



WASHINGTON ASSOCIATION OF  
**MONEY MANAGERS**

# Equity Market Investing from a Value Perspective

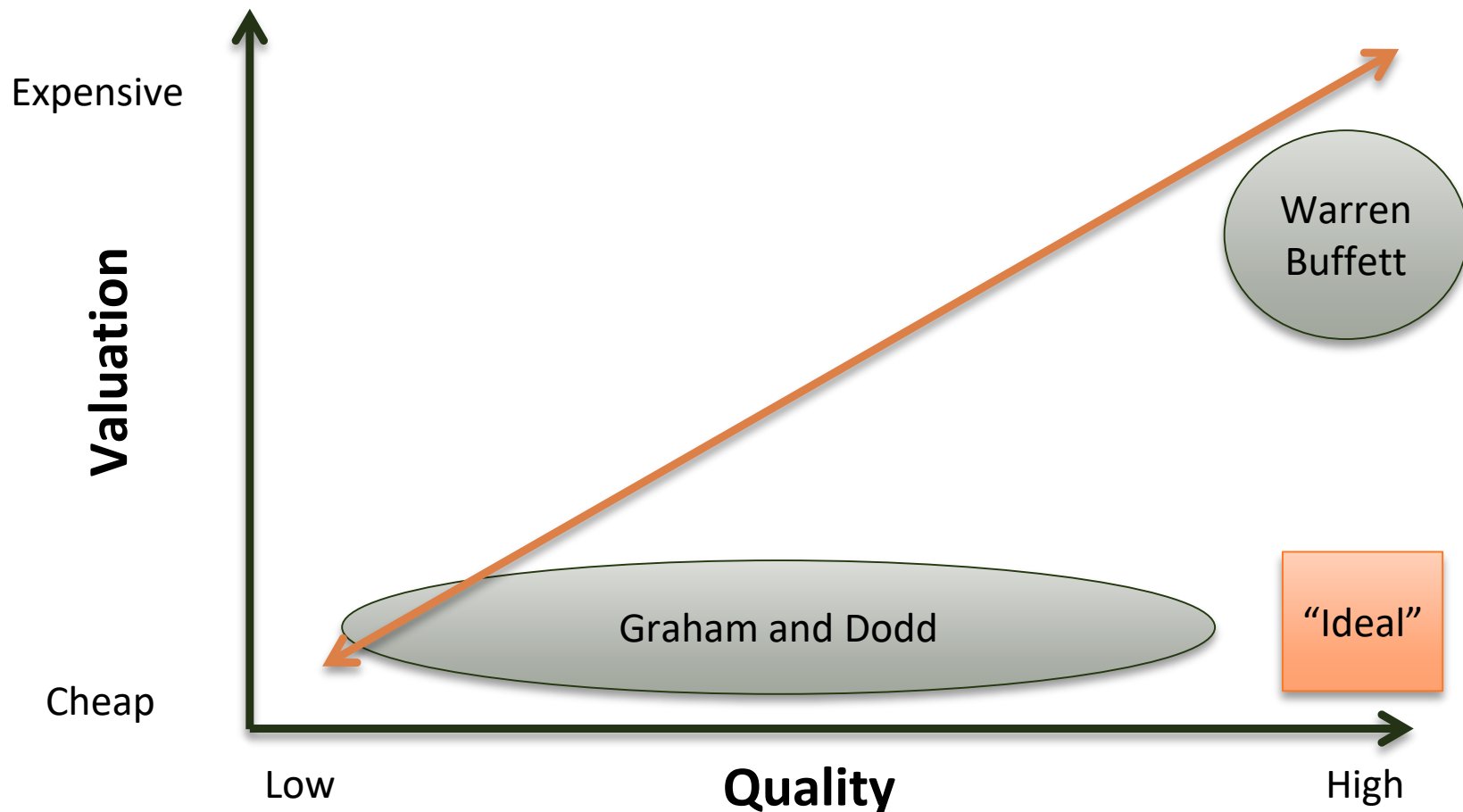
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Presented by:  
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**Robotti & Company Advisors**



**Robotti**  
Value Investors

# Commonalities Among Value Investors



“To me, value investing is a big tent that accommodates many different people. At one end of the tent there is Ben Graham, and at the other end of the tent there is Warren Buffett, who worked with Graham and then went out on his own and made adjustments to the teachings of Ben Graham.”

- Jean-Marie Eveillard (*Graham and Doddsville* – Winter 2007 Ed.)

# Traditional Value Investor Bias

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## **Investing Checklist**

- Is this company cyclical?
- Is the business tied to commodity prices?
- Is the business capital intensive?
- Is the balance sheet levered?
- Is there potential technological disruption?

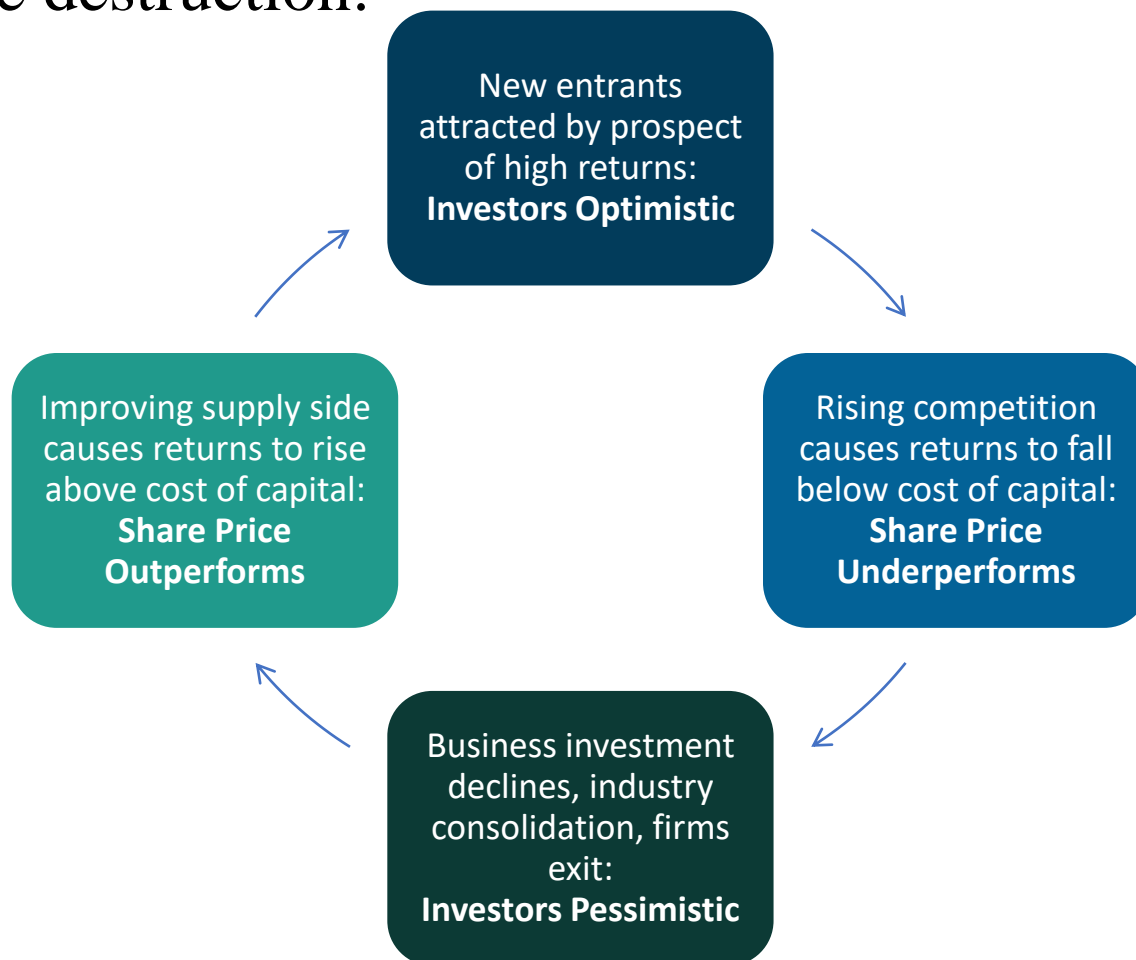
**“If you want to have a better performance than the crowd, you must do things differently from the crowd.”**  
- Sir John Templeton



# Understanding the Value of Economic Cycles

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Economic cycles resemble Schumpeter's process of creative destruction:

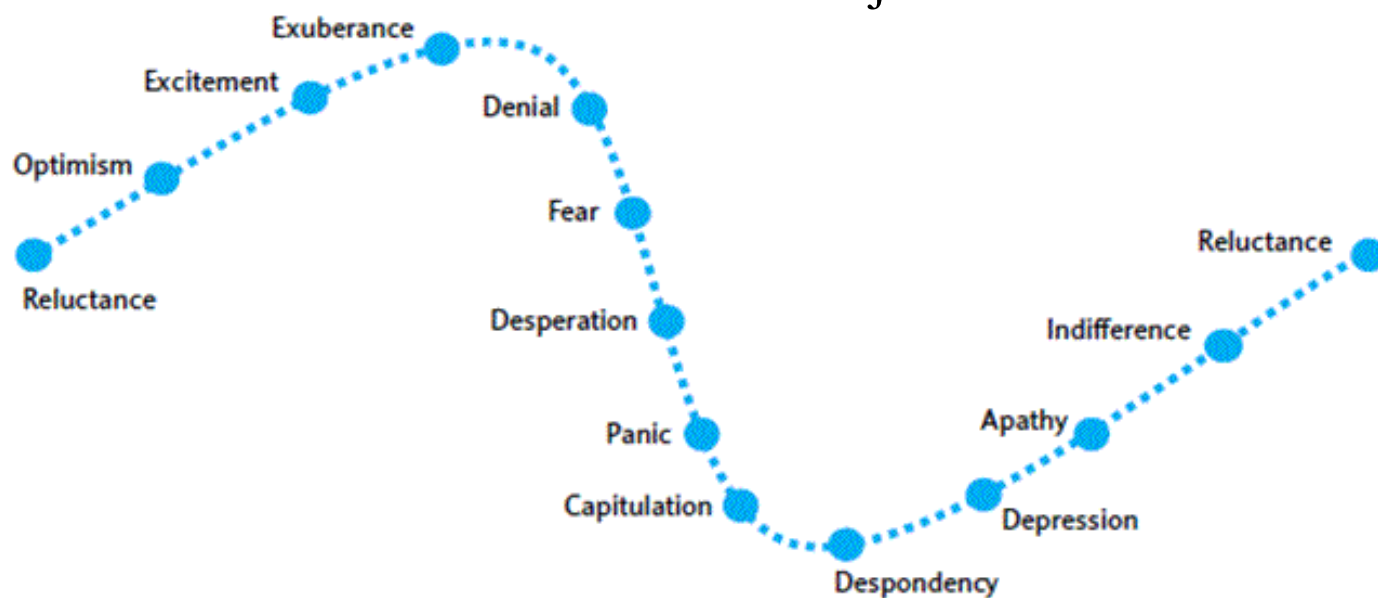


# Cyclicals Amplify Mr. Market's Manic Depressive Nature

“A business which sells at a premium does so because it earns a large return upon its capital; this large return attracts competition; and generally speaking, it is not likely to continue indefinitely. Conversely in the case of a business selling at a large discount because of abnormally low earnings. The absence of new competition, the withdrawal of old competition from the field, and other natural economic forces should tend eventually to improve the situation and restore normal rate of profit on the investment.”

*Security Analysis* (1934 Edition)

Benjamin Graham and David Dodd



# What Makes Robotti Different

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## Analytical Edge

Within the context of a longer-term perspective and 30+ years of experience, we have the ability to develop a different conclusion than that of the market.

## Informational Edge

Our network of industry relationships, focus on deep primary research, and experience serving on company boards, provides us with more pieces for building our information mosaic.

*Leads Us To*

## Behavioral Edge

We take a longer-term view and have the ability to tolerate market swings.

Our behavioral edge comes from our ability to tolerate market volatility. As a result, our investment process concentrates on understanding the long-term normalized earning power of a business well before the “investing herd” gains interest.

# Investment Themes

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## Ugly Ducklings

- Many value investors say they look for companies or industries that are beaten-up, out of favor, or out of fashion - ugly ducklings.
- However, we find it most common for investors to avoid near-term uncertainty at all cost and only invest once the dust has settled.
- We concentrate on understanding the long-term normalized earning power of a business well before it turns into a swan.

## Long Runways

- Industries facing significant short-term headwinds / “unknowns.”
- Individual companies that are certainly not immune to the industry-wide issues and may even have more serious complications.
- The dynamics are in place for very long runways of growth once headwinds dissipate.



## Simple But Not Easy

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- Opportunities created by capital cycle analysis often have long gestation periods as the timing of the pay-off can be highly uncertain.
- Holding a contrarian view is difficult – even for a value investor.





# Questions



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