➢ Investment Perspective – August 2023

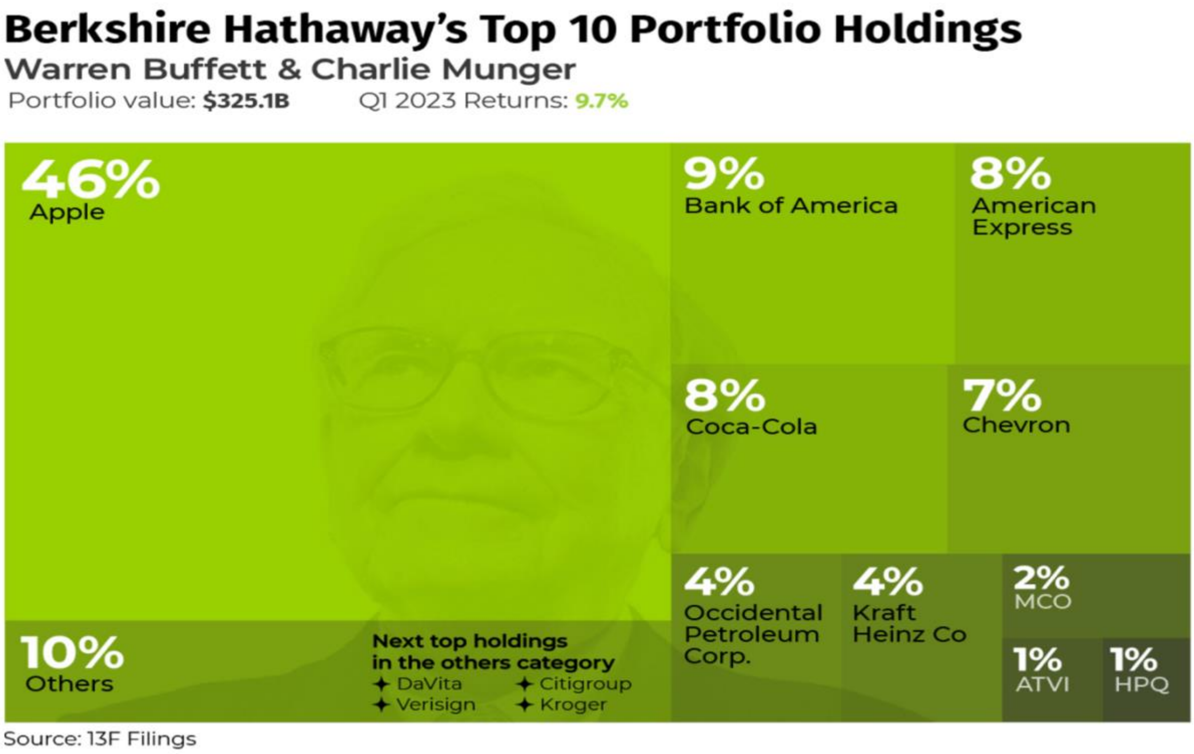
Peter Flannery CFP FA

"Neither the investing method nor the fundamentals of the business are right or wrong because the mood of the market is favourable or unfavourable toward the "stock". That is because when you really think about it, "stocks" (shares) are all about the financials and the trading price, the share price…the cash up value. What matters more is the economics of the business."

Peter Flannery

One good investment performance driver

Take a look at the largest holding in each of the five large and well known portfolio managers below. What do you notice?



Renaissance Technologies's Top 10 Portfolio Holdings

Jim Simons

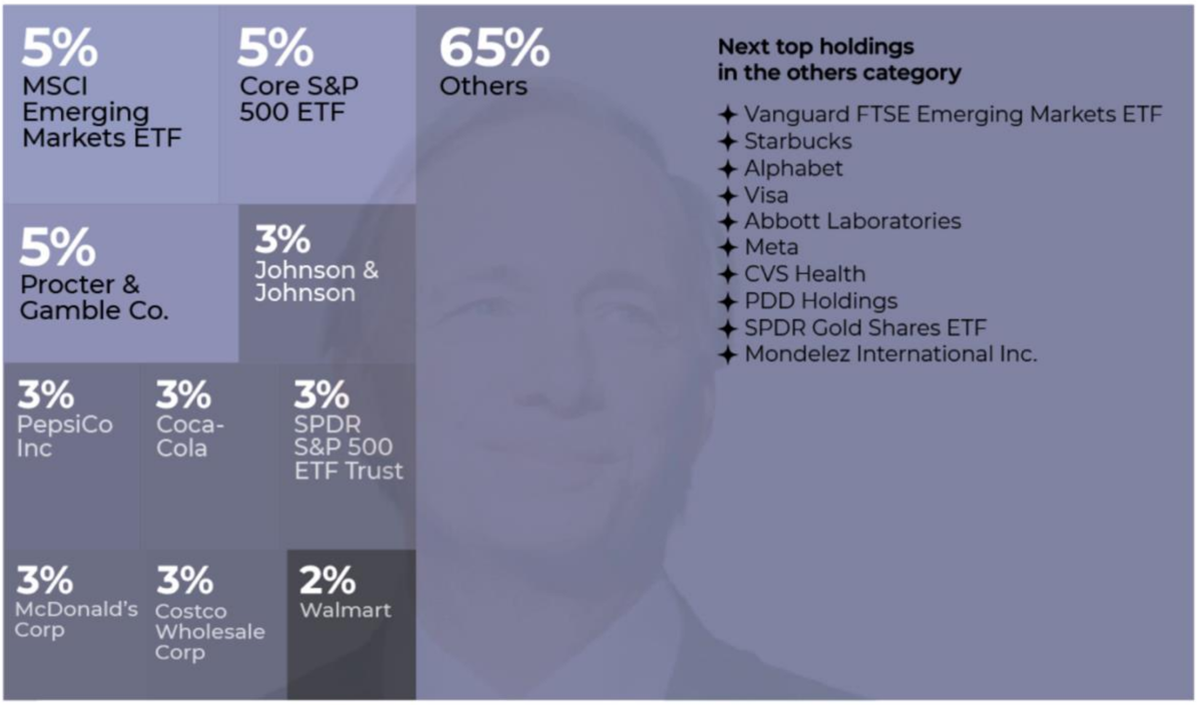
Portfolio value: **$75.4B**   Q1 2023 Returns: **13.8%**

Source: 13F Filings

Bridgewater Associates's Top 10 Portfolio Holdings

Ray Dalio

Portfolio value: **$16.4B**   Q1 2023 Returns: **0.6%**

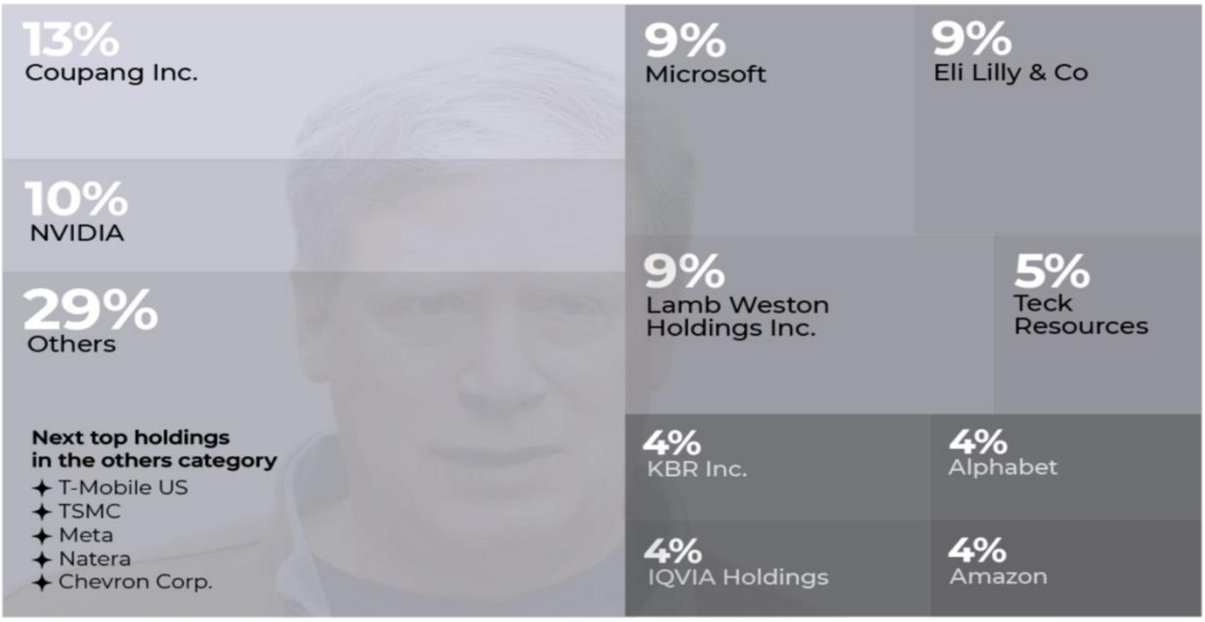


Source: 13F Filings

Duquesne Family Office's Top 10 Portfolio Holdings

Stanley Druckenmiller

Portfolio value: **$2.3B**   Q1 2023 Returns: **11.6%**



Source: 13F Filings

Scion Asset Management's Top 10 Portfolio Holdings

Michael Burry

Portfolio value: **$106.9M**   Q1 2023 Returns: **-1.4%**

Source: 13F Filings

Portfolio concentration

Portfolio concentration basically means more money in fewer investments.

Why do we do it?

Simply because it helps us to drive improved investment returns. More targeted investing, not spreading our investment capital unnecessarily wide.

How does it work?

Simply, we all get the aggregate of the investment mix whenever we invest.

Imagine 100 investments making up a portfolio. Some will be great investments. Some will be okay; some won't be very good at all (sounds a bit like the rule of five doesn't it!).

Imagine another portfolio of the same size but with only 10 investments. This portfolio is more targeted, more concentrated.

The catch is that we need to be at least not bad at being able to select good businesses – that's where the e-Biz method (invest in the economics of the business) helps.

Jargon Buster: *eco-Investing means investing in the economics of the asset (direct shares, your own privately held business, residential property). e-Biz investing means investing in the economics of the business (listed on the share market).*

In short, the methodology whereby we invest in the business rather than play the share market helps us to achieve long term success - thank you, Warren Buffett and Charlie Munger and Ben Graham.

Indeed, it was Charlie Munger who came up with the idea of investing in the business rather the stock.

From there Berkshire Hathaway has never looked back and gone on to significant success, partly due also to Warren Buffett's unique skill.

Nonetheless, the methodology is somewhat transferable.

The reliable 'batting average'

The 'batting average' refers to your long-term average return each year. This is a better indicator of how we are tracking than what happened the last couple of years or the most recent quarter.

You can see this on your wrap account under performance report. Let us know if we can help you locate it.

Playing the share market is common and can work too. It's just that it's more complicated and more difficult, particularly when there is significant diversification at play. That is a head wind against ROI (return on investment) right there.

Size and quality matter

Whilst investing in the business means a more concentrated portfolio which may sound risky, we can be successful by being mindful about the size and quality of the business.

Although I would not be inclined to suggest concentrating down to one promising and average quality small cap, we are happy to invest in small businesses and medium sized businesses (mid-caps) as well as large businesses.

In simple terms, smaller businesses generally grow faster than larger businesses, albeit in a more zigzag fashion from a pricing and profit point of view.

Large businesses offer a smoother ride but because of their size can struggle to grow at the same pace as some smaller businesses.

Unfortunately, investment success is not as simple as clicking a link or following a financial formula.

We are different and happily so

Many commonly used financial metrics are not helpful.

For example, the P/E ratio (price to earnings ratio), can be an interesting ratio, but is unhelpful in terms of actually assessing the intrinsic value of a business.

Earnings per share is also interesting as a way to measure progress (or otherwise) from one period to the next. However, it is not a driver of improvement in ROI (Return on Investment). It is just a 'measuring stick'.

Portfolio concentration is one driver. The idea is to progressively concentrate a portfolio toward better and better quality whether it be a large, medium sized or small business.

It's not easy, but the rewards are well worth it.

Providing we follow the recipe (the investment methodology) and apply as much patience as is required, we can be successful investors, without the need for complex methodology or significant diversification.

Indeed, we are less concerned than most others about the global economy, investment markets, changes of government and other ongoing events that shape the investment landscape.

I'm not suggesting we ignore all of those events, but rather that the methodology is so fundamental that we have a layer of capital protection that is not available elsewhere with other methodology (without significant diversification and complexity).

The business, not the stock

In short at WISEplanning we choose to invest in the business.

That means, depending on your investing strategy we can look to progressively concentrate the portfolio, confident in the knowledge that quality businesses remain resilient in uncertain times and continue to grow long term. Therefore, it is about progressively concentrating the portfolio toward smaller businesses and better and better business quality.

Compounding growth long term is key.

Portfolio concentration helps drive the compounding effect of that small collection of businesses that make up your investment portfolio.

What did you notice?

Of the five portfolios above, how many has more than 15% of the total portfolio in one business?

I was once asked, at a journalism conference, how I defined my job. I said: *"My job is to write the exact same thing between 50 and 100 times a year in such a way that neither my editors nor my readers will ever think I am repeating myself. That's because good advice rarely changes, while markets change constantly. The temptation to pander is almost irresistible. And while people need good advice, what they want is advice that sounds good".*

Jason Zweig, The Wall Street Journal