

Parames, Francisco Garcia – Investing For the Long Term

John Wiley, 2018, [Equity Investing] Grade ★★★★★

Francisco Garcia Parames, born in 1963, and already one of the very few successful investors that both have started a fund from scratch and written a book, and has done this in Europe - not even UK, but Spain. He kindly takes us through his story from the very beginning, which includes a heavy dose of inspiration from the usual US suspects. This book can be read with great benefit both by those with less knowledge and by experts. This is a perfect, easy to read book for the holiday or for a long flight.

The first part of the book is about Parames life before becoming an investor. I think this is very inspirational for beginners, so it's not to be disregarded. The second part covers the author's theory of investing and it starts with his use of Austrian economics. This clearly sets him apart from other value investors. Obviously this has increased my interest in the topic and the author graciously recommends key books on the subject. Then comes two chapters that discuss the merits of investing in stocks over the long term. I found these less interesting, but very well written and well suited for the beginner.

Subsequently follow chapters 7-8, which I found the most interesting, since they are all about how to make money in stocks. Parames recommends 9 ways to find the winners, of which I will discuss 3. i) Opportunities in cyclical companies. Parames is by heart a value investor, and stresses the value of patience and long-term thinking. He thinks cyclical companies are the easiest and least risky way to find opportunities. Cycles always turn around. He stresses that the key here is not to try to predict the inflection points and to keep buying thru the fall. It is also vital that the company has little debt and a market leading position. ii) Long term projects. Investors in general lack patience, leading to incorrect prices and investment opportunities. Patience is an investor's biggest asset, not intelligence. He writes "*its surprising how schizophrenic investors are, disliking investments that hurt short term results, but increase value in 2-3 years.*" iii) Free lunches.

These appear when a stable business, which justifies its share price, comes into a possession of an asset, an overlooked early stage project that is not priced by the market.

Valuation is the author's last step in the selection of stocks. The work here focuses on calculating a normalized earnings number and putting a relevant multiple on it - on average 15x. Once Parames has done that, he invests in those with the largest discount to current the market price. He then addresses the question when the market will realize that the stock is too cheap. It can take time, but he gives the example that even if it takes 10 years to get to his target price (which are 50% higher than current price) he will get a 4% return, which he thinks is the worst-case scenario. He works actively with portfolio rebalancing, selling winners and buying losers, keeping the weights unchanged. He doesn't like catalysts but concludes that some factors can speed up the revaluation process, like new managers or economic cycle, currency rates etc. that change for the better. He stresses once again that patience is key for success and that you need a lot of it.

The final chapter of the book is about the irrational investor lurking within us all. It's a great summary of behavioral finance. He addresses the problems of extrapolation, herd mentality and the risk of drifting away from a sound strategy. His recommendation is to be aware of the biases and implement a somewhat automatic investment process. He further highlights the problem with information overload and the negative slant on all information we receive, making it more difficult to hold on to one's convictions as it distorts reality. The book ends with some true gems. Firstly, a list of 26 small ideas and a guiding principle. Secondly, one of the best readings lists I've seen in a book, with a lot of inspiration for everyone. This is a perfect finish for a book from an investor that is reading all the time, and still evolves his investment style like a true master.

Bo Börtemark, October 19, 2019