

The philosophy of Sextant newsletters

The Sextant newsletters: the best testimony of our investment philosophy

Day after day, we “live” our investment philosophy, and our newsletters bear witness. We write what we do, and we try to do what we write, which is not always easy....

Lessons from Benjamin Graham : Very interesting readings....

Benjamin Graham and the New Market – More dead than alive – Letter of October 2002

The reading of an article published by Graham in 1932 gave us the idea to buy a good number of stocks whose market capitalisations were inferior to their cash holdings. The same article also taught us how the financial market may become irrational and how history repeats itself. Amazing!

Don't worry, I am in excellent health, and the COB1 has not put a bounty on my head. But I am a bit worried about seeing your savings go up in smoke, because only a few weeks ago the financial press began claiming that the end of the world is at hand. So I once again turned to history for a bit of comfort. In times of trouble, I re-read the words of the great sages. In June 1932, Benjamin Graham, the greatest of the great, the father of all financial analysts, published a rather shocking series of articles in Forbes magazine, titled “Is American Business Worth More Dead Than Alive?” This series marked the end of the plunge in the Dow Jones Index; it hit its low one month later, in July 1932, after having lost over 90% of its value since 1929.

IS THE NOUVEAU MARCHE WORTH MORE DEAD THAN ALIVE?

This is the name of the article that Ben Graham could have written today. Apart from a few dates and company names, everything else probably would have been the same. Judge for yourself: “Scores of common stocks are selling for less than their pro rata of cash in the company's treasury. Corporations still have large unused cash balances furnished by their stockholders in the New Era days.... If market quotations discount huge cash reserves due to probable long-continued future losses, then shouldn't the stockholder demand liquidation before his money is thus dissipated?”

Shocking, isn't it? I thought that all American companies were on the verge of bankruptcy in 1932. But in reality, as Graham explains, they took advantage of spectacular gains in their stock between 1928 and 1929 to carry out fruitful capital increases. So despite making losses in 1931, they still had quite a bit of cash, and given that their stock prices had plunged by a factor of 10, their stock was often worth less than their cash on hand! With one explanation; the market feared that losses would continue forever, and that the cash would go up in flames. Now, 70 years later, the pattern is repeating with companies listed on the Nouveau Marché. In 2000, they floated with capital increases at very elevated levels, reaping in huge amounts of cash. And after posting losses in 2001, and due to stock prices that have dropped by a factor of 10, some stock is worth less than the company's cash.

The fact that these stock prices stand to increase can once again be justified by Graham, who reveals that the “revolutionary” ideas of 2000 already existed 70 years earlier. “Two credible

¹ Commission des Opérations de Bourse, the French stock market regulator

and seemingly innocent ideas – one, that good companies make good investments, and two, that their value depends on their earnings power – have been exploited and turned into the frantic ravings of financial evangelists who will end up making speculators out of all our investors.... by producing twisted accounting and valuation methods that are completely irrational.” Of course, we all remember 2000’s famous valuations based on subscriber numbers, or EBITDA, or the all-to-familiar market comparison (it’s overpriced, but since it’s cheaper, the price will go up). Apparently, speculators in 1929 were also highly creative in this matter.

Graham noted that after completely casting aside balance sheet analyses in 1929 (and who, in 2000, noticed that France Telecom, Vivendi, and Infogrames were also heading towards a balance sheet catastrophe?), in 1932, shareholders continued to beautifully ignore any such analyses. “Because a company’s value has ended up being associated only with its earnings power, stockholders are no longer paying even the slightest bit of attention to a company’s assets, not even the cash in the bank.” In 1931, most American companies were haemorrhaging money, to the point where they were being valued by a new concept, “losing power,” and faced the threat of seeing all their wealth disappear. Stock prices were divided by a factor of 10 between 1929 and 1932 (by a factor of 12 between 2000 and 2002 for the Nouveau Marché), and companies’ values (for a third of them) were less than their net current assets, or even their cash.

Would Benjamin Graham have bought stock in Auféminin.com (€1.45 cash per share at a price of €1.12), or Ad Pepper Media (€2.80 cash per share at a price of €1.5)? In any case, this is what he probably would say: “Surely the owners of a business have a better alternative than to give its present cash away, for fear that it is later going to be dissipated... Evidently, stockholders have forgotten more than to look at balance sheets. They have forgotten also that they are owners of a business, and not merely owners of a quotation on the stock ticker.”

The incredible Mr Market – Letter of August 2003

Reading and reading again Graham and Buffett: How we did huge profits. The history of “Mister Market” told us how to exploit market volatility.

“Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market’s quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favourable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: He doesn’t mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behaviour, the better for you.

But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy."²

Scope of skills

Summary of 2003 and discussion with Mr Market – Letter of January 2003

Scope of skills: Ostensibly, this may seem the simplest concept, because it requires that we only concern ourselves with companies that we understand well. But in reality, it is probably the most difficult to define, and even more so to follow. How can we “define” the level of understanding required? And how can we be sure to thoroughly know all the workings of a company’s financial model? Personally, I prefer companies with products and services that consumers like me can easily grasp. Camaïeu, Auféminin.com, and ADLP are all companies whose services you yourself can use regularly.

Portfolio concentration

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Each year we analyze the errors we made in the 12 preceding months. In 2004, we had “too many” ideas. We did not follow one of our main rules: Concentrate your portfolio on your strongest conviction with the highest expected returns and avoid investing on companies you don’t understand. Charlie Munger in the article below tells us one of the main rule: in the stock market like in horse race be passive most of the time and place a big bet only when you have a strong conviction.

2004 Summary – Letter of February 2005

A fault confessed is half redressed

A public flogging, being required to wear a suit and tie, being forced to return to Omaha and grovel before Kiewit Plaza? We are willing to do anything so as to never repeat the same mistakes we made in the first half of 2004. We mentioned them briefly during our newsletter last June. We have tried to analyse them with hindsight; to understand why and how we made those bad decisions. As usual, we found enlightenment by reading the grand masters. Let’s listen to one of best among them, the great Charlie Munger, who gave a well-known speech to students at the University of Southern California in 1994.

The model I like, to sort of simplify the notion of what goes on in a market for common stock, is the pari-mutuel system at the race track. If you stop to think about it, a pari-

² Warren Buffett, “Chairman’s Letter to the Shareholders of Berkshire Hathaway Inc.”, 1987.

mutuel system is a market. Everybody goes there and bets, and the odds change based on what's bet. That's what happens in the stock market.

Any damn fool can see that a horse carrying a light weight with a wonderful win rate and a good post position, etc., etc., is way more likely to win than a horse with a terrible record and extra weight and so on and so on. But if you look at the odds, the bad horse pays 100 to 1, whereas the good horse pays 3 to 2. Then it's not clear which is statistically the best bet using the mathematics of Fermat and Pascal [you know them, of course, don't you?]

And then the track is taking 17% off the top. So not only do you have to outwit all the other betters, but you've got to outwit them by such a big margin that on average, you can afford to take 17% of your gross bets off the top and give them to the house before the rest of your money can be put to work.

Given those mathematics, is it possible to beat the horses using only one's intelligence? Intelligence should give some edge, because lots of people who don't know anything go out and bet lucky numbers and so forth. Therefore, somebody who really thinks about nothing but horse performance and is shrewd and mathematical could have a very considerable edge, in the absence of the frictional cost caused by the house take.

Unfortunately, what a shrewd horseplayer's edge does in most cases is to reduce his average loss over a season of betting from the 17% that he would lose if he got the average result to maybe 10%. However, there are actually a few people who can beat the game after paying the full 17%....

And the one thing that all those winning betters in the whole history of people who've beaten the system have is quite simple: they bet very seldom.

It is not given to human beings to have such talent that they can just know everything about everything all the time. But it is given to human beings who work hard at it, who look and sift the world for a mispriced bet, that they can occasionally find one. And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don't. It's just that simple.

That is a very simple concept. And to me it's obviously right, based on experience not only from the pari-mutuel system, but everywhere else. And yet, in investment management, practically nobody operates that way. We operate that way; I'm talking about Buffett and Munger. And we're not alone in the world. But a huge majority of people have some other crazy construct in their heads. And instead of waiting for a near cinch and loading up, they apparently ascribe to the theory that if they work a little harder or hire more business school students, they'll come to know everything about everything all the time. To me, that's totally insane. The way to win is to work, work, work, work, and hope to have a few insights.

How many insights do you need? Well, I'd argue that you don't need many in a lifetime. If you look at Berkshire Hathaway and all of its accumulated billions, the top ten insights account for most of it. And that's with a very brilliant man. Warren's a lot more able than I am and very disciplined, devoting his lifetime to it. I don't mean to say that he's only had ten insights. I'm just saying that most of the money came from ten insights.

So you can get very remarkable investment results if you think more like a winning pari-mutuel player. Just think of it as a heavy-odds against game full of craziness with an occasional mispriced something or other. And you're probably not going to be smart

enough to find thousands in a lifetime. And when you do get a few, you really load up. It's just that simple.

When Warren lectures at business schools, he says, "I could improve your ultimate financial welfare by giving you a ticket with only 20 slots in it, so that you had 20 punches, representing all the investments that you got to make in a lifetime. And once you'd punched through the card, you couldn't make any more investments at all. Under those rules, you'd really think carefully about what you did, and you'd be forced to load up on what you'd really thought about. So you'd do so much better."

Profiting from volatility, and accepting to lose money for the short term.

The best investments ideas in the stock market are those where we start by losing money. Most often we should be happy to see our favourites stocks go down. The more we lose, the more we run the "risk" to win. Here is the reason why

He who loses, wins – Letter of June 2002

In my March letter I quoted Warren Buffett, who stated in 1974, "Now is the time to get rich." Rich, yes, but a few years later. 1974 was more the time to become poor. In August 1973, the Boston Globe floated at \$10 per share. Our friend Warren, convinced that the company's value was actually much higher, hastened to buy the stock. And to his great delight, his investment was down 50% a year and a half later, the stock price having steadily retreated to \$5. The same happened for his investment in the Washington Post, which plummeted 40%. Peanuts! But what luck for his future fortune! Of course, Warren continued to buy, and a few years later he became the richest man in the world. Simple, isn't it?

The moral of the story:

1. I am not Warren Buffett.
2. You will never be the richest man in the world.
3. The more a good investor "loses," the more he wins.

This last conclusion warrants a bit of explanation. If you spot a company that is undervalued by the market, it is because the latter is no longer operating as an "efficient market." And the more flagrant the undervaluation is, the more the market has clearly lost its way. If you buy stock in this company, you cannot hope that the market will suddenly come to its senses the next day, and that the stock price will go up. In fact, you could more confidently hope for the opposite. Specialists in market volatility explain that the more volatile a security is, the more dangerous it is to purchase. Which means that the more a security falls, the more likely it is to keep falling. Crazy! But it's better that way. After all, when you go to the market on Saturday to buy tomatoes for Sunday lunch, do you want their prices to be higher or lower than the week before? Why should making investments for your savings portfolio be any different? The Sextant PEA price is down. Great!

Even if I am not Warren Buffett, I have been able to produce a few capital gains. In fact, losing money in the short-term is logically the best way to gain overall. For example, in early 2000, I bought shares in Sodexo Marriot Services (SMS) at \$16 per share. A few months later, the CAC rose from 5,000 to 6,400 (30%), while SMS sank to \$10! Bravo, well done, lose 40% while the market climbs 30%, very smart! Perhaps, but although it was impossible for me to understand the jump in the CAC 40, I could easily determine the true value of SMS. Two years earlier, the parent company (Sodexo) had announced it would take over its US

subsidiary in 2001. Analysts covering Sodexo recommended buying this stock precisely because the takeover of the subsidiary would be highly accretive until \$30. Infected by WB's contagious enthusiasm, I was ecstatic to buy SMS stock at \$11. Then at the start of 2001, the takeover happened... at \$32. It is still too early to recount similar happy endings about your Fund, as it is only 5 months old, but be patient, happy endings will come (beginning, unfortunately, with a 40% decline).

We did not know that what we were damned right!. Three months later, in October 2002, we had the opportunity to buy our favourites internet stocks after a fall of 40% End 2005, stock prices had on average multiplied by 10.

Volatility and orang-utans - September 2004.

A lucky star and volatility

Volatility. What is it exactly? Put simply, we say a stock is volatile if it experiences sharp fluctuations, and volatility is the historical measure of these fluctuations. For example, a money market fund is not volatile; it increases approximately 0.2% per month. On the other hand, France Telecom stock is extremely volatile. It was floated in 1997 at €28.5, soared to over €200 in 2000, collapsed to €8 in 2002, and clawed back up to €19 a few days ago. Professional wealth managers are obsessed with volatility. They seek low-volatility investments that generate solid returns, which we can all understand. Because volatility can lead to uncomfortable situations, stress, and errors of judgement. Our friend Mr. Market despises volatility. He panics when markets decline, loses sleep, and ends up selling low. When markets go up, he gets stressed, wishes he had joined in earlier, and ends up buying high.

In reality, volatility is a speculator's enemy and an investor's friend. A speculator bets on things he is not fully certain of, and when markets drop, he panics. Professional speculators unwind their positions very quickly when things head south. They know when to cut their losses. But an investor has convictions; he believes in his ideas. He is happy during soft markets, and buys. An investor plays "He who loses, wins" (see our June 2002 newsletter). A speculator follows market fads and trends. When the markets fall, he has nothing to guide him. He can only sell, or pray that things improve.

The volatility of Sextant Funds

"I would rather get a 14% annual return with high volatility than a 13% return with low volatility." (Warren Buffett). Me too! In fact, you should be aware that at Amiral Gestion, we are not at all concerned about the volatility of our Funds. We don't even measure it (although it is apparently rather remarkable). Some fund managers do the opposite; they spend more time managing volatility than seeking good returns.

About our management team

Pilgrimage to Omaha – Letter of April 2004

... we work in an ideal environment :

- Our team is close to the ideal number of people for making good decisions. We have three managers who are 100% dedicated to investments. We have one intern, and one

invaluable assistant who frees us from administrative tasks. We don't do marketing, and we don't solicit customers. Indeed, we don't have any customers. You, like us, are investors in Sextant Funds, which is much more meaningful because it means we have the same interests.

- We have greater room to manoeuvre than our fund manager peers. We don't have a hierarchical structure making us deliver reports to bosses on subjects they know nothing about. We can't be sacked if we underperform the CAC over one or two years (thus freeing us from the pressure to "beat the index"). And most importantly, we are not constrained by marketing targets, such as not straying more than 2% or 3% from the index, or investing only in growth stocks or a specific sector.

In summary, we are not bound by restrictions that have nothing to do with generating great returns, or which would prevent us from making sound decisions.

Between 2002 and 2004, we have recorded an outstanding performance. Good luck or know how? The answer from an ape like story imagined by Buffett.

Volatility and orang-utans - September 2004.

A bit of probability in our savoir-faire

In the 1970's, the greatest minds of modern finance (Nobel prize winners, etc.) swore by the efficient market theory. This theory states that the market values every listed company at its fair value at time T, incorporating all the information available at time T. Therefore, a company's stock price should only reasonably fluctuate in response to new information, be it economic, political, or about a particular company (earnings releases, new products, etc.). This theory is still taught in our universities, so in essence we are teaching our young people, as they go out into the world of finance, that there is no need to think because the market does it for us. The market values all quoted assets accurately, completely on its own. So the only way to make money in the stock market is to follow the indices, unless you are an insider, or unless, like the Sextant Fund managers, you are very lucky. Sounds good on paper, but there is something that doesn't quite fit: why is it that every Buffett and Graham disciple seems to have been "lucky"?

In 1984, our teacher Warren gave a speech at Columbia University called "The Superinvestors of Graham-and-Doddsville." He asked students to imagine a nationwide heads-or-tails game, in which every American (225 million at the time) played heads-or-tails at dawn. The winners (those who bet heads, or statistically 50% of the players) would play again the next morning, and so on. After 20 days, 215 gifted players would remain who managed to bet successfully 20 times in a row. New heroes. Except that a group of orangutans could have had the same outcome! This is how the great minds behind the efficient market theory explain successful investors; they are lucky orangutans. But Buffett commented on what those scientists would say if, out of those 215 winners, 40 came from the Omaha, Nebraska zoo. "I think you will find that a disproportionate number of successful coin-flippers in the investment world came from a very small intellectual village that could be

called Graham-and-Doddsville. A concentration of winners that simply cannot be explained by chance can be traced to this particular intellectual village.”

We don't think that we have yet found Buffettville. We may be searching for it for the rest of our days! But for you, our search is a guarantee, a true safety. And for us as well, because Buffett's followers are statistically quite successful over the long-term. A few years ago, when I was a broker, one of my customers borrowed my Berkshire Hathaway annual reports, announcing “I am going to start an asset management company, and we are going to use Buffett's strategy.” This former customer never returned my annual reports, although today he is with one of the best-performing asset management firms in Paris, Pastel & Associés. So is Mr. Pastel an excellent fund manager, or a lucky orang-utan like us? If it's the latter, we should share the same cage.

About our Master, Warren Buffett, and the lesson we learnt back from our pilgrimage to Omaha.

Pilgrimage to Omaha – Letter of April 2004

The lesson of the Samurai

“Many are those who will give advice, but few are those who will accept it with gratitude, and even fewer are those who will follow it. After the age of 30, man becomes generally impermeable to advice. And when advice no longer reaches him, he rapidly becomes full of pride and self-interest. For the rest of his days, he adds impudence to foolishness, which causes his irreversible fall. This is why it is indispensable to find someone capable of discernment, and to bind yourself to him in order to receive his teachings.” (Hagakure, The Book of the Samurai)

At Amiral Gestion, we are all over 30; impudence and foolishness lie waiting for us. But as you know, we have discovered our teacher, and we seek to bind ourselves to him (we love you Warren!) and receive his teachings. He delivers his message of wisdom every year in the Berkshire Hathaway Annual Report, which we read and re-read religiously. This year, rather than waiting to receive it in the post, we sent a member of our team to go retrieve it in person, far from home, in the land of absolute outperformance.

Pilgrimage to Omaha

Simple to understand yet difficult to put into practice, Warren Buffett's philosophy is our investment Bible. We follow his teachings as his disciples, and as true disciples, we sometimes question our teacher, or even betray him. I have already told you about a few of the times we strayed; there have been others. Despite our promises. Not all of them cost us, because sometimes we got lucky. But that is not a reason. So in order to atone for his mistakes, François Badelon was sentenced to spend a weekend in Omaha, Nebraska. He was ordered to bow down before Kiewit Plaza³, tour the sage's house three times on his knees, buy a Louis XV chest of drawers at Nebraska Furniture Mart, admit his French nationality in the heart of the American Midwest, and sing in unison with 20,000 other shareholders, the

³ The office building where Warren Buffett works, Kiewit Plaza

tune so loved in Omaha, “Berkshire, Berkshire Hathaway” by Susie Buffett (a lady with more money than you and the Beatles put together).

The lessons learned on this trip? Discipline, discipline, always discipline. Following Buffett’s philosophy can be a bit frustrating and tiring. It is tempting to just cast it aside, follow the advice of the first guru that comes along, and take our chances with the latest market fad (everyone else is making money, why not me?). But no, we need to be patient and work. Invest, not speculate. “What you learn from history is that people don’t learn from history” (WB live in Omaha). Why not? Probably because people look for similar situations, whereas they should be looking for similar models (mathematical models that is, not role models). One of the most famous models in history and the most important to recognise is that of a charismatic (too charismatic) leader:

“It is therefore necessary to be suspicious of charismatic leaders, or rather, of those who seek to convince us with other tools than reason: we must be cautious about delegating to others our judgment and our will. Since it is difficult to distinguish true prophets from false, it is as well to regard all prophets with suspicion. It is better to renounce revealed truths, even if they exalt us by their simplicity and their splendour, or if we find them convenient because we can acquire them gratis. It is better to content oneself with other more modest and less exciting truths, those one acquires painfully, little by little and without shortcuts, with study, discussion and reasoning, those that can be verified and demonstrated.”

So there you have it, stated once again. Work and be patient; don’t speculate on the first idea that comes along. But this time, it is not Buffet speaking. It is Primo Levi, in his admonitions to Italian students in *If This is a Man*.

About Market Timing

Market timing is not our strong point. Actually, we rarely wonder how the market or a specific stock will perform short term. We prefer to look at things with an investment horizon of several centuries.

The Train of the Internet – Letter of September 2002.

Timing : Let’s stand back for a while (few centuries)

Should you invest in the stock market today? Considering it has fallen over 50% in two years, it’s probably not a bad idea. Investors are paralysed by fears of an economic slowdown, a potential Iraq/oil war, and the next major Al-Qaeda attack. However, war will break out, and others will follow. Fanatics will kill and be killed, and be replaced by others, and the cycle will start all over again, as it has been for centuries. This is why the next bloody jolt will not sustainably drive down the financial markets; it is already largely expected by the collective unconscious. The probability of such an event occurring is 100%.

But even if the markets have collapsed, some oracles announce that the worst is yet to come. For example, the most dismal research findings, published by Peter Bernstein and Robert Arnott (guru-guru), can be found on Forbes.com; the most dire outlook, given by Bill Gross

(one of the best bond fund managers in the world), on Pimco.com. Our friends are not making catastrophic macroeconomic forecasts. They are not speaking of war or terrorism. They are simply stating that equity is overpriced. And thus brilliantly tearing down what your financial advisor has been telling you for many years, “In the long-term, equity is always the best investment, which is proven by its systematic outperformance since 1825.” (Your advisor’s memory may not go back quite as far.) Bernstein and Arnott show that this victory is largely due to a variable that has regrettably depleted all its resources: a rising P/E ratio. Simply speaking, a company’s stock price depends on both its net earnings, and the multiple of these earnings that the market is willing to pay. This multiple is called the P/E ratio (price-to-earnings ratio). So if the stock market has climbed since 1825, it partly because companies’ earnings, and hence their dividends, have increased (reproducible element), and partly because P/E ratios are higher (irreproducible element; they have gone from less than 5 in 1825 to over 30 in 2000). Going forward, the stock market (or rather, the market indices) can no longer count only on earnings growth (this is difficult to explain in a few lines; there is an example at the end of this newsletter). It will not be sufficient to outperform other, more secure investments, such as government bonds that return 4%.

At the risk of winning the Nobel Prize in economics, I will add to Bernstein and Arnott’s theory the idea that the stock market, in order to make gains over the past two centuries, has acted like a huge value fund. That is, a fund that in 1825 bought stock in undervalued, generally dynamic companies (P/E ratios of 4), and patiently waited while their earnings grew and their P/E ratios rose (to over 30 in 2000). By the way, this beautifully confirms Sextant’s management philosophy: in order to make money, you have to bet on higher P/E ratios and higher earnings. It is the same principle used by value funds; i.e., buy stock in undervalued companies, which, due to their good management and solid positioning, should see strong earnings growth and be revalued by the markets. Therefore, even if the indices did indeed finish their spectacular rally in 2000, there will still be undervalued companies with promising outlooks for many years to come, with plenty of market fads, waves of panic, and bouts of euphoria to spin the wheel.

This is why the timing for buying/strengthening/averaging in Sextant PEA is excellent. On the one hand, French equity has returned to reasonable valuations (the CAC 40 has a P/E ratio of 15), and the indices can increase, inevitably lifting the rest of the market. And on the other, the recent slump, which pulled everything down in its wake, has created wonderful investment opportunities. Some of the companies in your Fund have valuations reminiscent of the 19th century or 1932!

We can’t always be wrong! When valuation becomes amazingly and excessively low, the main point is to stay confident and reinforce the position. Eventually, you end up investing at the bottom This is exactly what we have done in September October 2002 with internet stocks, after a fall of 50% within a few months... A fabulous advice: the best internet picks have multiplied by 5 to 20 times. We will have to wait a long time(or a market krach) before such an opportunity occurs

THE BANDWAGON WILL PASS THREE TIMES

Let’s be honest, we all missed the internet bandwagon. You shouldn’t be wasting your time reading this newsletter today; you should be ridiculously wealthy and living happily(?) ever

after. Yes, if only you were a guru, you could have made 200X on Yahoo. But you didn't. You also missed the second internet bandwagon, a rocket-ship that one, moving in the other direction. You could have made 100X or 1,000X by short selling France Telecom or Amazon. But again, you didn't, and this time you even saw it coming. You said so to all your friends.

Personally, I'm always missing these types of rocket-ship bandwagons. Because I prefer to know where I am going, and I hate jumping on and off while it is in motion. The internet bandwagon has come back home to roost. It has drawn to a halt, and nobody wants to get back on. Yet this time, the rules of the game are clearer. The winners have begun to step forth, and the losers are already dead. Some companies have generous financial reserves, with growing sales and business models that are showing their merit. Take advantage of it. There are plenty of empty seats up in first class.

Amiral Gestion and Sextant Grand Large – Letter of March 2003

Generally, when you invest in equity, you look for good timing. If you are bullish (which generally means that everyone is bullish), you buy stock. When you are bearish (perhaps because you just had lunch with your mother-in-law, or because the CAC 40 fell 40% during the year) you sell stock and invest in money market funds. Sound reasonable?

But none of that goes on with Sextant Grand Large. You simply select the maximum amount that you feel comfortable investing in equity, and we determine the asset allocation for you. However, please realise that we will not follow the latest fad or rely on market timing. Not at all. We will simply invest with a great deal of discretion in the most promising assets. If these assets turn out to be equity, it's because we feel strongly that they are high-potential investments. If these assets turn out to be money market funds, it's because nothing else entices us, and we believe that stock prices are too high.

Launching of Sextant Grand Large – Letter of July 2003

So why Sextant Grand Large? To enable you to optimise your equity savings. How? By simply answering, once and for all, the question that has cost you so dearly over these past few years, "Is this the right time to invest in the stock market?" Your financial advisors gave you the answer; anytime is a good time to invest in the stock market, because in the long-term, you will always come out ahead. Right, okay, but the problem is that these advisors began preaching this view around 1999 or 2000. As a result, apart from some enthusiasts, very elderly savers, or those lucky enough to buy Agressor, everyone lost money. Out of an urge to invest "at the right time" and join in on the dot-com easy money, people ended up buying high. (I am speaking from personal experience; in 1987, I wanted to play the market and lost all my savings. A good lesson learned that did not yet cost me too much!).

Let's go back to, "Is this the right time to invest in the stock market?" This is actually a pointless question, because nobody knows the answer (except for some extremely rich, extremely intelligent people that neither you nor I know). The real question is, "Is it the right time to invest in company X? Does company X's price offer enough of a safety margin with respect to its real value?"