face it, money is about numbers and so is much of the share market. Much of the talk revolves around the company's share price — is it cheap? Is it good value? What's the P/E ratio? What's the book value? All numbers. Many "experts" seldom think or discuss whether the company is actually a good company, why it is a good company and other "non-number" issues. Indeed, in some cases, the numbers appear to make the company more attractive than it really is. Montgomery uses an Australian electronics retailer JB Hi-Fi as an example of a company that according to some (via "the numbers") was overvalued, but using his valuation method it was undervalued and more importantly possessed the attributes of a great company (see p. 225).

For experienced investors, mistakes often come from not paying due attention to the intangible aspects of a business or by being too quickly seduced by what looks like very favorable numbers (a big margin of safety). Value.able's chapter headings offer the experienced investor the opportunity to quickly source and recap on what the intangible aspects are. Chapters such as Chapter 5 (Pick Extraordinary Prospects) and 7 (Competitive Advantages) in Part 2 offer a quick way to reference and revisit critical qualitative aspects that might need to be confirmed before purchasing shares.

Valuing a company can be a time consuming process and one that requires a lot of numbers. I have read many value investing books and many recommend using a company's past 10-year financial records for assisting in determining the company's valuation or a discounted cash flow method. Personally, the thought of trudging through a company's past 10 year's financial statements does not really thrill me. Others, of course may be different.

But for me, this is where Value.able really delivers. Value.able's valuation methodology is extremely simple and so simple that one almost feels like there is something missing. It actually makes valuing companies fun.

For beginners, the methodology's simplicity means that you can start valuing companies immediately and with a high degree of confidence. Of course you should do more research regarding the qualitative (and quantitative) aspects of a company but after a short time, and thanks to Montgomery's book, you will already have determined that the company is a potential investment target. Because the process is so easy, with 15 or 20 minutes to spare I have simply got out the pad and paper and scribbled down the numbers.

The valuation tables (you'll understand when you read Chapter 11) allow you to develop a range of values which experienced value investors will tell you is crucial in determining if there is a margin of safety.

The other wonderful aspect of Value.able is the website (www.rogermontgomery.com) where you can purchase the book and also discuss and share valuations and thoughts on companies with others. Just like Buffett, Montgomery freely dispenses advice and wisdom and at the same time encourages everyone to develop their own investment capabilities. The website is like having an open line to some great thinkers and provides an additional source of information for you to consider before actually making an investment.

In addition to this, Montgomery is about to start an online valuation subscription-based service. I very much look forward to it. So with a little help from Roger Montgomery, US investors now can get great ideas of the opportunities in the Australian market.

Stephen Moriarty has been an investor for 11 years and uses a Buffett approach to investing and a Munger approach to reading. He was not paid in any way for this review (and despite glowing praise still had to pay for the book).