LightHouse Investment Services

"Throughout all my years of investing I've found that the big money was never made in the buying or the selling. The big money was made in the waiting."

Jesse Livermore

"We've put a lot of money to work during the chaos of the last two years. It's been an ideal period for investors: A climate of fear is their best friend. Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance. In the end, what counts in investing is what you pay for a business – through the purchase of a small piece of it in the stock market – and what that business earns in the succeeding decade or two."

Warren Buffett - Letter to Shareholders 2009 (published February 2010)

Broadly speaking there are two types of investments that we are generally attracted to.

Firstly there are those that we think of as outstanding businesses with strong and durable competitive advantages as well as reliable and honest management. These are leaders in their field and include businesses such as Cochlear, Origin, CSL, Billabong, Westpac, Platinum, Computershare and QBE. These businesses are rarely available at bargain prices. We simply hope to buy them when they trade at reasonable prices and expect to hold them forever.

Then there are those that are temporarily cheap for a particular reason. They may not be exceptional businesses in their own right, but we believe the market has mispriced their shares and that this situation will ultimately rectify itself. These include listed investment companies trading at a discount to their asset backing, debt or hybrid securities trading at a discount to their face value and out of favour businesses that have been over-sold by the market.

We greatly prefer the former type of investments over the latter. The problem is trying to accumulate them at reasonable, if not outright cheap, prices. (But, as Warren Buffett once observed, "It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price".) We have been fortunate over the past year or so to have been able to accumulate shares in most of these companies at very attractive prices.

It is ten years this month since the peak of the "dot com bubble" and the subsequent "tech wreck". The Australian market peaked on 23 March 2000 before following the US market sharply down on 17 April.

It is worth bearing in mind that a $100,000 portfolio evenly spread across those eight previously mentioned companies bought on 17 April 2000 (or, in the case of Billabong and Platinum, when they first listed on the ASX) would today be worth $558,000 (an annualised return of 18.8%), including $105,000 of dividends and franking credits. Interestingly that same $100,000 portfolio bought on 23 March 2000 - at the high point of the market immediately **before** the "tech wreck" - would still be worth $523,000 (an annualised return of 18%), including $101,000 of dividends and franking credits, suggesting that investment performance is much more about getting the business right than getting the timing right.