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# Seven Questions with Roger Montgomery

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Reporter

Nov 28, 2019 — 9:27am



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*Roger Montgomery is chief investment officer at Montgomery Investment Management.*

## How does a growth investor cope with a rotation into value?

Value investing has copped a bad rap recently. But I am reminded that between March 1999 and March 2000 Warren Buffett's Berkshire delivered a return of minus 41 per cent, while the Dow Jones rose by about 12 per cent. Underperformance of 53 per cent saw many write Buffett and value investing off for good. Then of course the tech wreck occurred, and everyone said Buffett was a genius. He just kept doing what has always worked. Value investing.



Roger Montgomery says growth and value are two sides of the same coin. **Michele Mossop**

And giving titles to stocks like 'growth' and 'value' is also just a way for advisers and managers to differentiate themselves, but really, they are two sides of the same coin. In order to come up with a value, you have to estimate the growth. Value stocks can still be growers, indeed in the long run, paying a fair price for growth does very well and delivers clients a more palatable experience. Many growth/momentum managers, and their clients, will eventually be surprised by just how painful the mean reversion can be.

I have no problem with growth, indeed, buying the companies that actually produce the highest earnings growth rates delivers excellent return outcomes for investors. Our concern has been that many analysts, with little practical business experience, have been buying stocks at implied growth rates that are practically impossible for them to collectively achieve.

The rotation back to 'value' is repeatable. Only its timing is unpredictable.

**In three years' time, which of the WAAAX stocks do you think will have outperformed the pack?**

Altium is the only one in the group that appears to have a defensible business and not as insanely priced. Unlike some of the others, it hasn't been cobbled together haphazardly through acquisitions, it doesn't have a conga-line of wannabes trying to compete with it, it isn't as exposed to a consumer credit event and it isn't trading at 370 times forecast FY21 earnings.

More importantly, just about every powered device has to have a printed circuit board and the number of devices per person and per household is growing much faster than the population. From the group you've asked me to pick a winner; I suspect it will be Altium.

**What's your early impression of Tyro?**

Not looking at it. Our small cap team have just launched the Montgomery Small Companies Fund and because the fund is still small, we are unlikely to be allocated stock in what will be a hotly contested float.

**Is Telstra a growth stock?**

We hated it in February 2015 at \$6.60 but started buying around \$2.80 at the end of last year. It could surprise on the upside in years to come. Both sides of politics have stated that neither wants to own NBN Co at the end of the current term. But NBN Co makes no money. If it raises prices, it incentivises the majors to accelerate their investment in relatively inferior 5G.

So who'd want to buy NBN Co? Nobody. We understand, however, that Telstra has a first and last right of refusal should NBN Co ever be in play. If correct, that could be an interesting scenario for Telstra sceptics.

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**What's the next summit you're looking to climb?**

I have looked at Everest. However, I don't want to contribute to the environmental issues there. In reality, my commitment may not be enough for it now. Then again, Yuichiro Miura did it at 80 years of age. Elbrus in Russia and Vinson in Antarctica are on the bucket list. Kids need to be all grown up first. So next may be Kilimanjaro which doesn't have the elevation of the other seven summits, but friends have asked me to join them.

**We're always looking for new TV to stream. Anything new or old caught your eye?**

Sorry, can't help you there. Don't watch much TV. Who has the time?

**Finally, a recommendation for a good value quick bite in Sydney.**

Try to replicate, at home, what most good Sydney restaurants deliver in 25 minutes and you'll find the cost is extraordinarily high. In that context, quality Sydney restaurants are all offering good value. I have a few favourites for lunch and Bistecca is right up there as is Nomad and Kid Kyoto. Can't do what they do at home. I know you're asking for a quick bite but if you ever have enough time for dessert, everyone should try the *Cremino al Cioccolato* at A'Tavola in Darlinghurst at least once.