Davis, Jonathan & Nairn, Alasdair – Templeton's Way with Money

John Wiley & Sons, 2012, [Equity Investing] Grade ★★★★

The second best short cut to financial experience after working and learning from one of the great masters is reading the books they write. This is something fairly close – a book by a person who did work for a true master. Alasdair Nairn, CEO of the asset management firm Edinburgh Partners, worked for the great sir John Templeton for ten years. Together with journalist Jonathan Davis he presents the life, career and investment process of the late sir John.

Templeton was a value investor in the true sense. He bought stocks if the stock price was lower than the estimated intrinsic value. He was indifferent to whether the margin of safety originated from low pricing compared to current fundamentals or from growth during the coming five years. Fueled by curiosity and the urge to find the best bargains he was one of the first US fund managers investing in global stocks. The insight that a more sizable selection of stocks to choose from gives you a larger chance of finding a really good bargain might sound trivial, but few US fund managers searched outside the US prior to Templeton.

The authors describe a Templeton who's self-reliance, belief in humanity's ability to create value, unrelenting work ethic and ability to reduce complex issues to practical rules of thumbs resulted in magnificent results. He acted on logic and numbers rather than on emotions and other investor's opinions. However, nothing spectacular really happened before he moved to the Bahamas.

Templeton had a dual asset management career. During the first part he managed funds and in parallel built his asset management firm. After selling the firm (apart from the Templeton Growth Fund), he moved to the Bahamas and focused on managing his remaining fund. Templeton's Growth Fund outperformed the market by 3,7 percent per year over 38 years, with all outperformance during poor stock markets. However, before "half time", Templeton actually narrowly lagged the market. After moving to the Bahamas he outperformed by 6 percent a year. The truth is that whether proximity to markets and companies are your friend or your foe very much depends on the investment process you have. Templeton's process benefited from being relocated to a beach in the West Indies, far away from noise, consensus opinions, administrative work and fund sales. He was once asked what made the greatest difference to the quality of his investments. He replied "Every mile I moved away from New York."

The authors have had access to new material in the form of Templeton's internal investment memos This means they have discovered some new sides of Templeton. Apparently he used a combination of what we today would call Shiller-PE, Tobins q and DY to estimate the risk level of the market and allocate between equity, bonds and cash. I'm the first to advocate the merits of valuation based allocation and of keeping dry powder to be able to invest in distressed situations, but I also think the authors pay this top down process too much attention in the book.

The areas where Templeton had exceptional talents was in bottom-up stock picking, so in my opinion the focus could have been shifted somewhat towards corporate analysis. As Templeton made projections five years into the future, the book could have benefitted from a deeper discussion of the difficulty of making forward predictions and how he overcame those (Templeton's "rule five" in chapter 4 will give you a hint.) This book aims to write a handbook for those who want to invest like Templeton. At the same time this is as much a biography, which in my opinion somewhat crowds out the space available for the handbook.

Templeton was an important investor. "Invest for Maximum Real Total Return" was his simple but brilliant first rule. Why not learn how to, by reading this book?

Mats Larsson, June 25, 2012