

Introduction



Greg Hopkins

Greg is the Chief Investment Officer at PSG Asset Management and is the Co-Fund Manager of the PSG Equity, PSG Balanced and PSG Global Equity funds.

'Organised common sense' – lessons we can learn from Berkshire Hathaway

Charlie Munger, Warren Buffett's esteemed partner at Berkshire Hathaway, told an interesting anecdote a while back:

"I'm a follower of what I call the Thomas Hunt Morgan School. Morgan was one of the great biologists in the history of the world who figured out a lot of genetics [Morgan established that chromosomes carried the units of inheritance] with very slender resources ... – first at Columbia and then at Caltech. And when Morgan reached Caltech, he did something that was very peculiar. He banned the Friden calculator – which was the computer of that age – from the biology department. Everybody else at Caltech used the Friden calculator endlessly for all kinds of statistical correlations and much else. Morgan banned it.

And they asked, "Why are you doing this?" He said, "I'm so located in life that I'm like a gold miner in 1848 who could just walk along the banks of the river and pick up enormous nuggets of gold with organised common sense. And as long as I can do this, I'm not going to use scarce resources in placer mining*."

Well, that's the way I go at life. I think if you get the big points with organised common sense, it's amazing the placer mining you never have to do ...'

Seeking Wisdom, From Darwin to Munger, P Bevelin, 2007

In Kevin Cousin's article 'Lessons from the research paper "Buffett's Alpha"', we unpack some of this big-picture organised common sense and the parallels it has to our own business. This boils down to having a simple investment philosophy that makes sense and sticking to it over the long term. If you organise yourself so that you can execute on that strategy without external influences stopping you, the strategy will pay off handsomely over the decades. In fact, as Kevin points out, Berkshire Hathaway is the best performing stock in the US since 1976.

A long-term focus is fundamental to our philosophy and process

The Berkshire case study once again shows that investing is about trying to buy low. One way of achieving this is to simply buy when securities go on sale. The challenge is that it is difficult to do so in practice, as the environment that causes low prices is often characterised by fear and uncertainty. Anet Ahern discusses why having a longer-term perspective is so important to us.

We believe that local government bonds once again offer a sufficient margin of safety

One asset class that recently went on sale in South Africa is government bonds. Long-term investors in our funds will know that we avoided these securities for years as we felt that they held insufficient margins of safety. That recently changed for us. Our fixed income team gives further background on the reasons for this. We also discuss an important aspect of portfolio construction – building portfolios that will perform under different market conditions. As Lawrence Summers wrote recently in the Financial Times, we live in 'a world that is one major adverse shock away from a global recession'. We are looking for cheap insurance against such a deflationary global shock.

Thank you for your support and enjoy the read.

* Placer mining is the mining of mineral deposits on the stream bed