## Are There Any Super Investors Today?

In last month's article, we looked at a classic speech given by Warren Buffett 30 years ago. In that speech, he showed the investment performance records of the residents of a fictional town he referred to as Graham-and-Doddsville.

Each of the investors in that speech had the same "value investing" philosophy as their mentors Benjamin Graham and David Dodd. And, more importantly, each had a long-term track record which absolutely demolished that of the overall stock market, which means that those investors' clients were richly rewarded for their loyalty.

However, we learned that those investors' clients also had their patience tested, sometimes severely. Each one of Buffett's so-called Super Investors had a multi-year period during which their performance lagged behind that of the overall stock market. The lesson we took from that is that value investing works precisely because it does not always work, and it's the reason that we have espoused that philosophy as our own.

In other words, we are perfectly willing to suffer through occasional periods where our investment performance lags behind that of the overall stock market, because we are confident that the value investing philosophy will eventually reward us (and our clients) in the end.

Though we would never use the term "Super Investor" to describe ourselves, we do our best to maintain philosophical residency in the town of Graham-and-Doddsville.

### A Look Around Town

So you may be wondering, who else claims to be a resident of Graham-and-Doddsville? And how are they faring in these heady days of a seemingly unstoppable bull market?

While true value investors represent just a small percentage of the American investment landscape, the industry is a large one, so there are quite a few firms out there with philosophies similar to the one Buffett described.

Though each of these firms is akin to the others in that they all have similar philosophical frameworks, they are also each unique in many ways: some are large and others quite small, some are well-known and others prefer to remain out of the limelight, some are mutual funds available to the public while others are hedge funds available only to the wealthiest among us, and so on.

One further differentiating attribute, which is rather important, is that each of these firms has a unique portfolio of stocks. For instance, some firms in Graham-and-Doddsville may own Google because they believe it to be underpriced, while others may not own it because they deem it too expensive. Others may own oil conglomerate Gazprom because it currently trades at such a low

multiple of its cash flow, while others may not be willing to touch any Russian security with a ten-foot pole.

So we took a look around, and we decided to check in on ten different mutual funds that we believe would qualify for residency in the philosophical town of Graham-and-Doddsville. Before we get to their performance, though, a few caveats:

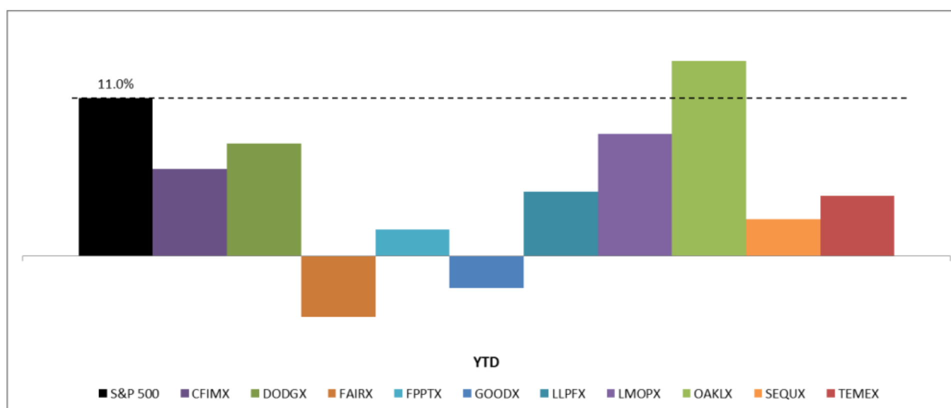
> (1) The firms that we have selected are not even close to being an exhaustive list. There are many other firms that we could come up with, if given enough time, but these are simply the first ones that came to our mind.
> (2) We have chosen only mutual funds, and not hedge funds or private account managers, because it's much easier to verify the track record of a mutual fund.
> (3) The funds that we have chosen may disagree with us. That is, while we think they are among our value investing brethren, they may not classify themselves as such.

The ones we came up with are, in alphabetical order of their five-letter ticker symbol: Clipper (CFIMX), Dodge & Cox Stock (DODGX), Fairholme (FAIRX), FPA Capital (FPPTX), GoodHaven (GOODX), Longleaf Partners (LLPFX), Legg Mason Opportunity (LMOPX), Oakmark Select (OAKLX), Sequoia (SEQUX), and Mutual Beacon (TEMEX).

**Not So Hot**

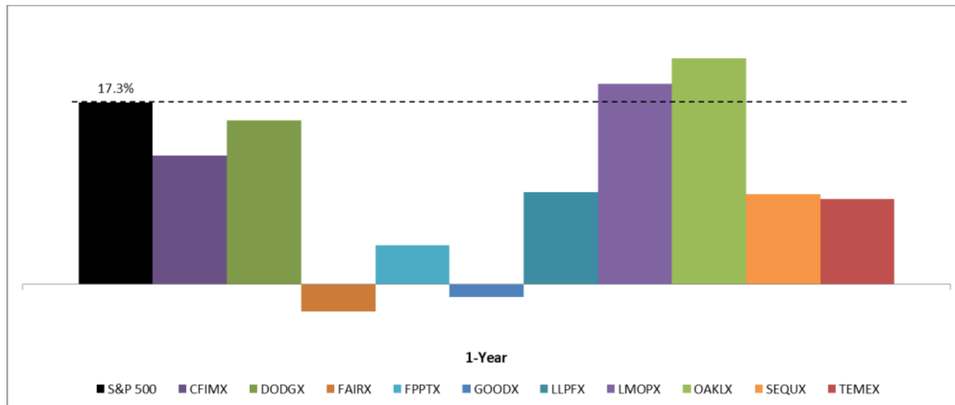
One of the hallmarks of a typical value investing philosophy is that its most potent period of performance, relative to the overall stock market, is during a downturn. That is, value investors usually lag the market as it runs upward; then, when the market turns south, value investors typically do not far as fall. The out-performance during those difficult market times are when most value investors pick up all, if not more than all, of the ground they lost during the bull market periods.

And if we look at the ten funds as compared to the S&P 500 Index over the course of 2014 (through the end of October, which was the current data set at the time of this writing), we see that nine of the ten are indeed trailing the market's return of 11.0%:




*source: Morningstar*

If we widen our lens a little bit, to a one-year period instead of a ten-month period, the results improve just a tad: now two of the ten Graham-and-Doddsville firms are outpacing the market.




*source: Morningstar*

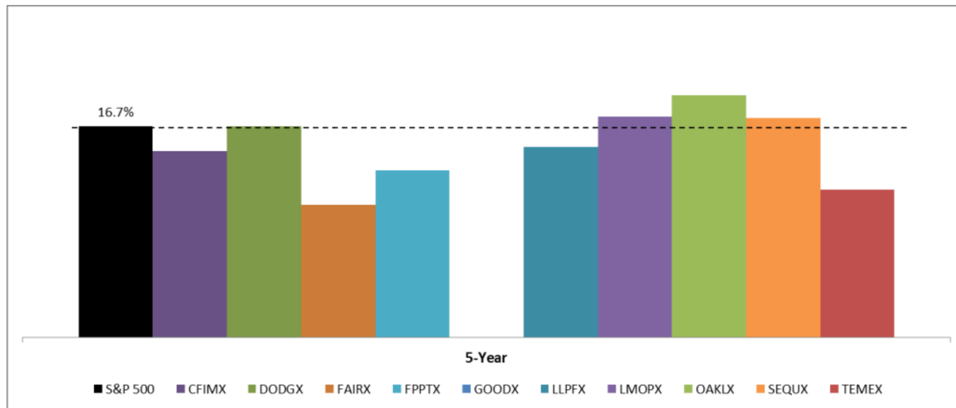
Still, though, it can be an unsettling thought to see that two of these firms have actually posted negative numbers during these two time frames. During a time when the market itself was advancing to the tune of +11.0% and +17.3%, two of the firms that we personally would call the "cream of the crop" have actually lost money.

We believe that any investment track record must be judged over a multi-year time horizon, because the stock market can do some pretty crazy things over the course of a year or two. Anyone remember the roller coaster ride of 1999 and 2000?

## The Five Year Engagement

Morningstar has tons of mutual fund data that you can slice and dice, with returns for the most recent month, quarter, year, three years, five years, ten years, and so on.

In order to spare you all the gory details, we'll jump straight to the five-year mark and see how our 10 Graham-and-Doddsville funds have been performing:




*source: Morningstar*

Things look better here, but the group as a whole is still not shooting the lights out. The market itself has returned an average of 16.7% per year, but—while all nine funds (we excluded GOODX because they are less than five years old) have annual returns above 10%—only four of the nine funds bested the market.

Keep in mind, though, that the period from November 2009 through October 2014 was a rather extraordinary five years. The market had hardly any significant corrections during a time when the Dow Jones Industrial Average increased from about 10,000 to about 18,000.

And value investors are typically known for having a primary emphasis on being able to give a return *of* their clients' capital before they try to earn a high return *on* that capital, which means that they are more prone to not be able to outrun a quickly advancing bull market.

**Taking the Long View**

So if we widen our lens one more time, all the way back to late 1999, giving ourselves a 15-year time frame that covers the tail end of a huge bull market, the ensuing multi-year collapse, another multi-year bull followed by another massive collapse, then we can get a better idea of how these value investors perform over entire market cycles.

Unfortunately, 3 of the 10 funds we chose were not yet in existence in November 1999, so we only have seven to examine here. But those seven really did shine. The S&P 500 advanced by an average of 4.7% per year over the last 15 years, meaning that an investor who bought an index fund in late 1999 would currently have almost exactly twice as much money now as when she started.

The worst performer of our group of seven had an average annual return of 6.7%, which means that an investor in that fund wound up with 2.6x his initial stake. In other words, he would have had 33% more money in his account than if he had simply purchased an index fund. We don't know about you, but in our ears the phrase "33% more money" has a very nice ring to it.

| Fund | Avg. Return | % Over S&P 500 |
| --- | --- | --- |
| CFIMX | 7.1% | 41% |
| DODGX | 9.2% | 89% |
| FPPTX | 10.2% | 117% |
| LLPFX | 8.0% | 60% |
| OAKLX | 10.6% | 130% |
| SEQUX | 9.2% | 88% |
| TEMEX | 6.7% | 33% |

*source: Morningstar*

Who knows what the next year, or five years, or fifteen years will bring? But if you have the luxury of time on your side, data like these sure do a great job of making the case for choosing a value investing philosophy. While there is also more than one way to skin a cat, there are probably multiple ways of winning in the stock market. But, based on numbers like these, good old Graham-and-Doddsville investing seems like a pretty good bet to us.

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