the reading room

money makers

By Jonathan Davis
Orion Business Books
290 pages

review rating

Jonathan Davis has solid credentials and can rightly claim a high level of professionalism in his own right – before one gets to the interviewees. He was educated at Winchester College, Cambridge and MIT, where he completed a thesis at Sloan on the work of Warren Buffett. He has been a senior financial journalist for the *Times, The Economist* and *The Independent.*

As Davis volunteers in his introduction, this is not a "how to" book, but one where the private investor really should derive "valuable insights into how to improve their own investment experience". The word "insights" is becoming a little worn in relation to investment books (and perhaps, in reviews of same), and whilst it is true that there are many insightful observations by both Davis and his professional interviewees; there is a question in my mind as to just how many of these can be applied by the private individual. Take but one example: several of the fund managers in this book place a great deal of reliance on fundamental research and company visits – now the standard fare of all conventional funds management. A reading of this book, will not add a great deal to the private investor's capacity to visit listed companies – for most investors, they simply don't have time, and even if they did, the door would be closed. As to fundamental research, if one is really into this, the best course is to sign up for a program at the Securities Institute of Australia and get into the hard slog of all the necessary academic study that this course requires. There is nothing of substance on fundamental research in this book.

However, Davis does draw out from each professional certain of their rules/principles and the lessons they have leaned over the years, some of which have been learned the hard way. These are nicely summarised in Chapter 10, Conclusion; where the threads are drawn together. But even here, the true nature of the book comes through, in that it is mostly about how these exceptional investors differ from their "less successful counterparts" – it is about fund managers, where they came from, what drives them, who they worked with and the hard knocks they suffered along the way, and what strategies they now employ as active managers to produce alpha (out-performance) to justify fees. And therein lies an issue: all of the eight pre-eminent investment managers interviewed for this book are gainsayers of the efficient market hypothesis; they must be, as they are contrarian active managers who do not follow index benchmarks. Each chapter starts with a chart illustrating their performance track record and the hard evidence of alpha – to circa 1997. This data must be correct. However, there is now a growing body of data in the UK, gathered by fund rating agencies, passive managers and business schools, to the effect that active equity management in the UK is very ordinary indeed – in fact, some say that the track record of active management in the UK is worse than in the US.

Of course, Davis makes the point that just because most managers underperform the index, does not mean that there cannot be a handful of exceptional managers who add alpha – and these featured managers fall into this category. A quick review of one manager's web site, did not evidence such out-performance today, for the reason that no relative index performance is given.

The market and those who work within it

Notwithstanding the practical qualifications made above, I enjoyed reading this book, and found it entertaining and revealing. Davis starts with an apposite observation, that investing in stocks is not like gambling on horses or buying lottery tickets, for the good reason that most investors are likely to be winners: "There is no certainty about it, but the balance of probability is that anyone who invests sensibly over a period of years with some idea of what he is doing, will earn a significant return from his investment. 'The stockmarket is a casino', says one of the professionals I quote in this book, 'but it is also a very nice casino in which everyone can go home with a return of 10 per cent after the house take.' This book is designed for anyone who finds that thought appealing and would like to make some capital from it".

Davis paints a revealing picture of the investment industry, spread as it was between London and Edinburgh after the Big Bang of 1986. The text is full of humanistic observations about how some of these experts fitted into the new wave of US Investment banks and institutions that pervaded the City after the Big Bang (eg, Anthony Bolton into Fidelity) – and how some did not fit this new wave and preferred to sit alone, committed to their boutique, perhaps idiosyncratic ways. This aspect is well analysed, as each chapter on a different expert starts with a synopsis of their background and career path. This path resulted in peer group acclaim, which Davis claims he has used as his yardstick for selection, rather than necessarily a track record of adding alpha. He says, that there was a "surprising degree of consensus about the names."

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Thus, there is plenty of history, and references to old names: Barings, Morgan Grenfell, Keyser Ullmann and the like. The mystique of the "City" comes through well, and most of these old hands have gone through the "scary markets of 1973/75", when one wondered "whether the whole world was coming to end. Would the stock market ever stop going down?" From these experiences, many lessons are drawn – but, as is always in investing, certain of these have inherent inconsistencies, and few can be caste as immutable rules – save perhaps, the foolishness of trying to predict the future direction of the market.

Australians will not recognise most of the expert's names, except perhaps, Mark Mobias of Templeton Emerging Markets fame. Try this for emulating his approach as an individual investor:

"The places where I like to be are the places where nobody else wants to be. And I want to be there when there is blood in the streets. I'm happy when things are bad. It is a strange business. Problems, crashes, people jumping out of windows. That's my kind of place. One guy in Thailand in the stock exchange put a gun to his head and said, 'Make the market go up, or I'll shoot myself.' Fantastic. That's the kind of market I want to be in."

Happy investing. Or, you might decide to leave this to Kerr Neilson. And, before doing that, you might check the performance history of Platinum funds against the various indices, and with that of the Templeton Emerging Markets Fund at www.templeton.co.uk.

Rated 7, due to limitations on practical application by private investors. This book may be of greater interest to students of the investment industry.

MARTIN EARP
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