



*"Time is the friend of the wonderful business, the enemy of the mediocre."*

Warren Buffett - Letter to Shareholders 1989

*"Quality is remembered long after the price is forgotten."*

Aldo Gucci

As a value investor I am constantly trying to buy things that are worth a dollar for eighty cents or less. If you can repeatedly buy something at eighty percent or, even better at fifty percent, of its value and sell it around its true value you will do well over time.

But this is really only half of the equation. Value is not static. It changes over time at different rates (and in different directions) for different businesses.

Mediocre businesses will stagger along generating a reasonable return but not really growing earnings or value or, if their inputs are subject to inflation, declining in value. The best you can do with them is wait for them to trade around their full value, sell them and look around for another investment.

Quality businesses, on the other hand, are capable of generating a healthy return on their invested capital and are able to reinvest that capital at similarly healthy returns. These businesses are compounding machines and when you own one it is foolhardy to sell just because it has reached fair value. Because fair value in a year, or five years, is likely to be a lot more than it is today.

If the business, as well as being in an attractive industry, has management that has historically made good and rational decisions then you can probably infer that it will continue to make good and rational decisions. In this case you will really want to give it a healthy margin above fair value before you consider selling it. These types of businesses are the Holy Grail of investing. The wonderful thing about them is that all you have to do is own them. Rather than continually looking for new flowers to pick you just plant the right seeds and watch them grow.

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