Williams
INVESTMENT MANAGEMENT

Our investment philosophy is simple. Over the long term, our aim is firstly to secure and subsequently to enhance the real value of our clients' capital.

We only invest when we believe the likelihood of a worthwhile outcome is in our clients' favour. We avoid fads and fashions like the plague; you will never see us buying hedge funds, multi manager funds or structured products. We conclude that far too many investment advisers deal in such fare simply because others do likewise. However, sheep-like behaviour is unlikely to set the foundations for long term success. To some, such independent thinking may seem unusual but in our opinion this is what our clients are paying us for. The eminent British economist, John Maynard Keynes, noted that career risk drives institutional investment. The Canadian economist J K Galbraith was on a similar track when he noted "in any great organisation, it is far, far safer to be wrong with the majority than to be right alone."

We invest capital in a very different way to George Soros but we agree with his sentiments that the consensus is hardly ever correct. Perhaps that is why he has been so successful? It is easy to lose money in the stock market which is why we shy away from today's casino mentality where, from our perspective, many investment managers are enthusiastic participants (with other people's money) in the misallocation of capital, as they attempt to secure a commodity that has little true worth.

Charlie Munger, Vice Chairman of Berkshire Hathaway, the hugely successful U.S. company chaired by Warren Buffett, points out that investments fluctuate wildly in price. There can be huge differences between intrinsic and quoted value and "we are looking to purchase more intrinsic value than we pay in quoted value; it's that simple". Munger makes another important point when he says, "it is amazing how much long term advantage we have got by not being stupid rather than very intelligent".

We live in a world of instant gratification, but agree with another titan of Wall Street, Philip Carret, that patience is absolutely vital to successful investing. Carret enjoyed an 80 year career and died in 1998 aged 101. His results were so impressive, Buffett believed Carret had the best long term track record of anyone he knew.

Ours is a simple business; as we have already noted, we invest clients' capital in exactly the same way we manage our own. We want to own shares in good businesses and it matters not a jot whether they are constituents of a popular index or not (although they often are).

Decades of experience tell us that good quoted businesses are in short supply, while abject mediocrity (and worse) is ubiquitous. Consequently, once enterprises of substance have been purchased, investors need a very good reason to sell. Of course, their valuation may become extreme or they may eventually lose what made them great in the first place. Whilst a business may be 100 years old, enjoy excellent returns on capital and have a sensible balance sheet, one must never assume the status quo cannot be challenged. That said, we agree with Buffett that while a good business doesn't always prove to be a good investment, it is a very sensible place to start looking for one.

What constitutes a good business? We have already mentioned a few characteristics but essentially, it is an operation that enjoys some form of enduring competitive superiority. These strengths (brands, distribution networks, intellectual property….) confer pricing advantage which means it is more difficult for competitors or new entrants to challenge them effectively. There is another quality that good businesses tend to exhibit and that is they constantly find new ways to keep improving. It's nigh on impossible to value this but as Einstein said, "not everything that counts can be counted and not everything that can be counted, counts".

The investment world is obsessed with outperforming benchmarks/indices. We believe this to be idiocy. Why buy securities because they are components of an index? Would the deployment of common sense not lead investors to approach the situation from the other way around and buy the shares of companies they actually wanted to own? Now, if markets unfailingly delivered acceptable returns, there might be some underlying logic to this strategy but it is self-evident that markets can bestow, for extended periods of time, results that undermine the entire process.

Index tracking and/or passive investment strategies are, by definition, a decision to buy 'everything'. How can the indiscriminate, automatic purchasing of any investment lead, realistically, to long term reward? What endeavour ever yielded worthwhile results without thought and planning? Did Hillary and Tenzing conquer Everest by taking half an hour to cobble together some sandwiches and a couple of cagoules? Did man walk on the moon because on a slack afternoon, NASA decided to point a rocket at the sky? Would you cross the road without looking? The reality is that all stocks are only the equal of one another in the same way that a Rolls Royce and a Lada are both cars. It is our contention that much of what passes for investment management is designed for the benefit of the industry rather than its clients. Furthermore, far too much activity concerns the marginal pricing of earnings rather than the valuing of companies.

Contact John Newsome (john.newsome@williams-im.com or 01423 705123) if you would like to discuss our investment philosophy or have more information.