

Rockwood, Richard M. – The Focused Few2015 (2nd ed), [Equity Investing] Grade ★★ ★

Standing on the shoulder of investment giants, equity analyst Richard Rockwood has written a book with the sub-title *Taking a Multidisciplinary Approach to Focus Investing* alluding to Charlie Munger's concept of a Latticework of Mental Models. The latticework metaphor was used in a speech Munger held in the mid 1990s and it has over time become a term often used by value investors. Munger's point was that an investor should have a command of a number of the most useful ideas from multiple disciplines creating an interlocking structure of models, a latticework. As Munger sees it, looking at an investment from all the various angles the mental models allows, gives more clarity and over time better investment results.

The author, who got hooked on investing by reading Roger Lowenstein's book *Buffett: The Making of an American Capitalist* in his US Air Force base library, has distilled the wisdom of many of the world's most successful value investors into an investment philosophy he calls Focus Investing (also the name of the author's web-site). The book that presents the philosophy and its 7 principles is targeted to a relatively wide audience of varying investment experience and aims to help the readers to become better investors by guiding them to the wisdom of those who have actually had great investment success – giving them better tools.

After an introductory chapter the 7 principles are presented and then a chapter is devoted to each one of them. The principles are: 1) *Understand the key concepts of investing*, 2) *Develop a mental framework*, 3) *Purchase high-quality companies below intrinsic value*, 4) *Know when to buy and sell*, 5) *Watch out for bubbles and credit cycles*, 6) *Find arbitrage opportunities* and 7) *Understand the psychology of investing*. Some of the chapters are mainly designed to teach the basics of necessary skills often used in value investing (say the chapter on valuation), others are more to be seen as being part of an investment process.

Rockwood is, as I understand it, a franchise value investor who stays within his circle of competence, invests in a focused portfolio and retreats to deep value investing and arbitrage investments when the high quality companies are too expensive.

Charlie Munger is an intellectual investor. Something I profoundly like. Anyone who's picked up the main concepts of Munger has my respect and attention. Rockwood is well-read, the book is littered with quotations and the appendix with recommended reading is a treasure trove of literature on behavioural finance, business and value investing. Further, formulating an investment philosophy is something very personal and it's in many ways a privilege to be invited to share - and learn from - someone's knowledge-and-experience-journey in establishing a philosophy.

Factually I agree with more or less everything the author presents and I think it's very useful to discuss what an investor should do when his main strategy temporarily isn't applicable. I don't want to belittle the value of summaries but unfortunately I too often got the feeling of having read most of the contents before in slightly fuller format. *The Focused Few* is a well-laid mosaic but it brings little new to the table. I found the chapter on special situations investing the best one as the author here escapes the commanding shadows of Warren Buffett, Seth Klarman etc. and takes command of the text. Further, given the sub-title of the book I also expected it to dig deeper into the subject of how Munger's mental models practically could be used in investing. Chapter 4 brings forward many of Munger's ideas and presents a string of models from various disciplines. The ending section *Putting it all together* is however 4 sentences long.

For a novice the book gives an overview of some of the most interesting subjects in investing and a peek into the fascinating mind of Charlie Munger. The experienced value investor will learn little new.

Mats Larsson, June 10, 2015