This is not a promotional document

Not Investing Like Warren Buffett: Based on a True Story

INTERIOR WEALTH MANAGER'S OFFICE - LATE MORNING.

AR, AP and WEALTH MANAGER sat at table behind presentations and cups of tea. Chit-chat draws to a close.

AR

So, we follow a value investment philosophy, and make a small number of high conviction investments.

WEALTH MANAGER nods, knowingly.

WEALTH MANAGER

We are always on the look-out for good value managers. We are big fans of 'X'. We love the way he finds quality businesses and buys them for the long-term. It's a real Warren Buffett approach. It seems like you are doing something very similar.

A familiar weight falls over AR and he mentally begins to gather his things.

AR

Not exactly.

WEALTH MANAGER stops nodding.

WEALTH MANAGER

Not exactly what?

AR

Not exactly similar to manager 'X'. You see 'X' is not actually a value investor. He's a quality growth investor, like Warren Buffett. Our investment philosophy is quite different.

WEALTH MANAGER

Different to Warren Buffett?

AR

Almost the opposite, in fact.

AP kicks AR under the table. Look of confusion / alarm / concern on WEALTH MANAGER'S face. Long silence.

EXTERIOR STREET SCENE - AUTUMNAL, GREY SKY, RAIN.

AR and AP walking down Gresham Street. AP muttering about AR ruining another perfectly good meeting.

Not Investing Like Warren Buffett

I've read the books, bought the B-shares and collected the Letters to Shareholders. I've been to Omaha, queued outside the Century Link Centre at 6am and washed down dinner at Piccolo's with a root beer float. Warren Buffett is a hero of mine. But hero worship can lead to groupthink, and at Cape Wrath Capital we do things differently to Warren Buffett.

Warren Buffett once said, 'I'm 15% Fisher and 85% Benjamin Graham'. But Graham has fallen a little by the wayside since the days of the Buffett Partnerships (1956 to 1965). Charlie Munger's influence has had something to do with this, but there is also an overwhelming logic that comes from managing $380bn. At that size liquidity dictates strategy, stretching out your investment horizon and focusing your stock-picking on companies with a durable competitive advantage.

Growth is not Value

The argument for 'value-in-growth' is that a quality business can be a value opportunity because of the potential for long-term compounding. Under this scenario, outsized returns come from *holding* the stock rather than *selling* it. This approach to investing can be very profitable, but if we call it value investing, then the term 'value' loses any descriptive meaning. Value investing is investing based on valuation. It involves buying at a discount to fair value and then selling at fair value. The selling is as important as the buying.

Not Investing Like Warren Buffett

Warren Buffett's style drift shows that sticking to a 'pure' value strategy requires discipline around fund capacity. This can make value strategies bad business. Building a profitable asset management business is not always consistent with running a strategy that delivers the best returns. Our position here is clear. We will only ever run a single strategy, and that strategy will hard close at £200m to protect performance.

15% Shackleton and 85% Ben Graham

Leadership is situational. I doubt that Ernest Shackleton would have been much of an investor, just as I suspect Ben Graham would not have lasted five minutes on an Antarctic ice flow. But the basis of leadership is universal. It's about having the judgement and self-knowledge to make the right decisions; the will to act decisively, even in the face of seemingly overwhelming evidence that you're wrong; and the strength of character to carry others with you. Dealing with Mr. Market's emotional swings requires a well-calibrated contrarianism. It's a hazardous journey, but with leadership, it can pay to not invest like Warren Buffett.

Adam Rackley, Cape Wrath Capital

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