Value investor focuses on overcoming human weaknesses

By Ivey Communications

When it comes to being a successful value investor, it helps to go against the grain.

Tony Arrell, Chairman and Chief Executive Officer, Burgundy Asset Management Ltd., spoke about the importance of standing apart from the crowd in investing, during a presentation to George Athanassakos' value investing students on March 15.

"One of our human weaknesses is that people like to do what other people are doing. In investing, you want to not do that because standing apart from the crowd and trying to take advantage of the crowd is a very important thing to do," he said. "At Burgundy, we want to do things that other people don't do and have insights that other people don't have."

To do that, Arrell said Burgundy concentrates on investing in good companies that are undervalued, but have potential to compound their value over time. He cited the example of McDonald's Corporation, whose stock dropped dramatically in 2003 as a result of the mad cow disease beef scare. Arrell said he knew the company had a lot of great qualities and would eventually rebound from the crisis so Burgundy bought a lot of shares in McDonald's at a great price. This strategy paid off in the long term.

"In the institutional world, everybody is more concerned about how they did in comparison to everybody else – we're not. We're interested in making money and doing it at a low risk. We think it's sheer folly to be thinking about what the market as a whole is going to do."

Arrell stressed thorough independent research is key to uncovering the best opportunities as well as taking the time to get to know the people behind the companies.

"When you buy shares, what you're really doing is buying a piece of a business. I don't think very many people are thinking about the business that lies behind the stocks and really that is the very key to it," he said.

Burgundy also looks for investment opportunities all around the world, rather than only focusing on Canada, because other countries have less than perfect markets and less than perfect company information so company stock may be mispriced. For instance, in Japan there are 4,000 public companies yet about half of them don't publish company information, Arrell said.

"It's easy to find mispriced securities, but it's also very labour-intensive," he said. "There's no magic sauce, no formula and I don't think there are any shortcuts."

Arrell said it's critical to think about a business' characteristics, barriers to entry, and the amount of competition it has because many companies compete their profits away over time. Family businesses, in particular, may be safe picks for investing because their managers tend to think long term.

However, despite even the most thorough efforts, he warns mistakes will happen.

"We are in a field where you're going to have mistakes, so having a culture that is accepting of mistakes is important," he said.