Thomas Russo shares global value investing insights

By Ivey Communications

When it comes to companies to invest in, Thomas Russo thinks of an ancient Japanese temple whose outside is old, but inside is refreshed – the company's people may change, but there must be an enduring culture.

"I look for trusted companies that have proven to outperform in tough times," he said.

Russo, a partner with Gardner Russo & Gardner, spoke about his global value investing philosophy during a presentation to George Athanassakos' value investing students on January 26.

Russo said there are typically four components to his investments:

1. They are underpriced
2. They can be reinvested over time
3. The companies have the "capacity to suffer", or, withstand tough times
4. The prospects look good over the long term

"I focus on a small number of industries in which companies have historically been able to generate sustainable amounts of cash flow," he said.

He cited several examples of companies that fit these criteria and have proven to be worthwhile investments. These include Berkshire Hathaway Inc., a company controlled by famed value investor Warren Buffett, which owns a diverse range of businesses, including property and casualty insurance, reinsurance and specialty nonstandard insurance; Nestlé, a global food and nutrition company; Pernod Ricard, a French company that produces distilled beverages; and SABMiller, a global brewer.

For instance, Nestlé proved its capacity to suffer by withstanding the Russian Ruble crisis of 1998. While many of its competitors pulled out of Russia during the crisis, Nestlé stayed on and doubled its market share. It also focused on building consumer loyalty in Africa through selling inexpensive bouillon cubes.

"Nestlé had the willingness to burden its profitability during this start-up period in Africa when it was selling one bouillon cube at a time," said Russo. "As a result, it became a trusted brand and consumers were reluctant to switch. Its profitability can then grow with the rise in consumerism."

He noted that Berkshire Hathaway Inc. fared well during and after the 2008 financial crisis because of its focus on preserving wealth in long-term investments, while other companies focused on the short-term and ended up with too much debt when the markets crashed.

"Berkshire Hathaway Inc. focused on smooth and steady, rather than instant wealth. It could never have performed as it did, if it hadn't," he said. "Through the market crash of '08, you can see the consequences of focusing on the short term rather than the long term."

On the other hand, Russo said the financial crisis provided opportunities for investors to invest at a discount.

"There is no better time to invest than when the markets are in chaos," he said. "Whenever you have a market catastrophe, stay the course. If you stand firm, you'll be OK."