INVESTORS CHRONICLE

Ben Graham in a hair shirt

Created: 5 November 2009 | Written by: Alistair Blair |

A couple of weeks ago I was writing about the Aspen Papers, which referred to "patient capital". I thought that was a very good phrase. Surely, someone must have collared it for their investment fund? A few minutes later I stumbled upon Patient Capital Management of Toronto, run by Mr Vito Maida plus two. And was entranced.

Mr Maida hung out his shingle in March 2000. In the dying moments of the tech frenzy, many others were doing the same. I'd be surprised if many of them had a record to match Mr Maida's. In the last nine and half years - during which stock markets have endured two giddying plunges - Patient has never had a down year and is substantially ahead of its benchmarks. Its compounded annual return since inception is 7.4 per cent. The Toronto Stock Exchange has returned 4.2 per cent. The S&P 500 expressed in Canadian dollars has returned minus five per cent.

In other words, C$100 invested in Patient has turned into C$204, while the Toronto Stock Exchange has delivered C$151 and the S&P has shrunk the initial investment to C$60 (a result compounded by the weakening of the US dollar).

Mind you, the timing is favourable to Patient. As of 2007, the lead it had stolen on the TSX in the opening years of the decade was dwindling fast. As Toronto gained 24 per cent in 2005, Patient put on just three per cent. In the four surrounding years, Patient lagged Toronto by between 50 and 70 per cent. In fact, just before the credit crunch set in, Toronto briefly overhauled Patient for a week or two. And then Toronto lost 33 per cent last year. Meanwhile Patient advanced four per cent. It's the hare and the tortoise, and that admirable investment philosophy… the first rule of investment is not to lose money.

The investment decisions behind Patient's results are as fascinating as the results themselves. Try this: from 2003 to 2007, Patient - an avowed equity investor, held 80 per cent of its funds in cash. And this: in the entire history of his firm, Mr Maida has only bought 30 shares. That's 3.3 purchase decisions a year.

Mr Maida is Ben Graham in a hair shirt. If you don't know who Ben Graham was, you should be flogged. Graham was the ultimate value investor (and author of a magnificent book, The Intelligent Investor). He never bought a share unless he had convinced himself he was buying at a substantial discount to its intrinsic value. There are very few such shares around. If you work really hard, you might find half a dozen a year. You therefore have to be very patient to adopt this approach.

But Mr Maida is yet more patient than Ben Graham. He observes: "Graham would buy some pretty rough stuff if it was cheap enough. But I tend towards blue chips." Diageo, Nokia, Pfizer and Bell Canada were among his 30 picks. Mr Maida says that on his analysis, which is a straightforward but very studious review of free cash flow, he bought all these stocks at a discount of between 40 and 50 per cent to their intrinsic value, based on valuing the cash flow like the coupon coming off a bond.

When he finds such a stock, he aims to get five per cent of his funds invested into it. Twenty stocks - that's all he's looking for. So far as I can see, he has never actually found 20 to hold at one time. Currently, he holds 14 and is 40 per cent in cash. As the stock approaches intrinsic value - a process for which he typically allows five years from the investment - he tips it out. Unsurprisingly, he favours simple businesses with conservative accounting policies and cites a list of accounting no-nos from which he runs a mile: "declining cash, soft assets, low debt coverage, recurring restructuring charges". He also has a convincing pile of arguments in favour of his long holding periods including these "you have to allow time for your valuation thesis to materialise, you reduce your trading costs and become tax efficient [by compounding your gains in your fund rather than paying them in tax]"… and I really liked this one: "reduced activity gives you more time to think".

Patient is a tiny firm which does not in fact run public funds, only private accounts for high net worth individuals. So you're pretty unlikely to find a way to invest, if this is what you want. But you should nevertheless spend 20 minutes on Patient's website. It's an education.

ABOUT ALISTAIR BLAIR...

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