

**Ben Graham Centre's
4th European Value Investing Conference**

A Presentation on Differential Insights

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PRESENTATION OUTLINE

- **INVESTMENT PHILOSOPHY**
- **COMPANY EXAMPLES**

INVESTMENT PHILOSOPHY GUIDES OUR OBJECTIVE

- **TO MAXIMIZE THE LONG TERM AFTER TAX RETURNS FOR OUR CLIENTS IN VARIOUS ECONOMIC AND MARKET CONDITIONS WHILE EMPHASIZING THE PRESERVATION OF CAPITAL**

INVESTMENT PHILOSOPHY GUIDES OUR OBJECTIVE

- **DIFFERENTIAL INSIGHTS**
- **JUDGEMENT**
- **COURAGE**

INVESTMENT PHILOSOPHY GUIDES OUR OBJECTIVE

- **QUANTITATIVE VS QUALITATIVE**
 - **TOM BRADY**
 - **SECRETARIAT**
 - **WAYNE GRETZKY**

INVESTMENT PHILOSOPHY

CAPITAL PRESERVATION

- **RULE #1**

- “Never lose money”

- Permanent capital loss vs. short term quotational declines

- Focus on avoiding permanent capital loss

- Short-term quotational declines provide opportunities to purchase more shares in a solid company at lower prices

- » We welcome this opportunity

WARREN BUFFETT

- **RULE #2**

- “Never forget rule #1”

WARREN BUFFETT

INVESTMENT PHILOSOPHY EVALUATING RISK

- **BASED UPON A SOUND ANALYTICAL FRAMEWORK**
 - What is the downside?
 - How much can I lose?
 - What can go wrong?
- **RISK**
 - Volatility is not risk
 - A decline in a stock price of a short term, cyclical nature with the buyer unlikely to sell is not risk
 - Risk is the permanent loss of capital

INVESTMENT PHILOSOPHY COMPANY ANALYSIS

- **THREE CORE COMPONENTS TO OUR COMPANY ANALYSIS WITH NUMEROUS SUBSETS**
 - Business model
 - Management
 - Valuation
- **ALWAYS THINKING ABOUT THESE THREE CORE COMPONENTS AND SUBSETS IN INTERVIEWING**

INVESTMENT PHILOSOPHY

VALUATION CONCEPTS

- **MARGIN OF SAFETY**
 - Bridge example
- **INTRINSIC VALUE**
 - Amount of cash taken out over the life of a business discounted at an appropriate rate
- **MR. MARKET**
 - Never think about the market
 - “In the short run the market is a voting machine, while in the long run it is a weighing machine.”

BENJAMIN GRAHAM

RESEARCH PROCESS - SETUP BUFFETT ANALYTICAL FRAMEWORK

- **THE CERTAINTY WITH WHICH THE LONG TERM ECONOMIC CHARACTERISTICS OF THE BUSINESS CAN BE EVALUATED**
- **THE CERTAINTY WITH WHICH MANAGEMENT CAN BE EVALUATED, BOTH AS TO ITS ABILITY TO REALIZE THE FULL POTENTIAL OF THE BUSINESS AND WISELY DEPLOY ITS CASH FLOWS**
- **THE CERTAINTY WITH WHICH MANAGEMENT CAN BE COUNTED ON TO CHANNEL THE REWARDS FROM THE BUSINESS TO SHAREHOLDERS RATHER THAN TO ITSELF**
- **THE PURCHASE PRICE OF THE BUSINESS**
- **THE LEVELS OF TAXATION AND INFLATION WHICH DETERMINE THE DEGREE TO WHICH THE INVESTOR'S PURCHASING POWER RETURN IS REDUCED FROM HIS GROSS RETURN**

RESEARCH PROCESS - INTRODUCTION

RESEARCH MAP

- **FOCUSED UPON CRITICAL ISSUES**
 - **SEEK THE SMARTEST IN ALL FIELDS**
 - **GAIN UNIQUE INSIGHTS**
 - **BUILD LONG-TERM RELATIONSHIPS**
- **FIND THOUGHT LEADERS AMONG**
 - **COMPETITORS**
 - **CUSTOMERS**
 - **FORMER EMPLOYEES**
 - **CONSULTANTS**
 - **VENDORS**
- **CONDUIT**
 - **THROUGH WHICH THE SMARTEST PROVIDE INSIGHTS**

RESEARCH PROCESS - APPROACH

PERSONAL INTERVIEWING

- **“THE ART IS TO GET MORE QUESTIONS-AND THE RIGHT QUESTIONS-FLOWING FROM THE ANSWERS YOU RECEIVE. ...PEOPLE RUN DOWN A STANDARD QUESTION LIST, REGARDLESS OF THE RESPONSES THEY GET. THAT ISN’T ART. WHAT QUESTIONS BEST FLOW FROM THE ANSWER? WHEN YOU CAN DO THAT WELL ON A REAL TIME BASIS YOU ARE A CREATIVE, INVESTIGATIVE INVESTOR.”**
 - » COMMON STOCKS AND UNCOMMON PROFITS
KENNETH L. FISHER

COMPANY EXAMPLES

- **O'REILLY**
- **PROGRESSIVE**
- **UNITEDHEALTH GROUP**
- **ZOETIS**