investing against the tide

By Anthony Bolton
FT Prentice Hall (Pearson Education), 220 pages

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This work is a form of sequel to the earlier work (2004) written with Jonathan Davis: Investing with Anthony Bolton – The anatomy of a stock market phenomenon, by Jonathan Davis. This early book was not written by Bolton, it was just all about him and his work at Fidelity, but with full collaboration and endorsement from Bolton. The 2004 book covers very similar territory to the new 2009 work of Bolton now being reviewed. Both books are readable and informative, although Bolton's 2008 pen is more direct and practical, and less Fidelity centric.

Bring together the strengths of Bolton and the power house that is Fidelity, focus on small caps and "special situation" stocks, and you have a formidable cocktail – which has provided incredibly solid returns, absolute and comparative, for twenty-eight years until his retirement from active funds management in December 2007. What impeccable timing, and an interesting market back-drop to the publication of this book in 2009. Anthony Bolton managed the FIF Special Situations Fund from Dec 1979 to Dec 2007.

Bolton is very frank about the objective of this work: it is partially to help him convey to colleagues at Fidelity some of the important lessons he has learned through 30 years of investing (he plans to be a sort of in-house Don, from what I can see); and also is suitable for a wider audience, although that audience will have to already have some grasp of financial/investment concepts and terminology. The text assumes this from the reader, and hence do not buy this book to understand ratio analysis, as you will not find that here. If there is one lesson that comes out of this book it is this: most (? all) private investors cannot hope to undertake the same analysis and investigation of stocks before buying and selling as has been developed by Anthony Bolton over 30 years, and as outlined in this book. For one thing, however clever and determined you are, and whatever the time available for your analytical work, you will not have the resources of Fidelity at your disposal, and you will not have their clout either – eg, companies will not open their doors to you and offer the MD/CEO for the morning, or even for coffee! A thorough reading of this work, will commend to many the benefits of active fund manager exposure to small caps.

Thus, this would be an excellent book for the budding analyst or fund manager to digest before embarking on their career – and for many, it might be a useful refresher.

Notwithstanding these qualifications, there are numerous lessons for the retail/private investor to consider, and in this business, all knowledge has value. This is not, and does not intend to be, a great scholarly work, it has a practical bias that precludes such approach. It is most descriptive of the changes that have occurred within the funds management industry these past thirty years, and at Bolton's level it vividly conveys just what hard work it is. It is always challenging, sometimes quite disheartening and is enormously time consuming – and on that, Bolton has many ideas about filtering out clutter on the radar screen and optimising time management.

This is more of a wise fireside narrative from Haselmere, Hants (my county) than a technical city treatise. It appears to be written to late 2008, eg, there is reference to an October 2008 letter.

It is fortuitous that there is virtually no reference to tax, as naturally it would be UK tax. This needs to be borne in mind, as translating the points and contentions to the Australian context, does require the reader to be discerning. And this qualification extends beyond taxation, and into stock selection, for Bolton correctly flags the wisdom of buying companies that can stand "on their own two feet" and not be at the mercy of external macro-economic factors like currency exchange rates and commodity pricing. That of course is fine, but it might exclude 80% of corporate Australia, or at least a very large portion of our most successful companies, both materials and industrial due to their international business orientation. Ergo: this book has to be read in context, and the discerning reader will pluck gems from the pages, rather then being presented with a universal and holistic game-plan. On the subject of external adverse forces he makes the frank admission in paragraph 19 that one of his worst investments was an on-line betting stock, where external regulation killed it overnight. There might be an Australian lesson there?

The book is divided into three parts: Principles and practices from a life running money (all the direct matters like company management, sentiment, portfolio construction, valuation, trading, charting [not dismissed], market timing, surviving a down patch); then Experiences and reflections (memorable company meetings, best and worst investments, the industry changes and the future of investment management); and in Part 3, Bolton's lessons – a check list of principles, some of which might appear to be conflicting at the edges, eg to run profits and cut losses as apposed to "start from scratch" portfolios. These Part 3 lessons are worth dwelling on, as they contain incredibly useful checks and rules that any investor should understand, even if he/she can justify exceptions to them.

Mr Bolton is well aware of the psychological issues of investing and he touches on one issue I understand, but find trouble in communicating to clients: in chapter 3 "Shares – developing an investment thesis" he says that "Most importantly, you should forget the price you paid for a share, otherwise it can become a psychological barrier if the share price subsequently falls. The investment thesis is the key; check it regularly. If this changes for the worse and the share is no longer a buy and probably therefore a sell, you should take action regardless of the price being below what you paid. Trying to make money back in a share where you have lost money to date just to prove your initial thesis was correct is very dangerous." – and indeed it is, especially if there are added tax incentives to creating a capital loss, which may have value to the investor.

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There are other observations on the relevance of, what is now called, behavioural science, eg "anchoring", that will repay close comprehension.

The comments on portfolio construction and managing a large pool of assets are frank and revealing. Interestingly, he says that his ideal portfolio would contain about 50 stocks, and that he has only expanded from this due to the growth of funds under management.

In the Forward to this book, Peter Lynch (another manager luminary and fellow Fidelity colleague) describes Bolton as one of the best investors on earth, and that "being linked with Anthony Bolton is one of the greatest compliments yet". Bolton is certainly a unique and highly successful investor phenomenon, and this book deserves close reading and fully digesting. It is best suited to a professional in the industry but private clients will certainly find it informative and helpful.

Martin Earp
Noosa, January 2010