

## Stock Market Review



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# Lessons from some legendary investors

**W**arren Buffett is probably one of the world's most successful investors and is often referred to as "the legendary investor". Buffett is the primary shareholder, chairman and CEO of Berkshire Hathaway, and is noted for his adherence to the 'value investing' philosophy and for his personal frugality despite his immense wealth.

Buffet has many well-known phrases such as "If a business does well, the stock eventually follows"; "price is what you pay - value is what you get". However one of his most famous phrases is "Be fearful when others are greedy and greedy when others are fearful".

Buffet explained this phrase in the context of the general trends in stock markets. Generally, when the stock market is in a bull phase, many investors become greedy and are lured by the possibilities of great gains and conclude that it is the perfect time to invest. When most people start investing at this high point in the market, the 'seasoned' investors generally retreat. Most investors don't understand the market, economic cycles and important financial indicators such as the price to earnings ratio, gross dividend yield and price to book value.

As a result, unfortunately, they sell out of the market when they begin to see losses and they can't understand the reason behind this. Once such investors start selling off their investments below market value, 'seasoned' investors follow Buffet's advice and buy investments at very low prices possibly buying back what they had earlier sold when the market was at a higher level.

Buffet very successfully managed to adopt this strategy again in late 2008 and early 2009 amid the international financial crises when he acquired additional positions in some well-known companies such as Goldman Sachs, General Electric, Swiss Re and Harley Davidson. In an opinion piece in the New York Times in October 2008 "Buy American. I am", he argued that fears on the long-term prosperity of the nation's many sound companies made no sense since although these businesses would indeed suffer declines in profitability in the short-term, most major companies would be setting new profit records in five, 10 and



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20 years. Buffett ran into criticism for this article and was later accused of entering the market too early. Now, less than two years later, the results are there for everyone to see.

In 2008 Buffet became the richest man in the world dethroning Bill Gates (the Microsoft founder who had been number one on the Forbes list for 13 consecutive years). However both these well-known individuals have recently been surpassed by Carlos Slim who was ranked first on Forbes Magazine's list of the richest people in the world with a net worth of US\$53.5 billion as of March 10.

Slim's business empire spans 220 companies including some of Mexico's best-known department stores, its biggest telecoms operator, hotels, restaurants, oil drilling, building firms and banking. Outside Mexico, Slim has holdings in prestigious groups such as retailer Saks and the New York Times. In 2009, his overall net worth increased by US\$18.5 billion.

Mexico, where Slim is based, suffered two brutal economic recessions in the 1980s and 1990s, and at the time most people gathered their cash and left the country. When other people were fleeing, Slim scooped up Mexico's

biggest brands at very attractive levels.

He acquired the phone company Telmex in 1990 which today controls 80 per cent of the fixed line market; its subsidiary América Móvil has a 70 per cent share of the mobile market.

Although very few investors are able to buy entire companies like Slim, there are companies and brands one can invest in, "put away in a drawer", and then benefit in the years ahead.

Are there similar opportunities locally?

The value investing philosophy and the long-term approach has produced some remarkable returns to investors over the years. Those who had acquired some Bank of Valletta plc and Mid-Med Bank Ltd (now HSBC Bank Malta plc) shares in the early 1990s when both banks were offered to the public as part of the government's privatisation programme and are still holding them 20 years later are sitting on some extraordinary gains besides the substantial dividend payments over the years. The more recent privatisations were also attractive for those shareholders who took an initial position in the companies. In October 2002, the government had offered

20 per cent of the share capital of Malta International Airport plc at the equivalent price of €0.81. This has produced a return of 100 per cent in less than eight years, equivalent to an average annual return of 12.5 per cent (excluding dividends) - surely a more handsome return than fixed-interest securities.

In January 2008 the government offered 40 per cent of MaltaPost plc to the public at a price of €0.50 per share. This equity has since climbed by 80 per cent to €0.90 excluding the dividends of €0.08 net per share paid in each of the past two years.

Are there similar long-term investment opportunities available in the market? The MSE Share Index has been on a downward trend for several weeks with some companies suffering double-digit declines in recent months and trading at multi-year lows such as International Hotel Investments plc, Go plc and FIMBank plc, to name a few.

Could one classify these as potential opportunities to 'tuck away' for the longer-term? It is with this frame of mind that some local investors should start looking at the equity market. Will these companies be around in five or 10 years' time as Buffet had recently argued when he acquired additional positions in some multinational companies? Are they likely to be more profitable than they are today and hence distribute higher dividends to shareholders?

Analysing the business strategies being adopted by these companies and the potential risks involved could provide the answers to some of these valid questions which an investor ought to understand before taking any investment decision. The dissemination of information by market participants as well as by the listed companies themselves should help investors gather the necessary information to answer these questions.

A concerted effort should be made by both to keep a constant flow of information in the public domain. With more investors probably prepared to accept the value investing philosophy, an increased information flow from companies could help provide the basis for higher levels of trading activity and further remarkable returns being made by investors in the years ahead.

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