

Thought for the Week: Tuesday, January 18th, 2011

The Three Brilliant Strategies behind Warren Buffett's Success

When speaking at investment conferences and events, I often solicit audience participation by asking two questions:

1. **Who is the most respected financial company in America?**
2. **Who is the most respected investor in America?**

The first question usually elicits two names: **Fidelity and Vanguard**. The second almost always draws the same response: **Warren Buffet**.

Last week, when an article circulated with the title: The Three Brilliant Strategies behind Warren Buffett's Success, the opportunity to share was too great to resist. Regurgitating other people's thoughts is not our normal modus operandi, but like Newton's Three Laws of Motion, **Buffet's Three Laws of Investing are worth living by**. Keep them close by for the next time the market suffers from volatility.

1. Long Term Focus

In today's volatile, computer-traded markets, sticking to a long-term investment course can be tough. Rarely does an investment steadily rise without periods of doubt and capital loss. One key to maintaining a long-term view is to put your faith in fundamental data. There are many factors that temporarily affect the daily price of an investment, but the fundamentals of balance sheet strength and business model success usually prevail at the end of the day.

Global has two fundamental investment philosophies which contribute to maintaining long-term focus:

1. **Value Investing:** We analyze the fundamental value of a business using our own measurements; **a proprietary combination of many numerical and anecdotal indicators of strength and probability of failure**. When the market punishes the stock price of a company we feel is actually a robust operation, it may be an opportunity for a discounted purchase. When the market subsequently recognizes the underlying value in such a company, the price rises and rewards those fundamentals.

Global looks for Value Gaps: A Value Gap means **a significant difference between the value we place on a business and the current market capitalization**. When our research screening sees a steadily growing business but a flat stock price, we investigate further.

2. **Contrarian Investing:** When the mass-investor is rushing to invest in an asset class, we tend to be looking to exit. When the herd is selling, we are looking for discounts. This doesn't mean investing in distressed fire-sales; a practice called 'Deep Value'. Investor sentiment plays a big role in the price of all securities but it tends to swing like a pendulum. **A Contrarian usually looks for over-reactions and bets on reversion to the equilibrium position**.

Although hurdles facing the U.S. and overseas markets are sure to crop up in 2011 and stoke investor fears, Mr. Buffet remains confident that we are on the road to recovery. By taking a long term view it is possible to **profit from improving conditions and avoid the psychological barriers that can lead to detrimental, knee-jerk reactions**.

2. Diversification

Through his investments and subsidiaries, Buffett has expanded his reach into numerous corners of the global marketplace. By tapping into sectors including health care, industry, finance and consumer goods, the Berkshire Hathaway empire has been able to **both weather market turmoil and profit in times of strength**.

Thanks to the advent of ETFs, investors can now easily expand their reach beyond domestic stocks and bonds and into foreign nations and alternative asset classes such as commodities and currencies. **A comfortable balance of these components** can help shape a portfolio and prepare for any market condition.

Diversification is a cornerstone of the DIAS philosophy. It isn't the best way to chase maximum returns but it does tend to 'Tilt the Odds' in the favor of our investors and dampen volatility. One drawback of diversification – not all holdings tend to work at the same time.

3. Dividends

Yield-bearing companies still represent a major chunk of Buffett's portfolio.

Aside from being leaders in their respective fields, Buffett positions including Coca-Cola (KO), Proctor & Gamble (PG) and Johnson & Johnson (JNJ) are also notable dividend payers.

Moreover, we all expect these companies to be in business in ten years or more.

Distributions have become essential to navigating today's volatile economic climate. The constant reminders of economic turmoil facing both the U.S. and abroad can lead to unexpected shake ups and gut wrenching dips.

Consistent dividends can help alleviate some of this volatility, providing conservative investors with some comfort and confidence.

With Fixed Income investments currently paying historically low yields, capturing dividends from high-quality companies that look like they'll be in business for the long-term is a timely strategy.

The DIAS Enhanced Income Portfolio features an allocation which rotates in and out of quarterly dividend-paying equities, thereby **upgrading the yield without adding significant risk**. Contemporary trading efficiency has made this effective use of capital possible.

