Smith, Terry – Investing for Growth

Harriman House 2020, [Equity Investing] Grade ★★★★★

"How to make money by only buying the best companies in the world". The subtitle of Mr Terry Smith's latest book neatly summarises his philosophy of owning great businesses for the long run. Mr Smith has had a long and successful City career. Since 2010 he has been running Fundsmith, the eponymous fund management group. This book is an anthology of newspaper columns he has written as well as annual letters from Fundsmith covering the last decade. His previous books are *Accounting for Growth* (1992) and *Celebrating five years of investing in decades of success* (2015), the latter of which largely forms the first half of *Investing for Growth*. The articles and letters give readers both a sense of the philosophy employed by Mr Smith as well as an introduction to various topics like shareholder activism, share buybacks etc. Consistently, his message is to own a small number of great businesses for the long run and your returns will reflect underlying business performance. I think this piece of advice makes a lot of sense.

Mr Smith's focus is on owning companies that generate sustainably high returns on incremental capital (as opposed to 'cheap stocks') while keeping a keen eye on costs e.g. by keeping portfolio turnover very low. The major difference compared with the previous book, and the reason this one is even more enjoyable and rewarding to read, is that 'Investing for Growth' also enables the reader to go through Smith's annual letters in sequence. These are interspersed with his musings on topics ranging anywhere from ETFs to boxing and cycling (clue - investment success is not about winning every stage). He is no shrinking violet; it's fun to read.

Mr Smith really manages to get across his point about focusing on the quality of the businesses first and valuations and technicals second or even third. The real value of this book though is in reading through the annual letters in chronology. There are some interesting observations to be made.

One is this: investors expressed concerns about valuation levels in 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019. In other words, many investors have spent the last decade worrying about great companies being overvalued while missing out on some very large gains. Another is this: there were concerns around more restrictive credit conditions (e.g. end of QE) already in 2013. We are still waiting.

Mr Smith is a pragmatist; while the philosophy hasn't changed, the implementation has, with the portfolio having shifted emphasis from consumer goods to technology. He is also a highly independent thinker on matters such as retained earnings, risk vs reward etc. His list of things to avoid includes buying on valuation alone, market timing, sector rotation, making forecasts etc. He does advise to 'look for the obvious'. It is all very 'uncommon common sense'.

Of course one can argue that Mr Smith is talking his own book here and that the 'evidence' he refers to reflects a period in markets where high quality businesses of the kind he invests in have been in favour. However, the argument that in the long run returns will reflect underlying business performance is made very convincingly both by reference to Mr Smith's own experience and to that of other great investors as well as using some very long data sets. Keeping in mind that this book will mainly appeal to long-term investors with a focus on high quality businesses, I would highly recommend the book which is a great addition to a library of annual letters from e.g. Berkshire Hathaway, Markel Corp etc. It is fun, it is original, it is practical and Mr Smith's ideas have made me a better investor.

Christian Billinger, January 14, 2021

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