Conteúdo Value Investing Brasil
2018

Investment Book Club: Theory Meets Practice
10 Alpha Lessons & Book Summaries

Daniel Gewehr | Santander

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<table>
<thead>
<tr>
<th>What will you find in the Investment Book Club Presentation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ What is our Investment Book Club?</td>
</tr>
<tr>
<td>▪ Searching for Alpha: The 10 Key Lessons Applied</td>
</tr>
<tr>
<td>▪ List of All Books Read So Far</td>
</tr>
<tr>
<td>▪ The 7 Must-read books from our Club</td>
</tr>
<tr>
<td>▪ Investment Book Club: Three Rating Sources Classification</td>
</tr>
<tr>
<td>▪ The Improving Investor: 9 Characteristics to Learn</td>
</tr>
<tr>
<td>▪ Additional Read Book Summaries</td>
</tr>
<tr>
<td>▪ Some Invited Speakers and Discussion Topics</td>
</tr>
<tr>
<td>▪ 10 New Things We Learned in Omaha (2017) – PM Book Recommendations</td>
</tr>
<tr>
<td>▪ “I´m still Hungry” for Books: Additional Reading Suggestions</td>
</tr>
<tr>
<td>▪ Bio</td>
</tr>
</tbody>
</table>
What is our Investment Book Club?

- It is becoming a tradition! For the last 4 years, I have been hosting an investment book club with some buy-side investors.

- **Theory Meets Practice.** The discussions are enriching: we not only discuss the books, but we also invite top management and board members to talk about investments.
  - **We Discuss:** Capital Allocation, Investment Style, Portfolio Management, Investment Strategy, Biographies, Behavior Investing/ Mental Models, Competitive Advantage (Moats), Valuation, Corporate Governance/Shareholder Alignment, Economy/History, Technology Impact, among other topics
  - **Net/Net:** How to Become A Better investor?
  - We Have Read 27 books so far and talked with dozen of Executives

- **See the lessons on the next slides:** a) 10 theory meets practice lessons; b) investor characteristics you will learn; c) book rankings; and d) summary/key highlights per book.

- What book would you suggest?
<table>
<thead>
<tr>
<th>Lesson</th>
<th>Example</th>
</tr>
</thead>
<tbody>
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<td>1) Supply side Matters: Analysts are good in predicting demand, but sometimes misses the supply side of a sector</td>
<td>Capital Returns: Investing Through the Capital Cycle: &quot;capital cycle&quot; approach is to understand how changes in the amount of capital employed within an industry are likely to impact future returns. Example: The great commodity supercycle: high prices boosting profitability, followed by rising investment and the arrival of new entrants, encouraged by overly optimistic demand forecasts; <strong>Practice</strong>: Our Overweight on Brazilian Banks since 2016, when public banks market share peaked at 57%; marginal growth is coming from disciplined private banks.</td>
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<td>2) There are five competitive advantage sources</td>
<td>Cost advantage, intangible assets, switching costs, efficient scale, and network effect. Globally, Healthcare, Consumer (Ex-Retail) and Financials have high moat diffusion. <strong>Practice</strong>: Financial Services (31%), Transportation (31%) and Consumer (28%) were the sectors with most competitive advantage players in Latam.</td>
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<td>3) Think in terms of probabilities when managing a portfolio</td>
<td>The book <em>Superforecasting</em> help the way we make forecasts. Granularity predicts accuracy: the average forecaster who sticks with the tens-20%, 30%, 40%-is less accurate than the finer-grained forecaster who uses fives-20%, 25%, 30%-and still less accurate than the even finer-grained forecaster who uses ones-20%, 21%. As per book <em>More than you know</em>, the key is to consider all investment opportunities in terms of expected value: Buffett automatically thinks in terms of decision trees. <strong>Practice</strong>: We like to carry some FX hedge in our Brazil Portfolio to account for the probability of FX devaluation (i.e currently OW Pulp&amp;Paper).</td>
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<td>4) Quality matters for Long-term returns</td>
<td>Three characteristics indicate quality, according to the writer of quality Investing: (1) strong, predictable cash generation; (2) sustainably high returns on capital; and (3) attractive growth opportunities. The insufficient valuation premium for quality: Expert estimates are consistently wrong in aggregate, routinely by more than 10%. Crucially, quality companies tend to exceed estimates. A pervasive presumption of mean reversion that does not automatically apply to well-positioned companies. <strong>Practice</strong>: Encouraging five-year performance in Latam: ~80% of the selected quality companies (33 out of 218) have outperformed their local indexes in local currency in five years.</td>
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<td>5) “Play Devil’s Advocate” in an organized manner: The checklist is useful for compiling information that goes against your investment thesis</td>
<td>The <em>Investment Checklist</em> book brings a comprehensive check-list of 57 questions. All in, the three most common investing mistakes relate to the price you pay, the management team you essentially join when you invest in a company, and your failure to understand the future economics of the business you’re considering investing in. The Chapters 7-9 (about assessing the Quality of Management) are very interesting: “some of the best CEOs are collegial, team oriented, and soft spoken, and able to gain the confidence of their employees”. <strong>Practice</strong>: A better check-list would have prevented us of entering too early on Brazilian Insurance distribution players in 2017, which still were revising down the earnings trend.</td>
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# Searching for Alpha: The 10 Key Lessons Applied

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| 6) Expand your mental models - Make analogies and parallels. You can use other sciences to relate with investments | Look at the major mental models and how they relate to investment: physics, biology, sociology, psychology, philosophy, literature and mathematics. I.e. (1) Physics: the law of equilibrium at work (supply and demand); (2) Biology: evolution (When a new strategy that works is discovered, capital is reallocated-or, in biological terms, there is a change in population); (3) Sociology: understanding group behavior (When stock prices climb, the ratio of trend followers to fundamentalists begins to grow); and the science I liked most (maybe I’m biased…): Mathematics: (a) Kelly Criterion: $2p - 1 = x$; where 2 times the probability of winning minus 1 equals the percentage you should be bet (If the winning probability is 70% percent, bet 40%).  
**Practice:** Investor Mood: how much market is pricing in; When we reinforced our OW Brazil in June 2016 Latam Initiation 2016, Brazil was trading only at 10x P/E, pricing-in only ~20% of a bull case, a positive asymmetry |
| 7) Management Alignments: we favor Share over others compensation forms | The book *Big Money Thinks Small* brings an interesting discussion about executive compensations; “I worry more about executives who collect massive option grants but don’t hold as many shares. Stocks can go up or down, but options have only upside. When executives don’t share in the downside, they take bets with huge upside and downside, and hope”.  
**Practice:** The Industrial Company Weg has been a long-term outperformer: its executive historically hold shares. |
| 8) Technology Impact is reducing moat period for companies. Alpha may come from blend of Quant. vs Fundamental; Behavior gain relevance | The book *The Second Machine Age* consider we are the era of ‘winner-take-all’ markets, but the winner (especially in older business) is being challenged after a cycle. Part of Investment Analyst profession tend to be replaced by quant studies, nevertheless the behavior investing remain important.  
**Practice:** Avoid overpaying more than 20 years of moat (which is considered a wide period). We Remained UW Acquirers, despite valuation discount to historical and high ROIC. |
| 9) Accretive Earnings Revision Matters: Under promise / over deliver; The Marathon of Consistency | The book “Expectation Investing: Reading Stock Prices for Better Returns” state that the key to uncovering winning stocks is to find companies that are poised to hurdle the expectations that have been set for them, i.e. companies that are good in beating consensus.  
**Practice:** Itau has beaten consensus by 3% per quarter during last 7 years, whereas Localiza beat consensus 93% of time during the same period. |
| 10) An Outstanding CEO is good on both Operations and Capital Allocation | The book “The Outsiders” mentions that CEOs need to do two things well: (a) run their operations efficiently, and (b) deploy the cash generated.  
**Practice:** Leading Beverage company in Brazil (Ambev); Leading Distribution company in Brazil Utility Sector (Equatorial). |
Investment Book Club: List of All Books Read So Far

1) Capital Returns: Investing Through the Capital Cycle - A Money Manager’s Reports 2002-15 by Edward Chancellor
2) Quality Investing: Owning the best companies for the long term by Lawrence Cunningham, Torkell T. Eide and Patrick Hargreaves
3) Why Moats Matter: The Morningstar Approach to Stock Investing by Heather Brilliant and Elizabeth Collins
4) Superforecasting: The Art and Science of Prediction by Philip E. Tetlock and Dan Gardner
5) The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success by William N. Thorndike
6) The Investment Checklist: The Art of In-Depth Research by Michael Shearn
7) The Little Book of Behavioral Investing: How not to be your own worst enemy by James Montier
8) Fora da Curva: Os Segredos dos Grandes Investidores do Brasil e o que Você Pode Aprender com Eles by Florian Bartunek, Pierre Moreau and Giuliana Napolitano
9) The Education of a Value Investor: My Transformative Quest for Wealth, Wisdom, and Enlightenment by Guy Spier
11) The Most Important Thing Illuminated: Uncommon Sense for the Thoughtful Investor by Howard Marks
12) The World’s 99 Greatest Investors: The Secret of Success by Magnus Angenfelt
13) Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor by Seth A. Klarman
14) The Little Book That Builds Wealth: The Knockout Formula for Finding Great Investments by Pat Dorsey
15) Thinking, Fast and Slow by Daniel Kahneman
16) One Up On Wall Street: How To Use What You Already Know To Make Money In The Market by Peter Lynch
17) The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies by Erik Brynjolfsson & Andrew McAfee
18) O Poder do Encantamento by José Galló
19) Dear Chairman: Boardroom Battles and the Rise of Shareholder Activism by Jeff Gramm
20) Big Money Thinks Small: Biases, Blind Spots, and Smarter Investing by Joel Tillinghast
21) Investing: The Last Liberal Art by Robert G. Hagstrom
22) Good to Great: Why Some Companies Make the Leap and Others Don’t by Jim Collins
23) Why Nations Fail: The Origins of Power, Prosperity, and Poverty by Daron Acemoglu
24) Charlie Munger: The Complete Investor by Tren Griffin
25) Boards that Lead: When to Take Charge, When to Partner, and When to Stay Out of the Way by Ram Charam
26) Good Strategy Bad Strategy: The Difference and Why It Matters by Richard Rumelt
27) The Little Book of Stock Market Cycles: How to Take Advantage of Time-Proven Market Patterns by Jeffrey Hirsch
THE 7 MUST-READ BOOKS FROM OUR CLUB
Capital Returns: Investing Through the Capital Cycle
by Edward Chancellor

Key Highlights:

- **Net/Net:** The key to the "capital cycle" approach is to understand how changes in the amount of capital employed within an industry are likely to impact future returns. Capital cycle analysis looks at how the competitive position of a company is affected by changes in the industry's supply side.
- **Example:** The great commodity supercycle bears the hallmarks of a classic capital cycle: high prices boosting profitability, followed by rising investment and the arrival of new entrants, encouraged by overly optimistic demand forecasts; and the cycle turning once supply has increased and demand has disappointed.
- **The capital cycle ceases to function properly when politicians protect underperforming industries.** The identification of "strategic industries" by Chinese politicians has led to excess capacity in various sectors as diverse as solar and wind power, stainless steel, shipbuilding and telecommunications equipment.
- Value investors who buy cheap stocks with depressed earnings are protected against the extrapolation tendency.
- There is some evidence that managers with a large ownership stake are more likely to shrink capital employed – through buybacks.
- We go into meetings looking for answers to questions such as: does the CEO think in a long-term strategic way about the business? Understand how the capital cycle operates in their industry? Seem intelligent, energetic and passionate about the business? And interact with colleagues and others in an encouraging way? Appear trustworthy and honest? Act in a shareholder-friendly way even down to the smallest detail?

Characteristics You Will Learn/Improve?

- Capital Allocation and Investment Style

About the Author

Edward Chancellor (editor and introduction) is the author of Devil Take the Hindmost: A History of Financial Speculation (FSG, 1999), a New York Times 'Notable Book of the Year' and editor of Marathon's previous book, Capital Account: A Money Manager's Reports on a Turbulent Decade (Thomson Texere, 2004). Mr. Chancellor is an award-winning financial journalist, who has written for the Financial Times, Wall Street Journal, Reuters and many other publications. He is a former member of the asset allocation team at GMO, a Boston-based investment firm.
Quality Investing:
Owning the best companies for the long term
by Lawrence A Cunningham, Torkell T. Eide and Patrick Hargreaves

Key Highlights:

- **Net/Net:** While Quality was “out of favor” in 2016/2017, we continue to believe that is one of the best profiles for sustainable returns in long-term. This book enters in detail in four main Topics: Building Blocks, Patterns, Pitfalls and Implementation.

- Three characteristics indicate quality, according to the writer: (1) strong, predictable cash generation; (2) sustainably high returns on capital; and (3) attractive growth opportunities.

- Dozen Patterns that are associated with quality business models: (A) Recurring Revenue (i.e Atlas Copco); (B) Friendly Middlemen (i.e Geberit); (C) Toll Roads (i.e rating agencies); (D) Low-Price Plus: reasonable quality (i.e Inditex); (E) Pricing power (i.e Monsanto); (F) Brand Strength (i.e Heritage (Cartier); (G) Innovation Dominance: spending on R&D (i.e Novo Nordisk); (H) Forward integration (i.e Luxottica); (I) Market Share Gainers (i.e Fielmann); (J) Global Capabilities and Leadership (i.e Rolls-Royce engines); (K) Corporate Culture.

- The insufficient valuation premium for quality: Expert estimates are consistently wrong in aggregate, routinely by more than 10%. Crucially, quality companies tend to exceed estimates. A pervasive presumption of mean reversion that does not automatically apply to well-positioned companies.

- Pitfalls: a) Cyclicality: minimizing exposure to deeply cyclical industries, such as energy and mining, where many companies sell commoditized products (implicit bet on the commodity price); b) Technological Innovation: company’s products will still exist in a similar and relevant form in ten years? Investments are more tilted towards optically stodgier areas like elevators and cosmetics rather than electronics; c) Dependency: on government policy or contracts, stakeholder concentration or dependency on an unstable industry structure; d) Shifting Customer Preference: i.e Benefit switch - tobacco industry and public attitudes towards health; online shopping; nutritional vs taste; fashion risk; private label retailer alternatives to branded products.

Characteristics You Will Learn/Improve?

- Investment Style, Competitive Advantage (Moats), Capital Allocation.

About the Author

- Lawrence A. Cunningham (born July 10, 1962) is an American scholar, an author of corporate governance and investing books, and Research Professor of Law at George Washington University.
Why Moats Matter:
The Morningstar Approach to Stock Investing
by Heather Brilliant and Elizabeth Collins

Key Highlights:

- **Net/Net**: A very easy-to-read book about moat and competitive advantages. It examines five of most common competitive advantage sources: cost advantage, intangible assets, switching costs, efficient scale, and network effect.
- **Cost advantage**: Firms that have the ability to provide goods or services at lower cost have an advantage because they can undercut their rivals on price.
- **Intangible assets**: include brands, patents, or government licenses that explicitly keep competitors at bay.
- **Switching costs**: one-time inconveniences/ expenses a customer incurs to change from one product to another.
- **Efficient scale**: market of limited size is effectively served by one or just a few companies (which generate economic profits), but potential competitors are discouraged from entering (insufficient returns for all players).
- **Network effect**: occurs when the value of a particular good or service increases for both new and existing users as more people use that good or service, often creating a virtuous circle.
- The sustainability is much more important than the magnitude of economic profits when assessing economic moats. When we're near-certain that a firm will earn excess returns for the next 10 years, and likely for the next 20 years, we assign the firm a wide moat rating.
- Final chapter brings a practical view of which sectors present more competitive advantages (i.e. healthcare, consumer ex-retail).

Characteristics You Will Learn/Improve?

- Competitive Advantage (Moats), Valuation

About the Author

Heather E. Brilliant, CFA, Co-Chief Executive Officer, Morningstar Australasia, prior to assuming her current role, Brilliant led Morningstar's global equity and corporate credit research teams, consisting of more than 120 analysts, strategists, and directors. Brilliant is a member of the CFA Institute Board of Governors and is a past chairman of the CFA Society of Chicago.
Superforecasting: The Art and Science of Prediction
by Philip E. Tetlock and Dan Gardner

Key Highlights:

- **Net/Net**: A book that help the way we make forecasts. Why is it important? We are all forecasters: when we think about getting married, buying a home, making an stocks investment, we decide based on how we expect the future will unfold (These expectations are forecasts).
- The book is full of examples. I.e The billionaire financier George Soros exemplifies it. A key part of his success, he has often said, is his mental habit of stepping back from himself so he can judge his own thinking and offer a different perspective-to himself.
- The book educates us to think in terms of probabilities. Barbara Mellers has shown that granularity predicts accuracy: the average forecaster who sticks with the tens-20%, 30%, 40%-is less accurate than the finer-grained forecaster who uses fives-20%, 25%, 30%-and still less accurate than the even finer-grained forecaster who uses ones-20%, 21%, 22%.
- Brier scores measure the distance between what you forecast and what actually happened. So Brier scores are like golf scores: lower is better. Perfection is 0. A hedged fifty-fifty call, or random guessing in the aggregate, will produce a Brier score of 0.5.

Characteristics You Will Learn/Improve?
- Investment Style, Portfolio Management, Behavior Investing /Mental Models

About the Author
- Philip E. Tetlock is the Annenberg University Professor at the University of Pennsylvania and holds appointments in the psychology and political science departments and the Wharton School of Business. He and his wife, Barbara Mellers, are the co-leaders of the Good Judgment Project, a multi-year forecasting study. He is also the author of Expert Political Judgment and (with Aaron Belkin) Counterfactual Thought Experiments in World Politics.

Our Rating 5 Star Rating
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Amazon 5 Star Rating
4.2 🌟🌟🌟🌟🌟
Goodreads 5 Star Rating
4.1 🌟🌟🌟🌟🌟
The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success
by William N. Thorndike

Key Highlights:

- **Net/Net:** This is an outstanding counterintuitive book about 8 CEOs who are benchmark at capital allocation and beat S&P 500 by a factor of twenty. All-in, CEOs need to do two things: (a) run their operations efficiently, and (b) deploy the cash generated.
- Ways for deploying capital: a) investing in existing operations, b) acquiring other companies, c) issuing dividends, d) paying down debt and e) repurchasing stock. There are 3 ways for raising capital: a) internal cash flow, b) issuing debt, c) raising equity.
- Eight CEOs: 1) Tom Murphy at Capital Cities Broadcasting (focus on industries with attractive economic characteristics, selectively use leverage to improve operations, pay down debt and repeat; 2) Henry Singleton at Teledyne (He saw himself as an investor, and designed organizations so that it allowed him to focus on capital allocation, not operations; 3) Bill Anders at General Dynamics (bid on projects only when the returns were compelling and probability of winning was high; shrunk the company to focus on shareholder returns); 4) John Malone at TCI (largest operator with lowest programming costs, least maintained facilities); 5) Katharine Graham at WaPo; 6) Bill Stiritz at Ralston Purina (sold businesses that would required large capex and focused on brand building business); 7) Dick Smith at General Cinema; 8) Warren Buffett at Berkshire.
- Four Things that caught our attention: cash flow is what matters; decentralized operations leave value creation for last mile managements; Sometimes the best opportunity is the share buyback; CEO traits: analytical, frugal and humble.

Characteristics You Will Learn/Improve?

- Capital Allocation, Biography, Style Investing

About the Author

- William N. Thorndike is founder and a managing director of Housatonic Partners, a private equity firm. Graduate of Harvard College and the Stanford Graduate School of Business and has been a guest lecturer at Harvard and Stanford business schools. He is director of eight companies, and two non-profit organizations.
The Investment Checklist: The Art of In-Depth Research
by Michael Shearn

Key Highlights:

- **Net/Net**: A book that help you systematize the due diligence about a company. The checklist is useful for compiling information that goes against your investment thesis. It is human nature to overweight information that supports your investment thesis and underweight information that is contrary to your investment thesis. The checklist is useful for compiling information that goes against your investment thesis.

- The three most common investing mistakes relate to the price you pay, the management team you essentially join when you invest in a company, and your failure to understand the future economics of the business you’re considering investing in. The Chapters 7-9 (about assessing the Quality of Management) are very interesting: “some of the best CEOs are collegial, team oriented, and soft spoken, and they are able to gain the confidence of their employees”.

- If you are having a difficult time understanding a business, ask what the customer’s world would look like without its products or services. Customer satisfaction is a leading indicator of company financial performance, and many of the companies with high customer-satisfaction scores produce higher stock returns than the S&P 500 index. The best indicator of a competitive advantage is a business’s ability to increase prices without losing customers.

- Characteristics You Will Learn/Improve?
  - Portfolio Management, Valuation, Corporate Governance.

- About the Author
  - Michael Shearn founded Time Value of Money, LP, a private investment firm, in 1996, to devote his attention to selecting and researching stocks and private investments. He launched the Compound Money Fund, LP, a concentrated value fund, in 2007. Shearn serves on the Investment Committee of Southwestern University, which oversees the school’s $250 million endowment. He is member of the Advisory Board for the University of Texas MBA Investment Fund.
The Little Book of Behavioral Investing: How Not to Be Your Own Worst Enemy
by James Montier

- **Key Highlights:**
  - **Net/Net:** Divided in 16 chapters, this is one of the best summaries of behavior investing showing examples how successful buy-sides react to market movements and how psychological barriers can affect investment.
    1. Poor decisions are made in the heat of the moment: prepare, plan and pre-commit to strategy.
    2. When people experience a loss, they retreat. Think over, we may have a sale price opportunity.
    3. Optimism may be a good life strategy, but isn’t that good for investments.
    4. Experts tend to be overconfident, and sometimes do worse than the average person on the street.
    5. No one can predict the future: understand where they are right now (prepare, don’t predict).
    6. The Signal and the noise: focus your analysis on very specific elements that you understand.
    7. Volatility equal opportunity: do not pay attention to little fluctuation in the stock market,
    8. Play Devil’s Advocate: constantly look for information that disproves your assumptions. If you think a company is successful, for example, you should seek out signs that indicate that it’s not successful.
    9. When the facts change, change your mind: not all markets are bull; Jim Chanos is not a perma-bear; he systematically searches for broken or breaking business models, as he understands bull/bear markets,
    10. Focusing on the facts: We take random events in our lives and polish them until they make a coherent story. IPOs underperformed market by 21% per year in the 3 years after listing (1980-2007).
    11. This Time Is Different: bubble is a real price movement at least 2sd from trend. 30 bubbles since 1925
    12. Right for the Wrong Reason, or Wrong for the Right Reason: whenever we lose money, we’re at fault, and there are valuable lessons to be learned from figuring out what exactly went wrong.
    14. Inside the Mind of a Lemming: become a contrarian investors. Make your decision based on the information, not on what everyone else is doing.
    15. You Gotta Know When to Fold Them: When it is time to sell: The decision needs to be made before Process, Process, Process: the one thing you control: remove the human element from your decision.

- **Characteristics You Will Learn/Improve?**
  - Behavior Investing / Mental Models.

- **About the Author**
  - James Montier is a member of GMO’s asset allocation team. He was co–Head of Global Strategy at Société Générale and has been the top–rated strategist in the annual Thomson Extel survey.
Investment Book Club: Three Rating Sources Classification

- We classify the books using 3 tools: our rating, Amazon Rating and Goodreads rating.
- On average, the books we read reach 4 out of 5 grade.

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# The Improving Investor: 9 Characteristics to Learn

We classify the books using 9 learnings characteristics to improves as an investor.

Investment Style and Portfolio Management is where we spent more time reading: 54% of the books read touched the subject.

<table>
<thead>
<tr>
<th>Cover</th>
<th>Book Name</th>
<th>Author</th>
<th>Value Investing</th>
<th>Investment Style / Portfolio Management</th>
<th>Strategy</th>
<th>Biography</th>
<th>Behavior Investing / Mental Models</th>
<th>Competitive Advantage (Moats)</th>
<th>Capital Allocation</th>
<th>Valuation</th>
<th>Corporate Governance / Shareholder Alignment</th>
<th>Economy / History</th>
<th>Technology Impact</th>
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<td>Superforecasting: The Art and Science of Prediction</td>
<td>Philip Tetlock</td>
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<td>The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success</td>
<td>William N. Thorndike</td>
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<td>The Little Book of Behavioral Investing: How not to be your own worst enemy</td>
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<td>Fora da Curva</td>
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<td>The Education of a Value Investor: My Transformative Quest for Wealth, Wisdom, and Enlightenment</td>
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<td>The World’s 99 Greatest Investors: The Secret of Success</td>
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<td>The Little Book That Builds Wealth: The Knockout Formula for Finding Great Investments</td>
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The Improving Investor: 9 Characteristics to Learn

- We are willing to read more books about Risk Management, Financial Crisis Lessons, short-selling and Technology Impacts.
- Any name you would suggest?
Fora da Curva (Outliers¹): Os Segredos dos Grandes Investidores do Brasil e o que Você Pode Aprender com Eles
by Florian Bartunek, Pierre Moreau and Giuliana Napolitano

**Key Highlights:**

- **Net/Net:** Interesting book about the profile successful Brazilian investors, who manage in total ~R$80 billion; The book brings their main lessons and also book suggestions from each investor. The book is the is not only focused on equities, but also show examples in Hedge Funds, Real Estate and Private Equity.

- The interviews which captured my attention were: André Jakurski, Florian Bartunek, Guilherme Affonso Ferreira, Guilherme Aché and Pedro Damasceno. When Talking with Florian (who was a speaker during one of our Book Club Dinners), one of the lessons he mentioned is that Successful people in the money management sometimes are more conservative in terms of risk control, the cases of: Dynamo, Jakurski, Stuhlberger. The book also show the profiles of: Antonio Bonchristiano, José Carlos Reis de Magalhães Neto, Luiz Fernando Figueiredo and Meyer Joseph Nigri.

- “It’s worth to observe what others successful investors did, and adapt it to create your own style” – Jorge Paulo Lemann.

- Among lessons: (a) “if there is 3% chance to skydive and die, I will not jump”. (b) Will not put 60% of fund in specific stock; (c) who lived good and bad markets, has the benefit of doubt; d) culture is what happen when your are not there; (e) In order to simplify you need to know the theory in depth: math is important, but accumulated experience matters; (f) decision process: check-list, template (in order to not forget reading main financial statements: i.e ITRs, horizontal analysis).

**Characteristics You Will Learn/Improve?**

- Biography, Investment Style / Portfolio Management, Strategy.

**About the Author**

- Florian Bartunek is the founding partner and CIO at Constellation. Florian founded Constellation in 1998 as Utor Investments, a proprietary fund for the ex-owners of Banco Garantia. Prior to founding Constellation, Florian was a partner at Banco Pactual where he was the head of research, proprietary trader, and manager of all equity portfolios/funds.
The Education of a Value Investor: My Transformative Quest for Wealth, Wisdom, and Enlightenment by Guy Spier

- **Key Highlights:**
  - **Net/Net:** It is a “different book” in which he talks about his life, career change and how to improve it. He explains how meeting and learning from Warren Buffett and Mohnish Pabrai changes his perspective on life and makes him a better investor. Also a lot of good knowledge on further readings bibliographies.
  - **What a change:** Spier started his career as a “Gordon Gekko” wannabe. Then a series of transformations and self-realizations led him from an investment banking job with a third-rate firm to managing his own fund. The discovery of Ben Graham’s The Intelligent Investor, then took him on a path to a life-changing meeting with the renowned investor Mohnish Pabrai, followed by his famous lunch with Warren Buffett ($650,100 meal).
  - **Three main lessons:** (1) Be authentic: you have to be the best version of yourself, you should not try to imitate top value investors like Warren Buffett. You can learn from them and adapt (2) Live by your internal scorecard: You have to live your own live instead of being led by what others think about you: measure your own personal growth as an investor (by looking at your investment style and individual investments); (3) Keep an open mind and learn from others: how can you learn from investing mistakes?
  - **Key Investment style rules:** (a) Stop checking the stock price; (b) If someone tries to sell you something, don't buy it; (c) Don't talk to management; (d) Gather investment research in the right order; (e) Discuss your investment ideas only with people who have no axe to grind; (f) Never buy or sell stocks when the market is open; (g) If a stock tumbled after you buy it, don't sell it for two years; (h) Don't talk about your current investments.

- **Characteristics You Will Learn/Improve?**
  - Biography, Value Investing, Investment Style / Portfolio Management.

- **About the Author**
  - Guy Spier has run the Aquamarine Fund for the last 17 years. An ardent disciple of Warren Buffett, Guy launched the fund with $15 million in assets, closely replicating the structure and approach of Buffett's original partnerships. After a stint in management consulting, he attended Harvard Business School, then worked as an investment banker before starting his own fund.
Key Highlights:

Net/Net: Very good book that discusses a wide range of subjects/sciences to improve the investment decision process. Themes from behavioral investing, through competitive advantage and management evaluation (i.e. leadership, incentives, and capital allocation skills). The books discusses attributes generally set outperformer from the majority of active equity mutual fund managers: Portfolio turnover, Portfolio concentration, Investment style.

A quality investment philosophy is like a good diet: it only works if it is sensible over the long haul and you stick with it. But even a good investment philosophy will not help you unless you combine it with discipline and patience.

Four attributes that set apart US outperformers historically: a) Portfolio turnover (35 percent turnover in 2006, versus all equity funds of 89 percent); b) Portfolio concentration: on average 35 percent of assets in their top ten holdings (versus 20 percent for the S&P 500); c) Investment style: intrinsic-value investment approach; d) Geographic location (cities like Chicago, Memphis, Omaha, and Baltimore).

The key is to consider all investment opportunities in terms of expected value. As Buffett’s partner Charlie Munger notes, “one of the advantages of a fellow like Buffett is that he automatically thinks in terms of decision trees.”

Characteristics You Will Learn/Improve?

Value Investing, Investment Style / Portfolio Management, Behavior Investing /Mental Models, Competitive Advantage (Moats), Capital Allocation, Valuation.

About the Author

Michael J. Mauboussin is now at Blue Mountain. He used to be the head of global financial strategies at Credit Suisse and an adjunct professor at Columbia Business School. He is the author of The Success Equation: Untangling Skill and Luck in Business, Sports, and Investing and Think Twice: Harnessing the Power of Counterintuition.
The Most Important Thing Illuminated: Uncommon Sense for the Thoughtful Investor
by Howard Marks

Key Highlights:
- **Net/Net**: The book shows a compilation of his client memos into a single volume, divided in 20 lessons. It discusses second-level thinking, the price/value relationship, patient opportunism, defensive investing, what’s risk, Contrarianism, among other topics. The “Illuminated” version adds comments of famous Value Investors, like Joel Greenblatt, Seth A. Klarman, Paul Johnson.
- First-level thinking is simple and superficial, whereas second-level thinkers possess a deeper and more investigative mindset. “This is a good company; let’s buy the stock!” Second-level thinkers are more reticent: “Indeed, this is a good company. But everybody knows it, I’ll pass.”
- Being a contrarian: You must be willing to buy when others are selling in desperation as well as being able to sell when all others are euphoric. “Buy when they hate ‘em, and sell when they love ‘em”, Howard advises. “Wisdom of the crowd” is a paradox: which seems obvious in everyone’s eyes, often turns a false truth.
- The relationship between price and value: an accurate estimation of intrinsic value is the inevitable starting point. Without it, any hope of consistent success is nothing but that: hope.” An asset is only attractive when it’s priced right (below intrinsic value). Finding bargains: Bargains are found among those, which nobody else will touch: the complicated, the dubious, the controversial, the frightening and the unloved. “Investment is a discipline in relative selection.”
- Understand risk: If more risky investments reliably produce higher returns, they would not be more risky. To overpay for an asset means low return and high risk based: “the higher you fly, the further you fall.”
- Being Attentive to Cycles: Most things will prove to be cyclical. Investment markets follow a pendulum-like swing: between euphoria and depression, between celebrating positive developments and obsessing over negatives, and thus between overpriced and underpriced”.

Characteristics You Will Learn/Improve?
- Value Investing, Investment Style / Portfolio Management, Risk management.

About the Author
- Howard Marks is chairman and cofounder of Oaktree Capital Management, a Los Angeles–based investment firm with $80 billion under management. He holds a bachelor’s degree in finance from the Wharton School and an MBA in accounting and marketing from the University of Chicago.
The World’s 99 Greatest Investors: The Secret of Success
by Magnus Angenfelt

Key Highlights:

- **Net/Net:** A summary of the 99 best investors in terms of annual return, using the screening of 20 years of verified track record. While there renowned names such as Warren Buffett, George Soros, John Templeton there are names sometimes overlooked. This sentence may inspire you to read the book: “The secret to success in any field is to find what successful people do, think about and act on, and do the same.”
- Commonalities in style investing (they may overlap): 52% Value, 25% Contrarian, 22% Quality, 20% Growth, 13% Quantitative, 12% trader. Fewer than 10% were activists. Usually, they are not good on market timing. Behavior that stands out: set routines, self-control.
- Twelve common insights: (1) Know your own investment rhythm; (2) Know your strength and weaknesses; (3) Consider the risks, not the potential; (4) Be prepared to change your strategy if the market changes; (5) Don’t invest on the basis of tips; (6) Don’t let your emotions cloud your judgment; (7) Don’t invest in something you don’t understand; (8) Be disciplined and work hard; (9) Only do businesses with reputable companies and guard your reputation; (10) Don’t underestimate the efficiency of the market, but don’t overestimate its perfection; (11) It’s not wrong to make mistakes, but it is wrong to fail to learn from them; (12) Patience is a virtue, in investing as in all else.
- On average, most of them had 15 years of another experiences before setting shop themselves.
- Type of assets held: shares (84%), bonds (22%), commodities (19%), derivatives/futures (18%), high-risk debt securities (6%).
- “Philip Fisher never bought into a company if the PEG ratio was higher than 0.5x”.

Characteristics You Will Learn/Improve?

- Investment Style / Portfolio Management, Biography, Value Investing.

About the Author

- Magnus is a partner of Achipelago Investments (Head Portfolio Manager of an Equity Market Neutral Strategy). His experience include co-Founder, CEO/CIO of the successful TMT focused Equity Long/Short Hedge Fund Manticore (2000-11) and analyst within the Global Equity Long/Short Hedge Fund Zenit (1998-00). He holds a B.Sc. degree in Business Administration & Economics from Uppsala University (1986).
Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor
by Seth A. Klarman

Key Highlights:

- **Net/Net**: A classical and timeless Value investing book, with a variety of lessons for portfolio managers; i.e. avoiding loss should be the primary goal of every investor. This book is famous for selling for more than $1000 a copy on Amazon/eBay.
- "A margin of safety is achieved when securities are purchased at prices sufficiently below underlying value to allow for human error, bad luck, or extreme volatility in a complex, unpredictable and rapidly changing world."
- "80/20 rule: the first 80 percent of the available information is gathered in the first 20 percent of the time spent. The value of in-depth fundamental analysis is subject to diminishing marginal returns (miss the forest for trees).
- Be aware of EBITDA: Those who used only EBITDA as a cash-flow proxy, for example, either ignored capital expenditures or assumed that businesses would not make any.
- Tree key elements to a value-investment philosophy: a) Bottom-up strategy (as opposed to top-down, which is vulnerable to error at each step); b) Absolute performance (not relative; requires tolerance of periods of poor performance); c) Risk-averse approach (target risk before returns).
- Valuation: three methods: NPV, liquidation and relative valuation (as the last resort and useful in only a few cases). NPV method, of course, brings up the need to have a good estimate of discount rate.
- Bankruptcy is a more harmful to some companies than others: Financial companies that depends on investors'/depositors' trust suffer the most from bankruptcy. Counterintuitively, capital-intensive companies tend to get through bankruptcy okay: once they emerge from Chapter 11 and their access to capital is restored, their business can return to normal.

Characteristics You Will Learn/Improve?

- Value Investing, Investment Style / Portfolio Management, Valuation.

About the Author

Seth Klarman (born May 21, 1957) is a hedge fund manager, the chief executive of the Baupost Group (founded in 1982). He closely follows the investment philosophy of Benjamin Graham and is known for buying unpopular assets while they are undervalued, Since inception to 2008 he has realized a 20 percent compound return-on-investment.
The Little Book That Builds Wealth: The Knockout Formula for Finding Great Investments
by Pat Dorsey

Key Highlights:

- **Net/Net**: Easy to read book about competitive advantage (moats), a simplified version to “Why Moats Matter”, in our view. The book provides a framework for identifying companies that can sustain high returns on capital.
- **Four sources of structural competitive advantage:**
  1. Intangible assets: intellectual property (i.e. patents) that firms use to prevent other companies from duplicating a good or service. Example: Qualcomm, drugmakers like Merck (MRK) and Johnson & Johnson (JNJ) and consumer products like Coca-Cola (KO) and Gillette.
  2. High switching costs: one-time inconvenience or expense a buyer incurs to change over from one product or service to another. Examples: Medical-device companies Biomet (BMET) and Stryker (SYK): the surgeon would have to be trained to use competing products, losing time and money.
  3. Network economics: when the value of a particular good or service increases for both new and existing users as more people use that good or service. Example: eBay.
  4. Cost Advantages: good or service at a relatively low cost have an advantage because they can undercut their rivals on price. Walmart (WMT) is a textbook example of a low-cost operator.
- **Mistaken moats**: (1) “bet on the jockey, not on the horse” does not apply: many companies operate in a unattractive environments; a world class chef to serve superb dishes profitably by placing him in a small local diner along the highway, it would be quite a hurdle; (2) Great products do not create moats: CD’s, video tape recorders, muscle cars, film cameras, Tommy Hilfiger, Netscape? All were great products but none of them lasted.; (3) High market share i.e. bigger is not necessarily better: In highly competitive industries, high market share is not equivalent to a competitive advantage. Kodak (film), IBM (PC’s), Netscape (internet browsers), GM (automobiles), and Corel (word processors); (4) Operational efficiency that we call “great execution”: You can cut and carve a fat cow but once you get to the bone, where is the meat going to come from?

Characteristics You Will Learn/Improve?

- Competitive Advantage (Moats).

About the Author

- Pat Dorsey, CFA, is Director of Equity Research at Morningstar, Inc. He played an integral part in the development of the Morningstar Rating for stocks, as well as Morningstar's economic moat ratings.
Thinking, Fast and Slow
by Daniel Kahneman

- **Key Highlights:**
  - **Net/Net:** The most comprehensive book about social psychology, cognitive science, the study of reason and behavioral economics. All-in, the book is about the biases of our intuition: we assume certain things automatically without having thought through them carefully. I read it at once, but I would suggest to read it slowly and order to digest the 38 chapters divided in 5 parts (“it is a 2-semester class book”).
  - Two systems that drive the way we think. System 1 is fast, intuitive, and emotional; System 2 is slower, more deliberative, and more logical.
  - Prospect theory / Loss aversion (factor of 2.5). We’re a lot more afraid to lose what we already have, as we are keen on getting more. Another example is that the value people place on a change in probability (e.g., of winning something) depends on the reference point: people appear to place greater value on a change from 0% to 10% (going from impossibility to possibility) than from, say, 45% to 55%, and they place the greatest value of all on a change from 90% to 100% (going from possibility to certainty).
  - Hindsight bias has pernicious effects on the evaluations of decision makers. It leads observers to assess the quality of a decision not by whether the process was sound but by whether its outcome was good or bad.
  - Framing is the context in which choices are presented. Experiment: subjects were asked whether they would opt for surgery if the “survival” rate is 90 percent, while others were told that the mortality rate is 10 percent. The first framing increased acceptance, even though the situation was no different.
  - The "anchoring effect" names our tendency to be influenced by irrelevant numbers. Shown higher/lower numbers, experimental subjects gave higher/lower responses.

- **Characteristics You Will Learn/Improve?**
  - Behavior Investing / Mental Models.

- **About the Author**
  - Daniel Kahneman is Professor of Psychology Emeritus at Princeton University and a professor of public affairs at the Woodrow Wilson School of Public and International Affairs. He received the 2002 Nobel Prize in Economic Sciences for his pioneering work with Amos Tversky on decision-making.
One Up On Wall Street:
How To Use What You Already Know To Make Money In The Market
by Peter Lynch

Key Highlights:
- **Net/Net**: Interesting book about the investment style of Peter Lynch, one of the best performing Portfolio managers. According to him, investment opportunities may be everywhere: from a supermarket to the workplace. He liked to use PEG ratio.
- Types of Companies and their focus: (1) Slow Growers: buy it for dividends; If it’s a low pay-out then the company has a cushion in hard times. (2) Stalwarts: big companies that aren't likely to go out of business: check the companies long-term growth rate; (3) Fast Growers: what the growth rate in earnings has been in recent years (20-25% is great) and whether the stock is selling at a P/E ratio at or near the growth rate; (4) Cyclical: close watch on inventories, and the supply demand relationship. Watch for new entrants into the market, which is usually a dangerous development; Anticipate a shrinking P/E multiple over time as business recovers and investors look ahead to the end of the cycle; (5) Turnarounds: can the company survive a raid by its creditors? How is the company supposed to be turning around? Selling unprofitable divisions?; (6) Asset-plays: are there any hidden assets? How much debt is there to detract from assets (creditors first)?
- 10 things that caught my attention: (a) Be suspicious of companies with growth rate of 50 to 100% a year; Moderately fast growers (20-25%) in non growth industries are ideal investments; (b) Avoid hot stocks in hot industries; (c) It’s better to miss the first move in a stock and wait to see if a company’s plan are working out; (d) Invest in simple companies that appear dull, mundane, out of favor; (e) Look for companies with niches; (f) Managerial ability may be important, but it’s quite difficult to assess. Base your purchases on the company’s prospects, not on the CEO’s resume or speaking ability; (g) If the stock is grossly overpriced, even if everything else goes right, you won’t make any money; (h) Look for companies that consistently buy back their own shares; (i) favor companies in which management has a significant personal investment (Insider buying is a positive sign); (j) The earnings growth to date should be consistent, not sporadic (exception for asset play where earning growth is not important).

Characteristics You Will Learn/Improve?
- Investment Style / Portfolio Management, Biography.

About the Author
- Peter Lynch was vice chairman of Fidelity Management & Research Company (investment advisor arm of Fidelity Investments), and member of the Board of Trustees of the Fidelity funds. Mr. Lynch was portfolio manager of Fidelity Magellan Fund, which was the best performing fund in the world under his leadership from May 1977 to May 1990.
The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies
by Erik Brynjolfsson & Andrew McAfee

Key Highlights:

- **Net/Net**: This book is a 360 view of how digital technology is transforming our work and our lives. Computers and other digital advances are doing for mental power—the ability to use our brains to understand and shape our environments—what the steam engine and its descendants did for muscle power.

- As the new generation of intelligent devices appears, it will be the stock analysts and petrochemical engineers who are in danger of being replaced by machines. The gardeners, receptionists, and cooks are secure in their jobs for decades to come. “Forbes.com has contracted with the Narrative Science to write the corporate earnings previews. They are all generated by algorithms without human involvement”.

- For almost two hundred years, wages did increase alongside productivity. This created a sense of inevitability that technology helped (almost) everyone. But more recently, median wages have stopped tracking productivity. Meanwhile, for the first time since before the Great Depression, over half the total income in the United States went to the top 10 percent of Americans in 2012. The top 1 percent earned over 22 percent of income, more than doubling their share since the early 1980s.

- Dale Jorgenson: human capital in the U.S. economy, is as much as ten times the value of the physical capital.

- “One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man.” Ideation in its many forms is where humans have a comparative advantage over machines. Scientists come up with new hypotheses. Chefs add a new dish to the menu. Engineers on a factory floor figure out why a machine is no longer working properly. Many of these activities use computers, but none are driven by them. Recommendations: improve ideation skills, large-frame pattern recognition, complex communication.

- When ‘winner-take-all’ markets become more important, income inequality will rise because pay at the very top pulls away from pay in the middle. A gold-medal winner at the Olympics can earn millions of dollars in endorsements, while the silver medal winner—let alone the person who placed tenth or thirtieth—is quickly forgotten; even top executives have started earning rock-star compensation. The ratio of CEO pay to average worker pay increased from seventy in 1990 to three hundred in 2005.

Characteristics You Will Learn/Improve?

- Technology Impact, Economy/History.

About the Author

- Erik Brynjolfsson is the director of the MIT Center for Digital Business and one of the most cited scholars in information systems and economics.
O Poder do Encantamento (Power of Enchantment¹)

by José Galló

Key Highlights:

- **Net/Net**: The book is the Biography of José Galló (CEO from Lojas Renner) and how he helped to build the most successful apparel company in Brazil (from less than US$1 million market cap/8 stores to US$7.4 billion/318 stores). Galló was a speaker in our book club this year and during 3 hours he gifted us with his life and business advices. "Culture is what you do when nobody is looking". He also recommended us a book: Insanely Simple by Ken Segall.

- The book title - in a free translation from portuguese - is “The Power of Enchantment”, means go beyond expectation, delivering more than somebody is expecting both in the personal or professional life. For professional life, this is key to increase customer satisfaction. Renner also is one of the companies that heavily invest in employee education improvement: 120 hours/employee per year.

- The importance to keep a clear positioning: Renner is focused on women from class A -, B e C +, from ages of 18 to 39 years using the lifestyle concept. The book also discuss the continuous improvement: the Push-pull concept is more efficient: ~60% of products are delivered in packs to stores, the remaining 40% remain on distribution center to be delivered once the sale of 60% happen.

Characteristics You Will Learn/Improve?

- Strategy, Biography.

About the Author

- With more than 30 years of experience in clothing retailing and graduated in Business Management in FGV, José Galló is the CEO of Lojas Renner, board member of Localiza Rent a Car S/A, Itaú Unibanco, and of the Institute for Retailing Development (IDV). He is also vice president of the Chamber of Retailers of Porto Alegre (CDL). Under his management Lojas Renner, once a small network of eight stores, became a corporation with more than 400 stores. Galló was elected the “Best Brazilian CEO” in 2016, by the Época Negócios magazine. He also received twice the prize of “Executive of Value” from the Valor Econômico journal.

Note: 1- Unofficial Translation. 2 - Amazon Brazil rating
Dear Chairman:

Boardroom Battles and the Rise of Shareholder Activism
by Jeff Gramm

Key Highlights:

- **Net/Net**: I read it, because Brazil Equity Capital Market has turned more activist recently. This book discusses the rise in shareholder activism from the 1920s to today, through eight interesting case studies (with original letters included). It discusses what it means to be a public company, including how they work and who is really in control.

- “The key issue in an activist campaign often boils down to who will do a better job running the company: a professional management team and board with little accountability, or a financial investor looking out for his or her own interests.”

- The cases: (1) Graham’s Northern Pipeline was his first attempt at actively engaging a company's management; for each share valued at $65 by the market, holders would immediately receive $90 while retaining the exact same interest in Northern Pipeline’s future earnings; (2) Robert Young versus New York Central: The Proxyteers Storm the Vanderbilt Line; (3) Warren Buffett and American Express: The Great Salad Oil Swindle; (4) Carl Icahn versus Phillips Petroleum: The Rise and Fall of the Corporate Raiders; (5) Ross Perot versus General Motors: The Unmaking of the Modern Corporation; (6) Karla Scherer versus R. P. Scherer: A Kingdom in a Capsule; (7) Daniel Loeb and Hedge Fund Activism: The Shame Game; (8) BKF Capital: The Corrosion of Conformity.

Characteristics You Will Learn/Improve?

- Corporate Governance.

About the Author

- Jeff Gramm runs a hedge fund and has served on several public company boards of directors. He is an adjunct professor at Columbia Business School, where he teaches value investing. Jeff lives in Brooklyn, New York, with his wife and two children.
Key Highlights:

- **Net/Net**: This book compiles the investment advices from the Fidelity Portfolio Manager, who was recruited by legendary investor Peter Lynch (book One Up On Wall Street). The book is about succeeding in investing by avoiding mistakes. The framework is dividend in 5 parts: (a) make decisions rationally, (b) invest in what we know, (c) work with honest and trustworthy managers, (d) avoid businesses prone to obsolescence and financial ruin, and (e) value stocks properly.

- It discusses style investing: “It's easier to be patient with boring stocks. When I'm paid for accepting boredom, they are among my favorites. Stable, low-volatility stocks have historically done better than theory would predict, and exciting, risky stocks have fared worse”.

- And give focus on management execution and alignment: “If you seek out skilled managers, they may have anticipated the threats of obsolescence, commoditization, and over-indebtedness, and will adapt more successfully”. “I worry more about executives who collect massive option grants but don't hold as many shares. Stocks can go up or down, but options have only upside. When executives don't share in the downside, they take bets with huge upside and downside, and hope”.

Characteristics You Will Learn/Improve?

- Investment Style / Portfolio Management.

About the Author

- Joel Tillinghast is a Chartered Financial Analyst (CFA) charterholder and thirty-six-year veteran of the investments industry. He has been the manager of the Fidelity® Low-Priced Stock Fund since 1989.
Investing: The Last Liberal Art
by Robert G. Hagstrom

Key Highlights:

- **Net/Net:** This book is for someone who likes to make analogies and parallels. Hagstrom argues that it is hard to make good investment decisions based solely on a strong knowledge of finance theory alone. Charlie Munger often employs the proverb "To a man with only a hammer, every problem looks pretty much like a nail". Thus, Hagstrom takes a look at the major mental models and how the relates to investment: physics, biology, sociology, psychology, philosophy, literature and mathematics.

- (1) Physics: the law of equilibrium at work (supply and demand); (2) Biology: evolution (when a new strategy that works is discovered, capital is reallocated-or, in biological terms, there is a change in population); (3) Sociology: understanding group behavior (when stock prices climb, the ratio of trend followers to fundamentalists begins to grow); (4) Psychology: Kahneman proved that individuals regret losses more than two times they welcome gains; (5) Philosophy: we misjudge stubbornness for conviction: we are willing to risk the appearance of being wrong long before a willingness to personally confess our own errors; (6) Literature: when you study the original work," said Bohlin, "you are never reading the derivative".

- And the science I liked most (maybe I’m biased…): Mathematics: (a) Buffett. First, tabulate the cash. Second, estimate the growth probabilities of the cash coming and going over the life of the business. Then, discount the cash flows to present value. "A girl in a convertible is worth five in the phone book." (b) Bayes's theorem gives us a mathematical procedure for updating our original beliefs and thus changing the relevant odds: decision tree theory. (c) Kelly Criterion: 2p - 1 = x; where 2 times the probability of winning minus 1 equals the percentage you should be bet (If the winning probability is 70% percent, bet 40%).

- Characteristics You Will Learn/Improve?
  - Behavior Investing/Mental Models and Portfolio Management.

- About the Author
  - Joel Tillinghast is a Chartered Financial Analyst (CFA) charterholder and thirty-six-year veteran of the investments industry. He has been the manager of the Fidelity® Low-Priced Stock Fund since 1989.
Good to Great: 
Why Some Companies Make the Leap and Others Don't 
by Jim Collins

- **Key Highlights:**
  - **Net/Net:** a book which study the pattern of 11 successful conversion cases, through disciplined people, disciplined thought, and disciplined action. 11 Companies joined the list: Abbott, Fannie Mae, Circuit City, Gillette, Kimberly-Clark, Kroger, Nucor, Philip Morris, Pitney Bowes, Walgreens, and Wells Fargo.
  - **Backtest:** your $1 in the good-to-great fund (from 1965) taken out on January 1, 2000, would have multiplied 471 times, compared to a 56 fold increase in the market.
  - **Level 5 leaders:** unusual mix of intense determination and profound humility. Larger-than-life, celebrity leaders who ride in from the outside are negatively correlated with taking a company from good to great. Ten of eleven good-to-great CEOs came from inside the company, whereas the comparison companies tried outside CEOs six times more often. We found no systematic pattern linking specific forms of executive compensation to the process of going from good to great. The idea that the structure of executive compensation is a key driver in corporate performance is simply not supported by the data.
  - **Process:** 1) Lead with questions, not answers; 2) Engage in dialogue and debate, not coercion; 3) Conduct autopsies without blame; and 4) Build red flag mechanisms that turn information into information that cannot be ignored.
  - **The Hedgehog Concept (Simplicity Within the Three Circles):** The good-to-great companies did not focus principally on what to do to become great; they focused equally on what not to do and what to stop doing. : 1) Determine what you can be best in the world at and what you cannot be best in the world at; 2) Determine what drives your economic engine; and 3) Determine what you are deeply passionate about.

- **Characteristics You Will Learn/Improve?**
  - Strategy, Governance, Shareholder Alignment.

- **About the Author**
  - Jim began his research and teaching career on the faculty at Stanford Graduate School of Business, where he received the Distinguished Teaching Award in 1992. He now operates a management laboratory in Boulder, Colorado, where he conducts research, teaches, and consults with executives from the corporate and social sectors.
Why Nations Fail: The Origins of Power, Prosperity, and Poverty
by Daron Acemoglu

Key Highlights:

- **Net/Net**: This book aims to answer why are some nations rich and others poor. The book shows that it is man-made political institutions that underlie economic success (or lack of it). For example: South Korea versus North Korea.

- The Making of Prosperity and Poverty: The economic system impoverishing millions for the benefit of a narrow communist elite in North Korea would also be unthinkable without the total political domination of the Communist Party. This synergistic relationship between extractive economic and political institutions introduces a strong feedback loop: political institutions enable the elites controlling political power to choose economic institutions with few constraints or opposing forces.

- To be inclusive, economic institutions must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it also must permit the entry of new businesses and allow people to choose their careers.

- When both political and economic institutions are extractive, the incentives will not be there for creative destruction and technological change.

- As per the book, Carlos Slim has the power to get what he wants. Bill Gates's power is far more limited. That's why the theory is about not just economics but also politics.

Characteristics You Will Learn/Improve?

- Economy/History.

About the Author

- Daron Acemoglu is the Killian Professor of Economics at MIT. In 2005 he received the John Bates Clark Medal awarded to economists under forty judged to have made the most significant contribution to economic thought and knowledge.
Charlie Munger: The Complete Investor
by Tren Griffin

Key Highlights:

- **Net/Net**: Interesting book that focuses on Charlie Munger knowledge (Buffetts’ Berkshire partner, who is said to influence Buffett in adding higher quality business to BKs portfolio). Last Year, I had the opportunity to see him Omaha at Berkshire Hathaway. Also, Tren Griffin was a speaker at Value Investing Conference in Omaha (for more, refer to our note “Latam Strategy: 10 things We Learned in Omaha”, from May 06, 2016).
- “There's a strong correlation between knowledge and humility.” Humility is at the core of concepts like the circle of competence and always searching for evidence that disproves what you or others may assert. Much of what is interesting about Munger is explained by this simple sentence: "I observe what works and what doesn't and why”.
- The best way to determine the value of a business is based on the price a private investor would pay for the entire business.
- Averaged out, betting on the quality of business is better than betting on the quality of management.

Characteristics You Will Learn/Improve?

- Value Investing, Behavior Investing /Mental Models Competitive Advantage (Moats).

About the Author

- Tren Griffin is an executive at Microsoft. Before joining Microsoft, Tren was a partner at the private equity firm Eagle River which makes investments in telecommunications businesses and startups. He previously worked as a consultant in Australia and Korea.
Boards That Lead:
When to Take Charge, When to Partner, and When to Stay Out of the Way
by Ram Charam, Dennis Carey and Michael Useem

- **Key Highlights:**
  - **Net/Net:** A book on how to improve board efficacy and composition. It is based on personal interviews with executives/directors from companies like Apple, Boeing, Ford, Infosys.
  - Recruit Directors Who Build Value: 1. Does a prospective director have the capacity to think strategically and clearly about the firm as a whole, the customer value proposition, and its competitive position, and thus contribute to the ongoing evolution of its central idea?
  - If you had a blank sheet, how would you want the board to spend its time?” They find that directors are generally comfortable identifying areas where additional expertise would be valuable and where board protocols should be strengthened. One of the more common director urgings: the board should devote more time to grappling with strategy issues and less time listening to formal reports.
  - Three consecutive and significant misses in quarterly earnings. Falling short of company guidance on earnings per share for one quarter is not enough to draw a line, but after two or more consecutive quarters, directors will want to invest time and energy to identify the root causes and how the CEO plans to address them.
  - Corporate secretaries and general counsels annually surveyed from 2008 to 2012 cited company strategy as a top concern among some two-thirds of the companies, while shareholder value was a primary focus at two-fifths or less, symptomatic of the separate importance of the dual roles that directors have now been pressed to embrace by both investors and executives.

- **Characteristics You Will Learn/Improve?**
  - Corporate Governance.

- **About the Author**
  - Ram Charan is a business adviser who has worked with executives and directors of many companies, including DuPont, GE, Novartis, Verizon, and RBS Group (Brazil). He has served on Harvard Business School faculty, teaches in Wharton Executive Education, and serves on the board of Hindalco (India).
Good Strategy Bad Strategy:
The Difference and Why It Matters
by Richard Rumelt

Key Highlights:
- **Net/Net**: a book about how to establish and execute the right long-term strategy.
- The Lessons: (1) Bad Strategy Characteristics; (2) The Core of Good Strategy; (3) Design Your Strategy.
- Bad Strategy Characteristics: (a) “Fluff”: Empty slogans which are just a combination of trendy buzzwords; (b) “Failure to face the challenge.”: need to identify your company’s core problem; (c) “Mistaking goals for strategy.”: Objectives are only items on your wish list until you take concrete steps to achieve them; (d) “Bad strategic objectives.”: Goals should be overreaching, but always realistic and achievable. Examples: “Lehman CEO Richard Fuld’s response, formalized in 2006, was a “strategy” of continuing to gain market share by growing faster than the rest of the industry (Operating with only 3 percent equity, and much of its debt supplied on a very short-term basis, this policy should have been accompanied by clever ways of mitigating the increased risk).
- The Core of Good Strategy: (a) “Diagnosis”: Identify facts and patterns which might lead your thoughts into new and different directions; (b) “A Guiding Policy”: create a methodology which will serve as a guide and direction for your team’s actions; (c) “A Set of Coherent Actions”: helps in the process of wisely allocating resources. “Without action, the world would still be an idea.” Consider Starbucks, which grew from a single restaurant to an American icon. In 2008, Starbucks was experiencing flat or declining same-store traffic growth and lower profit margins, its return on assets having fallen from a generous 14 percent to about 5.5 percent. An immediate question arose: How serious was this situation?”
- Design Your Strategy: (a) “Premeditation”: The strategy is planning, which you do before you start with action; (b) “Anticipation”: Figure out what others (consider your competitors, for example) will do in the future, as a significant part of your strategic planning process; (c) “Design of coordinated action.”: more than just a simple choice among different options. A strategy is something you create.

Characteristics You Will Learn/Improve?
- Corporate Strategy.

About the Author
- Rumelt was a founding member of the Strategic Management Society and served as its president in 1995-98. He is the Harry and Elsa Kunin Professor of Business & Society at the University of California, Los Angeles Anderson School of Management.
Key Highlights:

- **Net/Net**: Inverse logic book: rather than forecasting cash flows, investors should begin by estimating the expectations embedded in a company's stock price.
- "Stock prices are the clearest and most reliable signal of the market's expectations about a company's future performance. The key to successful investing is to estimate the level of expected performance embedded in the current stock price and then to assess the likelihood of a revision in expectations."
- A company's stock price is simply a derivative of its long-range cash flow outlook. Consequently, traditional valuation metrics like P/E ratios are not particularly indicative of where a stock is headed. Start with the stock's price, and then determine the future cash flow prospects that would justify that price.
- Positive accretive earnings revision matters. The key to uncovering winning stocks is to find companies that are poised to hurdle the expectations that have been set for them. Bottom line, when Wall Street is forced to re-examine its thinking and raise its long-term forecast for a company, then a higher stock price can't be far behind.
- The authors discuss factors that influence future cash flow: sales growth, operating margins, taxes, and capital expenditures. For example, sales growth triggers might include changes in volume, price/product mix, operating leverage, and economies of scale.

Characteristics You Will Learn/Improve?

- Valuation, Behavior Investing/Mental Models.

About the Author

- Alfred Rappaport directs Shareholder Value Research for L.E.K. Consulting and is a Professor Emeritus at Northwestern's Kellogg School. Michael Mauboussin is at BlueMountain Capital. He is also an adjunct professor at Columbia University and runs the New Economic Forum at the Santa Fe Institute.
Key Highlights:

- **Net/Net**: A book about historical patterns & statistics and how to profit from it. While cycles do not repeat exactly all of the time, statistical evidence suggests that cyclical tendencies are strong.
- Secular Markets last long time – from 8 years to 20 and Cyclical Markets less – from a few months to several years (no more than 5). Definition of Bull and Bear Market by S&P are movements larger than 20%.
- Economic Indicators: Unemployment rate is a lagging indicator, peaking on average 9-12 months after the end of the Bear Market; Recessionary bear market bottoms are usually within 2 months of the peak in Initial Jobless Claims (except for 2009 that it peaked 3 weeks after the low).
- Presidential Elections: wars, recessions and bear markets tend to start or occur in the first half of a presidential term (first 2 years = weak); Practically all bear markets began and ended in the 2 years after presidential elections; Bull Markets, in the latter half, with election years traditionally up.
- Fourth-Quarter Market Magic: 4Q provides the greatest and most consistent gains over the years, followed by 1Q; Reason: + sentiment, portfolio adjustments to maximize year-end numbers and cash inflows (from bonuses).
- Months: October is considered a bear Killer, since its lows are the best time to establish long positions; August, September and October are the worst ones / November, December and January are the best 3 consecutive months of the year!

Characteristics You Will Learn/Improve?

- Portfolio Management. Trading.

About the Author

- Jeffrey A. Hirsch is president of the Hirsch Organization, editor-in-chief of the Stock Trader's Almanac and Almanac Investor newsletter. He started with the Hirsch Organization in 1990 as a market analyst and historian under the mentorship of his father Yale Hirsch.
Some Invited Speakers and Topics

- **André Pires**: CFO Ultrapar / The Transition From Buy-Side to Corporate World
- **Dan Ioschpe**: Chairman Iochpe-Maxion / Board Of Directors In Practice and the Relationship with CEO
- **Florian Bartunek**: Founder and PM Constellation / Lessons to Become a Better Investor
- **José Galló**: CEO Lojas Renner / Life & Corporate Lessons
- **Laércio Cosentino**: Chairman TOTVS / The Impact of Technology on Business
- **Laurence Gomes**: CFO Lojas Renner / How to Be a CFO in Different Profile companies
- **Mauro Cunha**: AMEC President / Corporate Governance and Activism
- **Rodrigo Galindo**: CEO Kroton / The Importance of Strategy and Execution
- **Sérgio Schwartz**: Board Member Weg / Shareholder Alignment and Strategy
Beyond Buffett and Munger, many Long-term Value investors mentioned that reading makes most of their day. For example, Markel’s Tom Gayner (a “mini Berkshire”) President and CIO spend 5-6 hours per day reading, followed by 2-3 hours talking with network of investor/friends and only 1-2 hours in meetings. Below some book recommended during the event:

- **Dear Chairman: Boardroom Battles and the Rise of Shareholder Activism** by Jeff Gramm. [Link](#)
- **Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger** by Peter D. Kaufman. [Link](#)
- **The Little Book That Builds Wealth** by Pat Dorsey. [Link](#)
- **Investing Between the Lines: How to Make Smarter Decisions By Decoding CEO Communications** by L.J. Rittenhouse. [Link](#)
- **Berkshire Beyond Buffet: The Enduring Value of Values** by Lawrence Cunningham. [Link](#)
- **Influence: The Psychology of Persuasion** by Robert Cialdini. [Link](#)
- **Investing the Templeton Way: The Market-Beating Strategies of Value Investing’s Legendary Bargain Hunter** by Lauren Templeton. [Link](#)
- **Inside the Investments of Warren Buffett: Twenty Cases** by Yefei Lu. [Link](#)
- **The Checklist Manifesto: How To Get Things Right** by Atul Gawande. [Link](#)
- **Annual Letters**: Amazon (2016), Berkshire on 5 principles - evaluate 5-year sector economics (1993), Markel (2016), JP Morgan

Sources: Value Investing Conference (2017 – Omaha) / Paul Lountzis
### “I’m still Hungry” for Books: Additional Reading Suggestions

We suggest additional books we read beyond the investment book club.

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<thead>
<tr>
<th>Cover</th>
<th>Book Name</th>
<th>Author</th>
<th>Value Investing</th>
<th>Investment Style / Portfolio Management</th>
<th>Strategy</th>
<th>Biography</th>
<th>Behavior Investing / Mental Models</th>
<th>Competitive Advantage (Moats)</th>
<th>Capital Allocation</th>
<th>Valuation</th>
<th>Corporate Governance / Shareholder Alignment</th>
<th>Economy / History</th>
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Biography—Daniel Gewehr

Daniel Gewehr (São Paulo)—Executive Director
+55 11 3012 5787—dhgewehr@santander.com.br

Head of LatAm & Brazil Equity Strategy
LatAm Capital Goods Sector

Daniel has 17 years of experience both on the sell side and buy side. Prior to joining Santander in April 2007, he worked on the buy side, managing equity research for Gerdau’s pension fund. Before that, he was a sell-side analyst for four years. He has been ranked 26 times in Institutional Investor’s (II) Equity Research Ranking, as an analyst for various sectors. He is ranked 1st position for both LatAm and Brazil Equity Strategy in 2017.

Daniel holds a bachelor’s degree in business administration, with honors, and a master’s degree in finance (2007) from Universidade Federal do Rio Grande do Sul (UFRGS). He has attended several financial and strategy executive education programs at universities such as Harvard, Columbia, Chicago, Edinburgh, and Nebraska (Omaha).

Ranking Institutional Investor – Sector: Equity Strategy

All-Brazil Research Team
1. All-Brazil 2017 Equity Strategy
2. All-Brazil 2016 Equity Strategy

LatAm Research Team
1. LatAm 2017 Equity Strategy
2. LatAm 2016 Equity Strategy

Ranking Institutional Investor – Sector: Healthcare

All-Brazil Research Team
1. All-Brazil 2011 Healthcare
2. All-Brazil 2012 Healthcare
3. All-Brazil 2013 Healthcare

LatAm Research Team
1. LatAm 2011 Healthcare
2. LatAm 2012 Healthcare
3. LatAm 2013 Healthcare

Ranking Institutional Investor – Sector: Capital Goods

All-Brazil Research Team
1. All-Brazil 2011 Capital Goods
2. All-Brazil 2012 Capital Goods
3. All-Brazil 2013 Capital Goods
4. All-Brazil 2017 Capital Goods

LatAm Research Team
1. LatAm 2011 Capital Goods
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3. LatAm 2013 Capital Goods
4. LatAm 2017 Capital Goods