



*“Security profits in a given year bear similarities to a college graduation ceremony in which the knowledge gained over 4 years is recognized on a day when nothing further is learned.”*

Warren Buffett

I am feeling very pleased with the investment returns achieved by the bulk of my clients’ portfolios over the 2014 year. They have all exceeded the Australian market indices, most of them by substantial margins.<sup>1</sup>

The securities that have driven these good returns have, for the most part, been ones that we initially invested in quite some time ago. The major contributors to this year’s performance have been Magellan Financial Group (bought mainly in 2009 and 2010), Sirtex (bought mainly in 2004), CSL (bought in 2009 and 2010) and Hunter Hall Global Value (bought at various times over the past decade and a bit). It is important not to focus on too narrow a time frame, but to look to the long-term value of the securities that make up a portfolio.

Some of these investments may eventually reach their full value (which itself changes over time) and be sold to release funds, which can then be directed to new investments. Others may turn out to be “compounding machines” that have the ability to generate excess returns on their capital and in turn are able to reinvest that cash flow to generate those same high returns. Such businesses are the holy grail of investing and when you find yourself owning one you want to hold it forever.

Hopefully over the next year we will uncover further investment opportunities that will continue to bear fruit for clients’ portfolios over the next decade, and more.

December 2014

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<sup>1</sup> The weighted average return for our portfolios over the year was 17.4%, compared to the All Ordinaries Accumulation Index which delivered 4.9%.