**Mundy, Alastair – "You Say Tomayto…" - Contrarian Investing in Bitesize Pieces**

*Harriman House, 2012, [Equity Investing]* Grade ★★★

"*Investing clients' money is a serious business, but it helps not taking yourself to seriously*." This dichotomy of easy going style and discussion of key issues in classic value investing a la Ben Graham, pretty much sums up this compilation of some of Alastair Mundy's monthly writings to clients of Investec Asset Management, where Mundy has been employed since the year 2000 and where he heads the contrarian investment team.

Mundy's unit looks at UK stocks where the price has decreased at least 50 percent over a period of two to seven years (a more rapid fall indicates irreparable corporate problems) as long as they are not judged to be in the fifth quintile quality wise. If the margin of safety is deemed sufficient they have a prospect for their portfolios. In contrarian investing you encounter a number of choices on how to define and fine tune your philosophy and process. Mixed with humorous illustrations these choices are often the topic of Mundy's texts.

Mundy for example covers the avoidance of value traps, use of triggers and how to get an analytical advantage. There are obviously tons of other topics but let's shortly look at the examples above. Cheap assets are often cheap for a reason and as a value investor you are banking on that something will change and the unfortunate fate of the ugly duckling will normalize. The largest risk is then that nothing will change for the better and the stock hence becomes a value trap. Mundy's advice on how to weed out some of the inevitable value traps that a value portfolio will contain is that you have to be patient enough to wait for stocks to fall for a sufficiently long time, to have a clear picture of how probable it is that capacity will leave the industry in question and to have a good grip on the intrinsic value in itself you should only invest in companies within your circle of competence, preferably in rather slow moving sectors where the future is somewhat easier to judge and value.

One obvious way to try to avoid value traps and to shorten the time between purchase of a cheap stock and the time when the market prices the intrinsic value, is to actively look for so called triggers that will act as a catalyst. If you can speed up the average revaluation time from, say three years to two years this will have a huge effect on performance. There is however a debate between value investors on the usefulness of triggers. Mundy is not a fan of their usage and argues that they more than anything add to the myopic behaviour in asset management. If there really was a visible catalyst the shares would also probably not be priced with a sufficient margin of safety. Better to pick companies with balance sheets strong enough to have staying power while the management works on the turn around.

As most investors focus on short term results it is for a contrarian natural that to get an information advantage you should do the opposite. Analyse the long term and prioritise the balance sheet and cash flow over the study of the profit and loss.

The reader will finish this book in a few days. It's written in an easy going, sometimes almost whimsical, style and since each topic is covered over only one to three pages it's very easy to read one more chapter, and then one more etc. The topics covered are also all relevant but I think they get too little attention. Mundy scratches on the surface and repeats thoughts you have seen from others previously. On the surface a book like this is pretty similar to *The Most Important Thing* by Howard Marks. The depth in thinking is however worlds apart. I often react when investors of a specific style become too religious and fail to see merits of other styles. Value investing works, but so does momentum investing, if performed properly. Mundy at times falls in this trap.

I wish the sympathetic Mundy the best of luck in managing his funds. A reader who want to know the intricacies of value investing however, would do better looking elsewhere.

Mats Larsson, November 20, 2012