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**Chan, Ronald W. – The Value Investors**

Wiley, 2012, [Equity Investing] Grade ★★★★★

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Interview books – what’s the novelty here? Often long on philosophy, but short on actual advice. Always dominated by hedge fund characters, as if all the authors have been as awestruck by the razzle-dazzle and unconstrained world of hedge funds, as opposed to stodgy old long-only equity management. Furthermore, almost without exception, the people profiled in these books are U.S. based investors. But on all counts, *The Value Investors* by Ronald Chan is definitely a separate breed. Focused on long-only, value-based equity managers, equally divided between U.S., Europe and Asia, the selection of people in the book is instead based on longevity of success, a true adherence to value and a top-notch quality of human character.

Although a handful of the investors being interviewed are household names in the financial world, the majority are surely new acquaintances, even for the seasoned market observer. Naturally, the newcomer interviews – or profiles really, as the author blends direct quotes with his own reasoning in a very fluent manner – are the most interesting ones. Apart from the novelty of getting to know truly successful European- and Asian based investors, clear regional patterns emerge. The long history of value investing in the U.S. has forged a unified “language” of sorts, and way of reasoning that one instantly recognises. Not so much with the non-U.S. investors, however. As U.K. investor Anthony Nutt puts it: *“In the U.K., value investing has actually been around for a long period of time, but we often don’t say [the word] because investing is all about seeking value in the first place so it’s unnecessary to add the word to an investment scheme”*. An investor I personally wished I had heard of ten years ago is Spanish-based Francisco Garcia Parames – yes, his record at Acciona subsidiary Bestinver is impeccable but his reasoning and personality shines even brighter. Even so, the story and life-success of the recently passed-away American Walter Schloss is perhaps the highlight of the book. The truest of all the inhabitants in Graham and Doddsville, it is almost shocking to learn that Schloss Associates only managed \$350 mn at its peak, despite trouncing the Henrik Andersson, November 29, 2012

market index over fifty (!) years and being advertised by Buffett not once (“The Superinvestors of Graham and Doddsville speech” of 1984) but twice (Berkshire annual report 2006)! The chapter on Schloss is very well researched and written – clearly the best piece on him that I have ever read. Schloss has always been an investor and a human being I have admired greatly. When will the first in-depth book of this outstanding investor with a second-to-none character be written?

Several of the investors discuss the almost contradictory nature of great long-term performance records with the frequent subpar numbers being put up in yearly intervals. True value stocks often lag behind the market for a long time as they per definition are cheap due to the market’s attention being elsewhere (Mr Market doesn’t have time to price all stocks efficiently at all times!). Then suddenly, value is recognized and the subsequent reaction is often swift. This creates the “time-dichotomy” of more periods of underperformance than outperformance that is experienced by many great investors. But only in the secluded places of risk managers and quants is it possible to build a great record by daily, even increments. Instead, individual performance from value investing tends to materialize in spurts. Oakmark articulated this phenomena a couple of years back in a client letter, stating: How can a batting average of .2 (i.e. outperformance 20 % of the time) create a world-leading performance? But then again, it is puzzling indeed, that this still surprises people when the overall market has behaved like this forever.

As a final side note, several of the investors profiled in the book voiced strong concerns about the current- and future state of ETFs. Considering the impact these leveraged hybrids between high-frequency-traders and mutual funds have on everyday volatility, it is hard not to agree. As icing on the cake, when adding the often grossly underappreciated counterparty risk, ETFs are bound to cause severe problems down the road. Our readers are hereby being served a notice!