Plenty of value in investor's old-fashioned strategy

- by: *Andrew Main*
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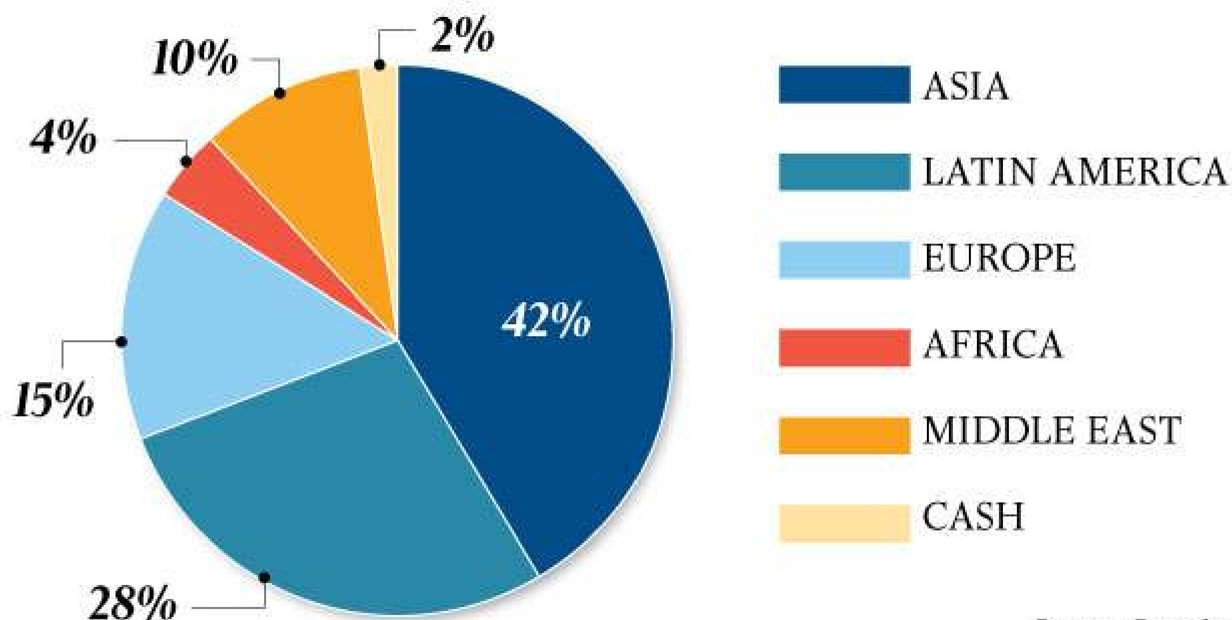
Charles Brandes of Brandes Investment Partners says Australian investors are `much more grounded'' than those elsewhere. Picture: Sam Mooy *Source:* The Australian



Source: The Australian

SEPTUAGENARIAN Charles Brandes is one of those old-fashioned investors who make the rest of us look like dilettantes: his hero, British economist Benjamin Graham, was born in 1894 and died in 1976.

But the California-based fund manager is having no trouble attracting investors to his concept of value investing, which is essentially about buying good companies when their shares are out of favour, and sticking with them until they are.

And he plays a long game. "Every time I get asked to predict indices, or interest rates and exchange rates, I point out that's called speculation," he says, neatly sidestepping all the usual hoops visiting fund managers have to jump through.

"You're asking me to guess."

He's not given to panic on the downside, either. The day of the 1987 sharemarket crash he left the office to coach his son's soccer team.

"So many people get confused about what is investing and what is speculation," he says, making it clear that in his world, only one of them involves putting money down.

"And if you look at history, speculators haven't always done that well."

His various funds run to almost $30 billion, of which just under $1bn is invested on behalf of Australians, which is why he's here.

So, is the bulk of his money invested in US companies?

"Actually, only around 32 per cent of our global portfolio is invested in US companies" Brandes says, adding that his Brandes Investment Partners business has nothing against those companies. It's just that he sees better value elsewhere, such as in emerging markets and Asia, particularly South Korea.

His whole thesis is that the hardest thing to do as an investor is to go against the crowd.

"It's very difficult to do from a behavioural standpoint," Brandes says, but clearly he's glad that more people don't do what he does.

"We don't mind," he says, "because if more people did what we do, we wouldn't get the same outperformance."

So, is he like Warren Buffett? He says there are differences in their approach and he sees himself more as a disciple of Benjamin Graham, whose 1948 book The Intelligent Investor "is still the best book ever written about investing".

He says Buffett was Graham's pupil at Columbia University but he met Graham later, in 1970, when the latter walked into the broking office where Brandes was working.

"Warren always likes to buy solid companies with moats around them that keep competitors at bay," Brandes says, "but that tends to mean he has to pay more.

"We believe you should pay as little as you can, even if there's no moat."

And what does he think of Australia?

First, he is diplomatic about Australian investors, who he says are "much more grounded" than investors he has met elsewhere.

"They're long-term investment thinkers," he says.

"But I do find Australia's got a very concentrated economy and, like Canadians, Australians have a home bias that's too big."

So, he doesn't own any Australian banks?

He says no, "because their prices are not value prices", but he concedes that his funds were badly knocked around, with a long period of underperformance after the global financial crisis, because they were overweight bank stocks.

"We were buying bank stocks in 2008 that were down to around 75 per cent of their book value, which we believed was unprecedented, but they then kept going south, down to around 50 per cent of book," he says.

But his managers stuck with the bank stocks and they've been outperforming.

So, what does he think of heavyweight resources stocks such as BHP Billiton and Rio Tinto?

"Their immediate future is the down cycle in commodities, and I wouldn't make any assumption that cycles are over," he says, "even if that 7 per cent growth rate in China is not too bad at all."

But he saves his biggest scorn for bonds.

"I wouldn't buy any of it, ever. We've just been through the biggest bull market that bonds have ever seen, and when quantitative easing does eventually come off we are going to have inflation and interest rates are going to rise," Brandes says, making it clear that as rates climb, bond prices have to drop.

And don't bank on the Australian dollar easing back any time soon, he says.

"For the last three to four years everybody's been forecasting that it's going to head back to the long run average of US75c-US80c. But it hasn't happened yet."