



A Message from the Director

I am a firm believer in stock picking. I think stock picking with the right process and the right temperament works. Unfortunately, academics have paid little attention to value investing and stock picking over the years and so they lack a basic understanding of what value investing is, and what value investors do. An area of significant misunderstanding is the way risk is defined.

But what is the right definition of risk in financial markets? Finding the answer has become even more important in recent years because the number of retail traders is at a record high. Retail traders may not understand the risks they are exposed to when investing in companies. Over the past 10 years, between 10 and 15 percent of all US trades have come from retail accounts. In 2023, that figure stood at 25 percent.

Finance academics define risk as volatility, whereas value investors define risk as the probability that adverse outcomes in the future will permanently impair the cash flow potential of a business leading to permanent (long run) impairment of capital. Which is the right definition? It all depends on your investment horizon. The investment horizon plays a key role in the discussion of what is an appropriate measure of risk because different horizon investors assess risk differently. But if maximizing terminal wealth is of importance to investors, and it is difficult to argue otherwise, then the latter is the right way to look at risk.

Harry Markowitz defined risk as the standard deviation of returns (volatility). William Sharpe, on the other hand, argued that in a well-diversified portfolio, the only risk that matters is beta risk. Both professors have been recipients of a Nobel prize in Economics and have had a lasting impact on academia and the notion espoused by (short-term, CFA holding) financial analysts and academics that short term fluctuations in the value of a portfolio are important and the only risk that matters.

But truly how much should you worry about this short-term volatility? Not much. As Charles Munger used to say “If you’re investing for 40 years in some pension fund, what difference does it make if the path from start to finish is a little bumpier or a little different than everybody else’s so long as it’s all going to work out well in the end? So, what if there is a little extra volatility?”

Recent research by Javier Estrada of IESE Business School in Spain bears this out. Estrada concludes that “Investors should learn about the detrimental impact of reacting to short term volatility and focus on the end game instead”. He shows that in the US, the mean terminal wealth of investing in stocks over a 10, 20 and 30 year period is 59%, 146% and 299% higher than investing in bonds. In Canada, the corresponding figures are, 41%, 88% and 131%. For the world markets, they are 49%, 116% and 231%, respectively. It is true that the volatility of terminal wealth across all holding periods is found to be higher for stocks than bonds in every market examined and thus stocks are riskier when risk is measured by volatility. But, interestingly enough, the higher volatility of terminal wealth



from stocks is mostly on the upside. Stocks have both higher upside and more limited downside than bonds.

Why then are stocks viewed as riskier than bonds? It may be the wide acceptance of volatility as a measure of risk at universities and academia's influence on the CFA program. There could also be institutional, as well as behavioral reasons.

In a perfect world, both the investor and the mutual fund manager will have long term horizon and volatility would play no important role. But what if the investor has a short-term horizon and detests (panics in the face of) short term volatility? In this case, the mutual fund manager will have to consider short term volatility if he does not want to lose funds under management and possibly his job. He will have to abide with the desires of the investors and focus on short term volatility, thus contributing to the focus of the mutual fund industry and financial analysts in the short term.

Perhaps most of us are speculators (e.g., seeking to make a quick profit from short-term stock price movements) and not investors (e.g., taking a long-term approach to managing our portfolios)! In 2022, for example, 60% of Robinhood revenues came from the trading of options by retail investors. And as Howard Marks has said, "Much of the risk in investing comes not from the companies, institutions and securities involved. It comes from the behavior of investors".

I would like to welcome you all to this year's Conference. Thanks to your support of the Centre over the past nineteen years, we've built a successful value investing program offering student apprenticeships through the Ivey Value Fund, as well as many successful annual events, such as Conferences, Symposiums, Stock Picking Competitions, whose 2024 finalists join us today, and Value Investing Seminars with this year's Seminar to be held in Toronto from June 3rd to 7th.

I proudly welcome our panel of professional value investors Ms. Samantha McLemore, Mr. Darren Gottlieb, Mr. David Samra, Mr. Scott Barbee, Mr. Graeme Forster and Mr. Mohnish Pabrai, who will speak about value investing around the world and who are a living testament of what I have described. They will tell us how they put what I detailed above into practice in their own portfolios in a global setting.

I am also delighted to have as keynote speakers at the Conference Mr. Andi Kerenxhi, President, Ubineer Corp., Mr. Jason Zweig, Investing and Personal-Finance Columnist, The Wall Street Journal, and Mr. Fokion Karavias, Chief Executive Officer, Eurobank SA, who will give us a view of the world which is different from what we are exposed to in our everyday norms.

I would like to thank you all for joining us and hope you have an enjoyable experience at the Conference.

Dr. George Athanassakos

Founder & Managing Director, Ben Graham Centre for Value Investing
Ivey Business School

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