Key Takeaways From
“Invest With The House” by Meb Faber

"I believe in the discipline of mastering the best that other people have ever figured out. I don’t believe in just sitting there and trying to dream it up all yourself. Nobody’s that smart"

- Simply picking a stock out of a hat means you have a 64% chance of underperforming a basic index fund and 39% chance of losing money
- One of the basic principles of the US stock market is transparency
- Use the SEC website to see what market moguls have in their holdings
- Buffett is a value investor
- Buy stocks that are cheap compared to their intrinsic values
- Efficient Market Hypothesis: stock prices always incorporate and reflect all relevant information
- It is nearly impossible to beat the market through stock selection
- Form 13F: Requires every fund with assets over $100 million to report its holdings to the SEC once a quarter
- Buffett's favorite holding period is "forever"
- Strategy:
    - Download all 13F filings back to 2000
    - Create historical stock portfolios
    - Equal weight top 10 largest holdings with 10% weight
    - Rebalance
- Sharpe ratio: a measure of risk-adjusted return (Return - T-Bill return / Volatility)
- Pros of 13F use:
    - Access to inaccessible managers
    - Transparency of being in control and selling when you want
    - Liquidity of trading out of positions at any time
    - Lower fees
    - Control the hedging and leveraging
- Cons of 13F use:
    - Lack of expertise in portfolio management
    - Inexact holdings
- Investment styles to avoid:
    - Shorting
    - High-turnover trading: trading too frequently
- David Tepper (Appaloosa Management) :
    - "The key is the wait. Sometimes the hardest thing to do is to do nothing"

    - Sector-driven
    - Event-driven
    - "The point is, markets adapt, people adapt."
    - Macro-economic and market analysis
    - "I am the animal at the head of the pack… I either get eaten or I get the good grass"
- John W. Rogers Jr. (Ariel Investments):
    - A careful and methodical investment backed by diligent research
    - Value investment strategy based on the methods employed by Warren Buffett
    - Avoid investments in companies whose primary sources of income are derived from the production of tobacco or weaponry
    - Searches for companies selling at a discount of 40% or more relative to future earnings
    - Companies or sectors that are out of favor, but in which he discerns future opportunity
    - "Getting to know the management team is the key to understanding a company and its products"
    - "A patient and disciplined approach to investing and being cautious are the cornerstones of any successful investor"
- Charles Mackall Jr. (Avenir Corporation):
    - "We focus on what is knowable, starting with the truth that the investment process consists chiefly of purchasing future cash flows at a discount to their estimated value today"
    - Value investor
    - Risk is only taken when risk is justified
    - Bottom-up approach- takes into account a business's fundamentals (management team financial situation, potential growth)
    - Buy a company at a significant discount to its intrinsic value
    - Businesses that remain in strong demand even as the economy dips
    - "How is capital allocated?"
        - Enhances long-term shareholder value
- Barrow, Hanley, Mewhinney and Strauss:
    - You do not need to take high risks in order to earn high returns
    - Strong companies across the globe that are temporarily undervalued for reasons the firm can research, identify and understand

        - With PE ratios and Price/Book ratios below the market, but with dividend yields that are above the market
    - Securities should generate significant returns while undertaking lower risks
- Seth Klarman (The Baupost Group):
    - "In capital markets, price is set by the most panicked seller at the end of a trading day. Value, which is determined by cash flows and assets, is not. In this environment, the chaos I so extreme, the panic selling so urgent, that there is almost no possibility that sellers are acting on superior information."
    - Likes to slowly build up concentrated bets and has holding periods of three to five years
    - "Investing is the intersection of economics and psychology." "The economics- the valuation of the business- is not that hard." "The psychology- how much do you buy, do you buy it at this price, do you wait for a lower price, what do you do when it looks like the world might end- those things are harder."
    - "I will be buying what other people are selling. I will be buying what is loathed and despised."
- Glenn Greenberg (Brave Warrior):
    - Concentrated, long-term investing
    - 3 Rules:
        - Must feel that the management is strong
        - Has a local monopoly in its sector or it demonstrates an advantage
        - Find strong potential for growth valued at low prices
- Wayne Cooperman (Cobalt Capital Management):
    - "Above-average businesses trading at below-average prices"
    - "There are two types of people who buy stocks. Those who buy them because they think they will go up and those who buy them because the value of the company is greater than the price of the stock."
    - Tries to understand a company's customers, its competitors, whether there are barriers to entry, and whether it has potential for expansion
- Ravenel Boykin Curry (Eagle Capital Management):
    - Holds mainly large-cap stocks that it selects using bottom-up research
    - Long-term investing
    - Short-term investors create market mispricing
- Ricky Sandler (Eminence Capital LLC):

    - "Volatility can be a friend of the value investor- it provides more situations where stocks significantly diverge from their intrinsic value and can allow us to turn our capital faster."
    - Look for businesses that may suffer because they are part of a temporarily neglected industry
    - Strong companies that have recently reported disappointing short-term earnings
    - Entry price is a crucial factor in determining value
    - "buy a great business at a reasonable price"
- Gardner, Russo and Gardner:
    - Buying and holding companies with established international brands in alcohol, tobacco and food
    - Long-term value investing in consumer brands
    - Searches for well-run family companies
    - "The key to success in investing is low expectations"
- Josef Lakonisjok (LSV Asset Management):
    - "If you have a good product, you will attract competition."
    - Profits from psychological weakness
    - Works with behavioral finance
    - Investors tend to rely too much on the past when trying to predict the future
        - They ignore statistics
- Paul A. Reeder III (Par Capital Management):
    - "Our philosophy is based on the belief that long-term investment success can be achieved through narrowly focused and rigorous fundamental research, disciplined portfolio management and the alignment of incentives between manager and client."
- Robert Raiff (Raiff Partners):
    - Value investor interested in companies that generate solid cash flow
    - "I look for stocks trading at low multiples of cash flow"
    - Picks some of the largest and most widely traded companies
- Sequoia Fund:
    - Concentrated positions and long holding periods
    - "The kind of portfolio Buffett would have if he ran a mutual fund"
- SouthernSun Asset Management:

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    - Focused on small to mid-sized companies and looks for businesses with a niche or edge, strong management, and a sound balance sheet with good cash flow
- SPO Advisory Corp:
    - "What we are attempting to do is to bring capital to managements that merit it in businesses that have outstanding characteristics"
- Yacktman Asset Management:
    - Reads everything he can get his hands on
    - Patience and long holding periods
- Take the top ten holdings from each fund
- Lone Pine Capital:
    - Focus on companies that can increase value through organic earnings growth and making positive management or strategic moves that have not yet been reflected in valuations
    - "Blue sky stories": companies with grand plans but have high valuations and few if any earnings
    - Importance of understanding people
- Maverick Capital:
    - Looks at both a company's valuation and management team
    - Uses comparisons of free cash flow to enterprise value
    - Searches sectors and industries looking for opportunities and focuses a good deal of attention on company management
- Investment decisions are based on detailed, company-specific research with a long-term time horizon
- Hedging:
    - Buying puts or shorting various indices with futures to reduce volatility and market exposure
- Following the top value hedge funds can result in excess returns with in-line volatility compared with the equity and hedge fund indices

Taken directly out of the book