

Smith, Terry – Celebrating Five Years of Investing in Decades of Success

MCMLIII Publishing 2015, [Equity Investing] Grade ★★★★★

“1. Invest in good companies; 2. Don't overpay; 3. Do nothing”. This is the seemingly simple but not easy, recipe for success at Fundsmith, the fund management business founded by veteran financier Terry Smith in 2010. This launch followed a long and successful career in London as a sell-side analyst and CEO of Collins Stewart and Tullett Prebon. The book is a collection of newspaper columns written for the Financial Times and other newspapers in a style that suits both the interested amateur and the experienced professional. Smith lays out the principles behind Fundsmith's investment philosophy as well as his views on some slightly more technical issues such as ETFs, fund management fees etc. It is my impression that Smith genuinely wants to educate readers and his message is this; own a small number of great businesses for the long term and your returns will reflect underlying business performance. This seems to me like very sound advice.

Smith focuses on a few key ideas as part of his overall approach; the importance of high returns on capital, independent thinking, running your winners and that valuations matter a lot less than commonly perceived to long-term investors. In addition, he discusses some of the factors impacting the net return to investors as for example the level of fees paid, the level of diversification and the futility of market timing. Smith uses anecdotal evidence from his own career as well as high-level data to validate these ideas. The book is organized chronologically which means there is sometimes a lack of flow if one reads from start to end. On the other hand, Smith uses plain language and his common sense approach really comes through in his style of writing; there is very little jargon. It is a fun book to read. It is also hard not to be won over by his arguments when it comes to buying great businesses for the long-term, especially given his long experience in different market environments and the success of Fundsmith.

I think this is a useful addition to most investors' libraries given the practical advice provided and the examples from Mr Smith's own career; while most of the ideas will come across as mere common sense, it is the illustration of how to apply them from a successful practitioner that is the real value of the book. Terry Smith describes a philosophy and way of operating that has a lot in common with investors such as Nick Train and Tom Russo. They are all of course followers of Warren Buffett and Charlie Munger. However, while Buffett has described himself as 15 % Phil Fisher and 85 % Ben Graham in the past, Terry Smith would better be described as 15 % Graham and 85 % Fisher; he cares first and foremost about the quality of the businesses he invests in and only later about the valuations at which they trade. Important to keep in mind is that this is not, and does not pretend to be, an academic work. The amount of data provided is limited and given the format there is limited room to expand on some concepts and ideas. One could of course argue that Smith is simply arguing his own case here, however I think the ideas in the book have been sufficiently tested by the market over time to say that they probably have some merit. It is certainly a style of investing that resonates with me.

There are challenges to be made to Smith's argument, one is the fact that he has enjoyed great success investing in 'bond proxies' during a period of declining long-term interest rates. This may of course be true. I see this book as a valuable insight into the practical application of a quality investing approach from someone who has been around for a long time; I hugely enjoyed reading, and re-reading, this book and would highly recommend it to anyone that is of a similar bent alongside other great books in the same vein such as “*Quality Investing*” by Lawrence Cunningham, et al. The book was released to highlight the 5th anniversary of the launch of Fundsmith. One can only hope that Mr Smith will highlight the 10th anniversary and beyond with further editions of this book.

Christian Billinger, October 18, 2020