



**BLUEALPHA**

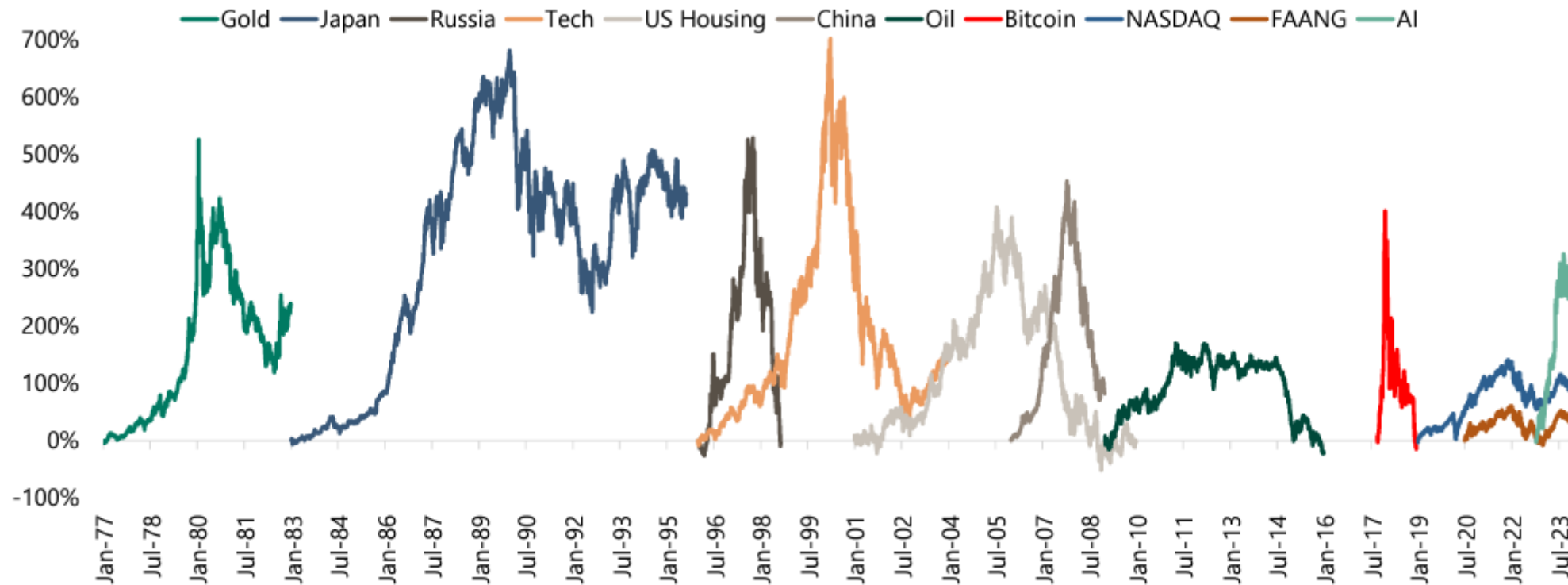
INVESTMENT MANAGEMENT

Value Investing  
And  
“The Greater Fool Theory”

BCI Global Investment Conference  
May 2024

# History of Bubbles

**Bitcoin 1700%**



**AI 600%**

Source: Bloomberg, Apollo Chief Economist. Note: Nikkei for Japan's real estate crisis of 1989; 1998 Moscow large-cap index; NVIDIA as a proxy for AI; 2005-07 China property bubble; and stock price of US homebuilders.

## Warren Buffett on why bubbles happen: People see neighbors 'dumber than they are' getting rich



Tae Kim

CNBC September 12, 2018, 11:51 AM GMT

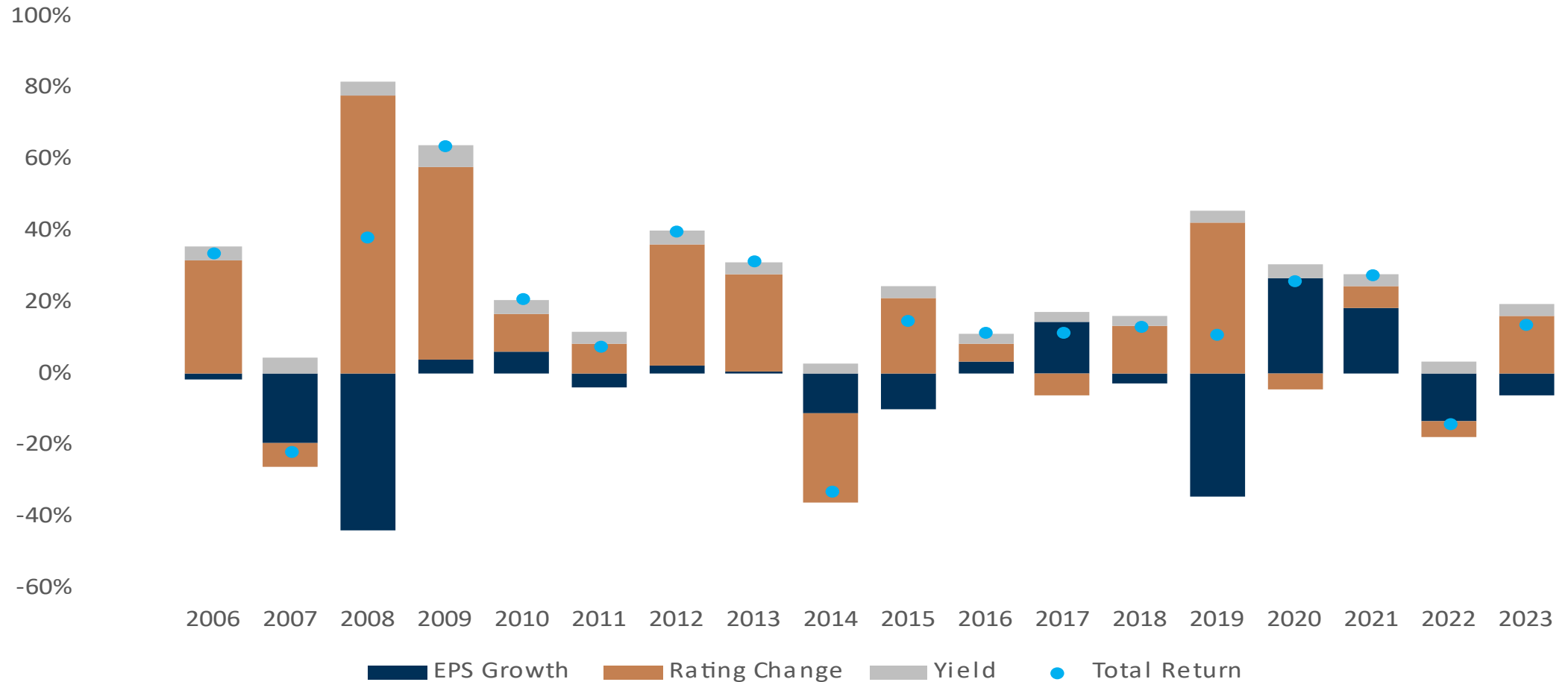
- Warren Buffett was asked by CNBC's Andrew Ross Sorkin if he is worried another financial crisis will happen again.
- "Well there will be one sometime," he said in an interview for CNBC's "Crisis on Wall Street: The Week That Shook the World" documentary. "People start being interested in something because it's going up, not because they understand it or anything else."
- The Oracle of Omaha says the human behavior and jealousy that leads to crises will forever be a part of the financial system.



# What's this got to do with Value Investing?

## Value's Return Composition

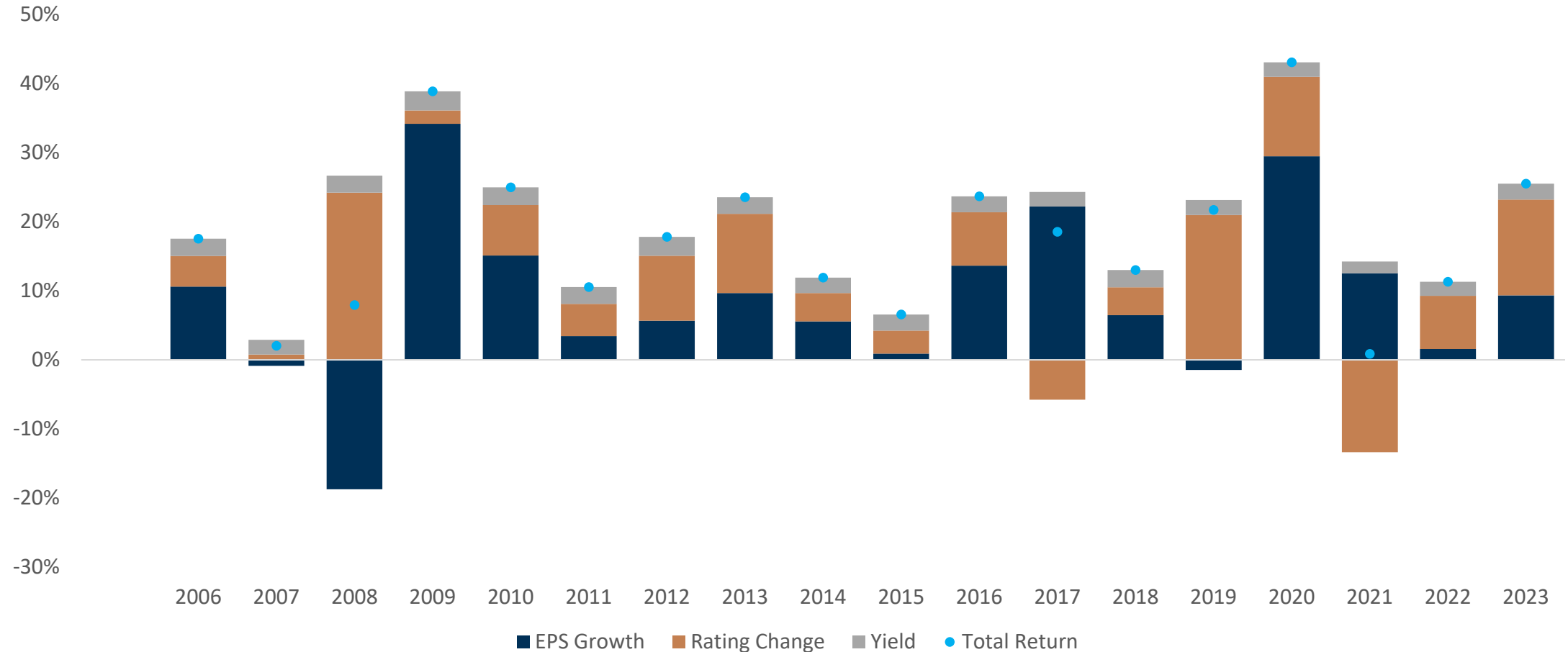
*Cheapest Quintile on Forward PE*



Source: BlueAlpha, O'Shaughnessy

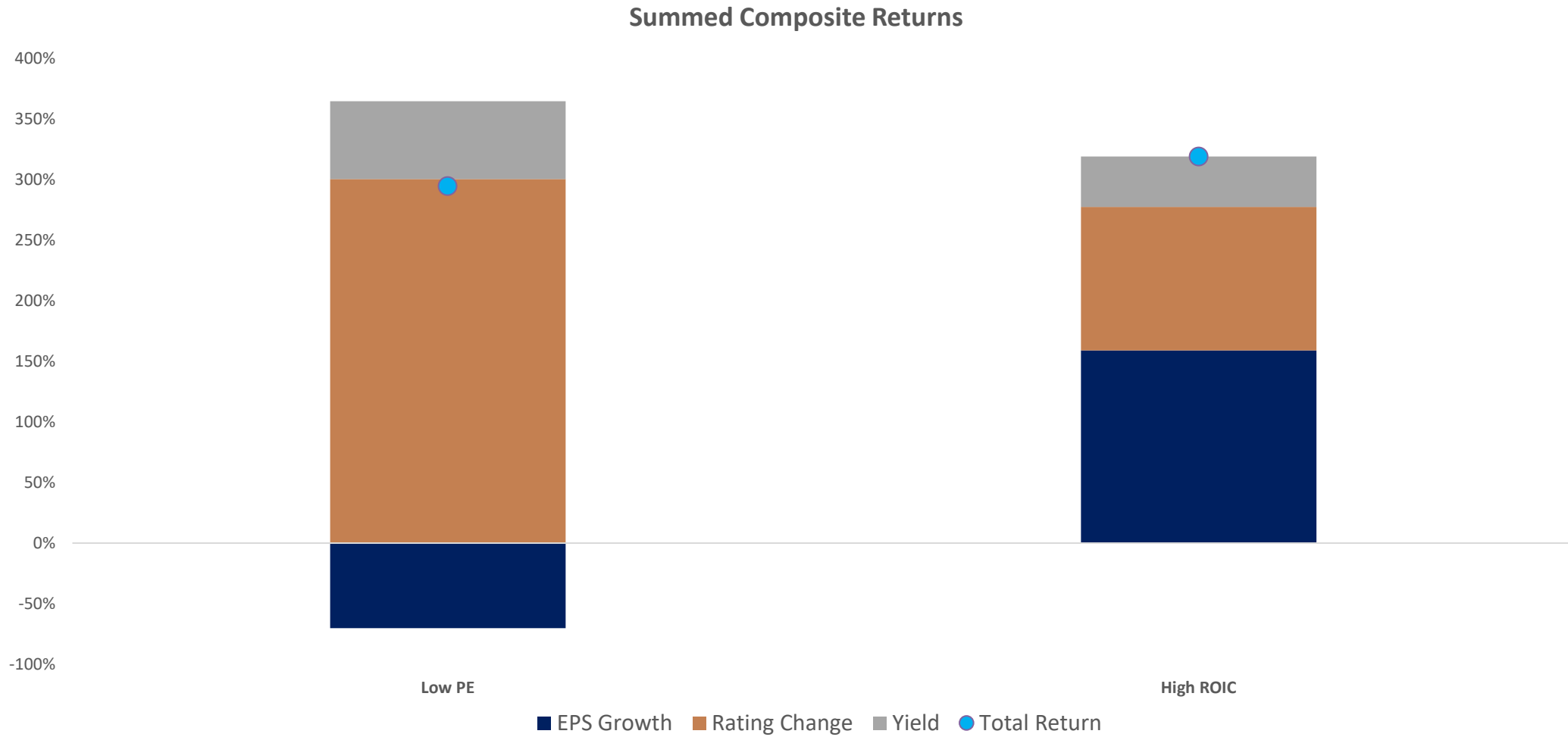
# Is Quality different?

Quality's Return Composition  
Highest ROIC



Source: BlueAlpha, O'Shaughnessy

# Comparing Value to Quality

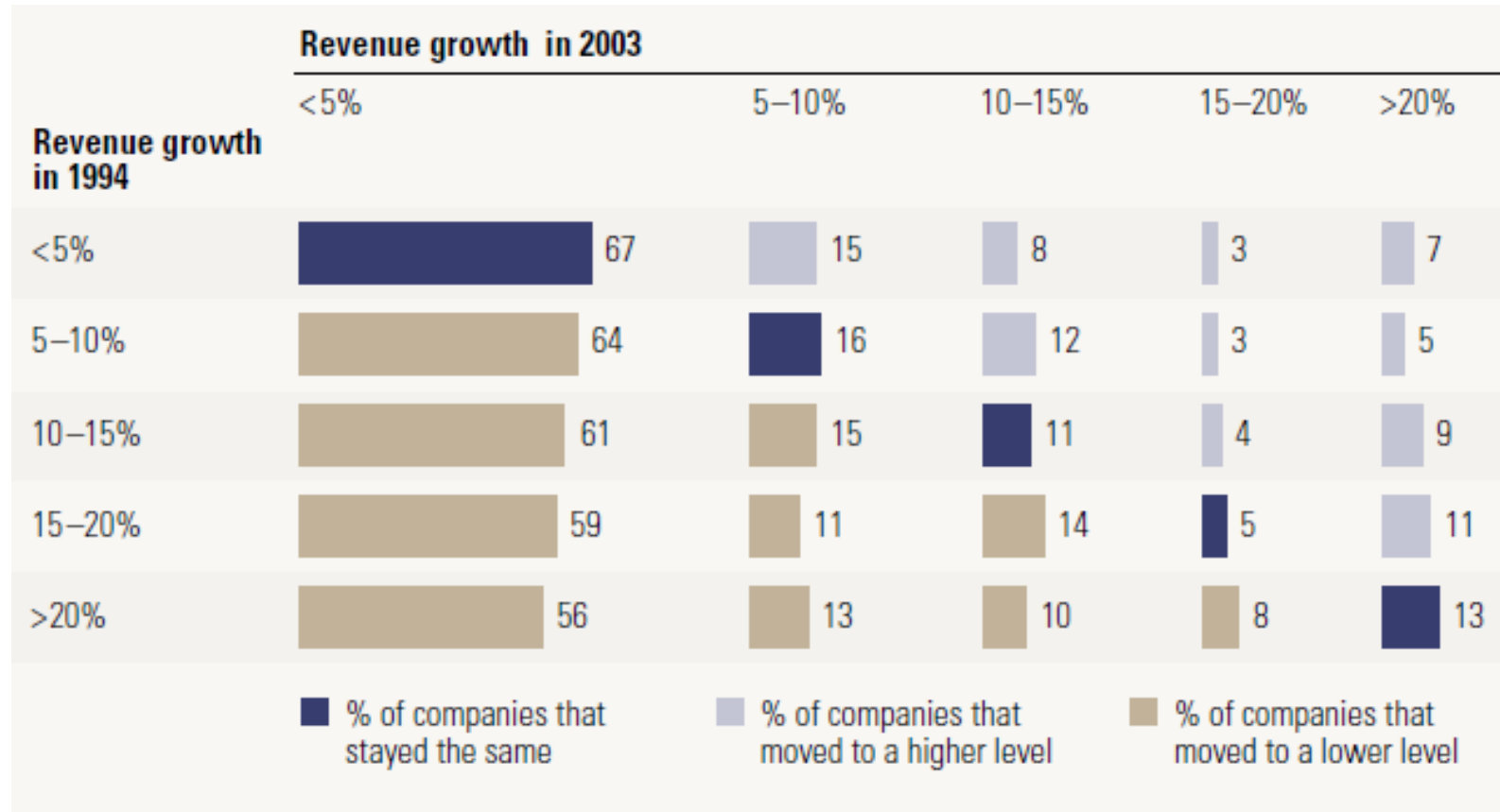


# S&P500 Winners and Losers

	<i>Top 20</i>	<i>Bottom 20</i>	<i>Relative</i>
<b>P/E Ratio</b>	42,02	17,58	2,39 X
<b>Price – book ratio</b>	9,44	3,51	2,7 X
<b>Dividend yield</b>	0,82%	2,33%	2,9 X
<b>Trend Growth</b>	65%	-0,30%	

<b>Result</b>	<b>Best</b>	<b>Market</b>	<b>Worst</b>
<b>Return (%)</b>	2144	212	-26

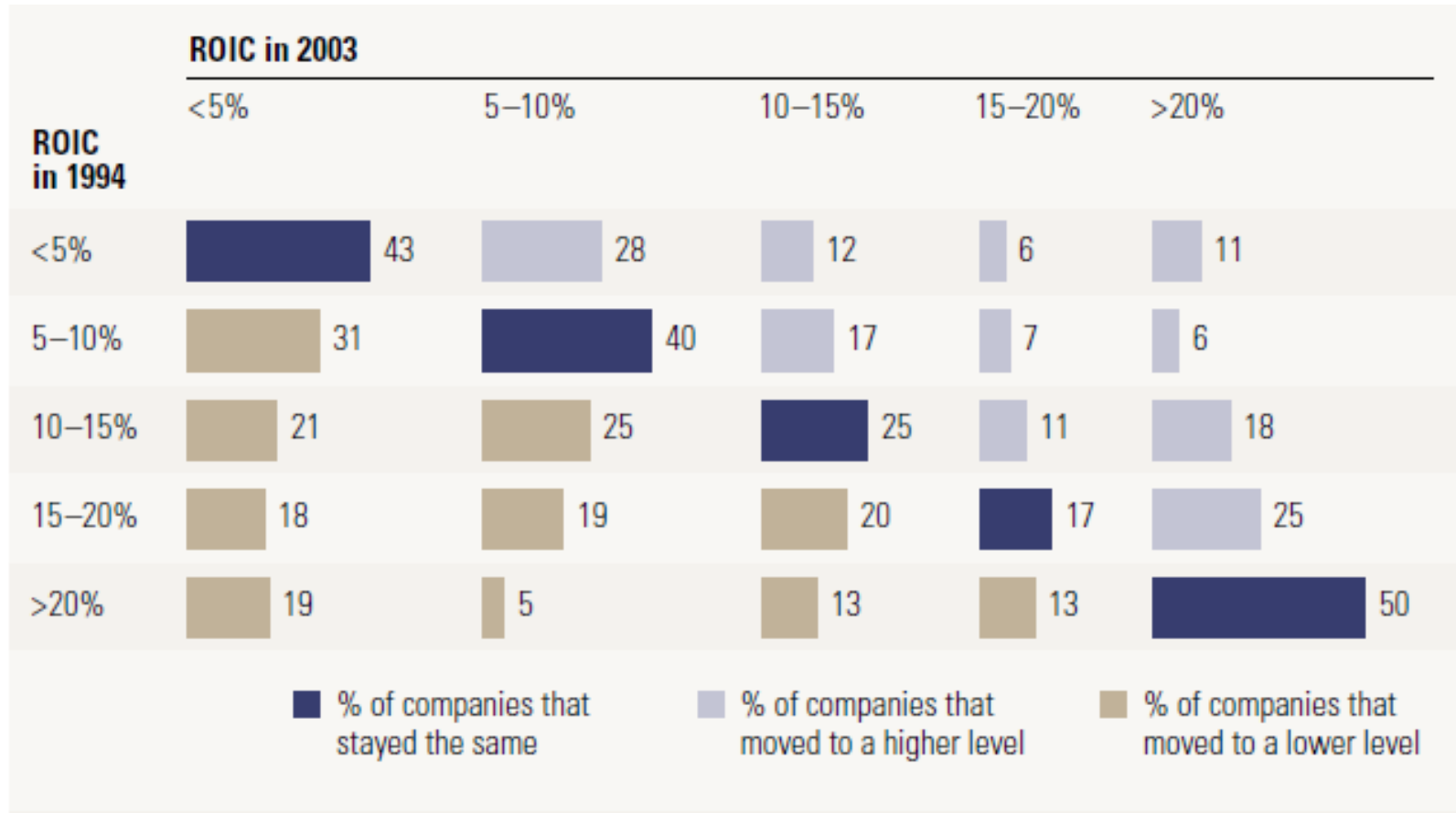
# Should we start with Growth?



Source: McKinsey



# Quality Remains



# Moats are sticky

## Transition rate, 1990-2022

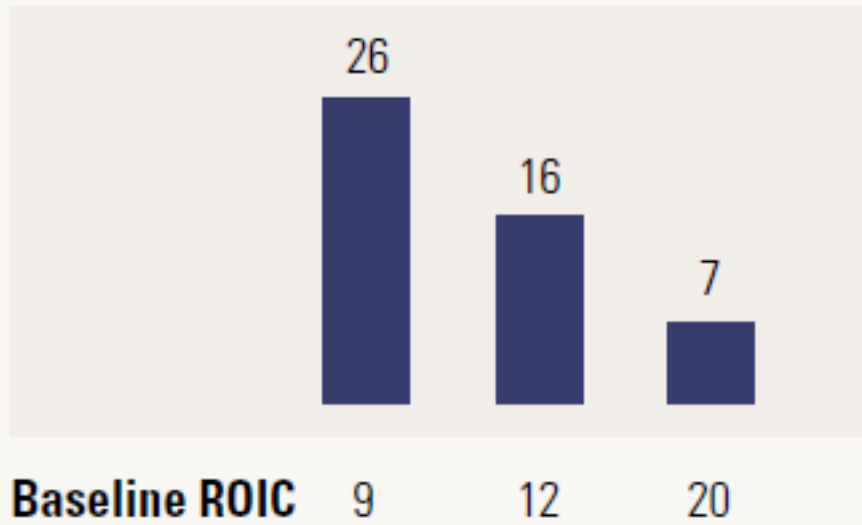
		Ending Quintile				
		(Best) 5	4	3	2	(Worst) 1
Beginning Quintile	(Best) 5	48%	19%	11%	8%	15%
	4	22%	31%	21%	14%	12%
	3	11%	23%	29%	23%	13%
	2	8%	15%	25%	33%	19%
	(Worst) 1	12%	11%	14%	22%	41%

Good companies (high return on Capital) tend to remain so (over a 3-year period)

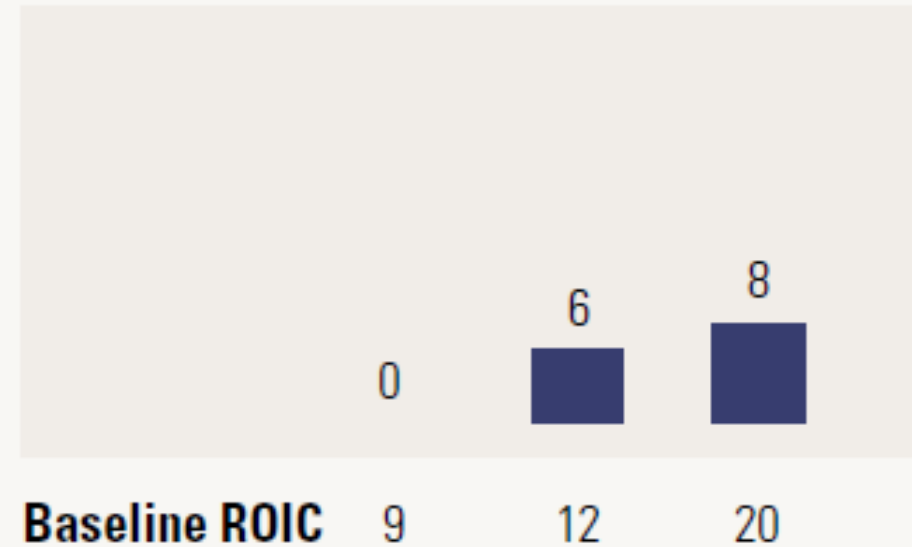
Converse also true

# First Quality then Growth

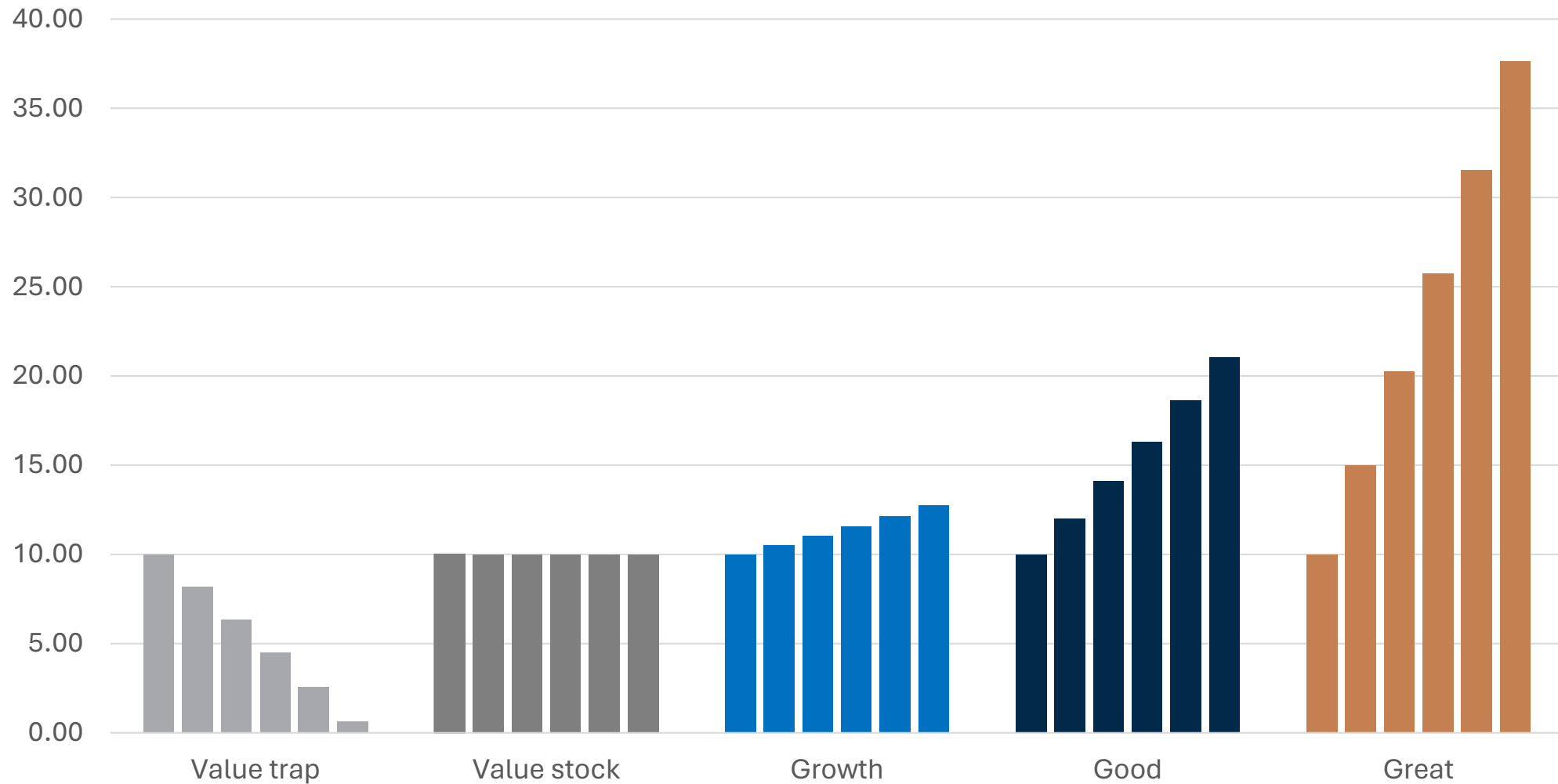
**Value created by 1% higher ROIC,<sup>1</sup> %**



**Value created by 1% faster growth,<sup>1</sup> %**



# Why Quality ? Earnings Power Over 5 Years Starting at \$10

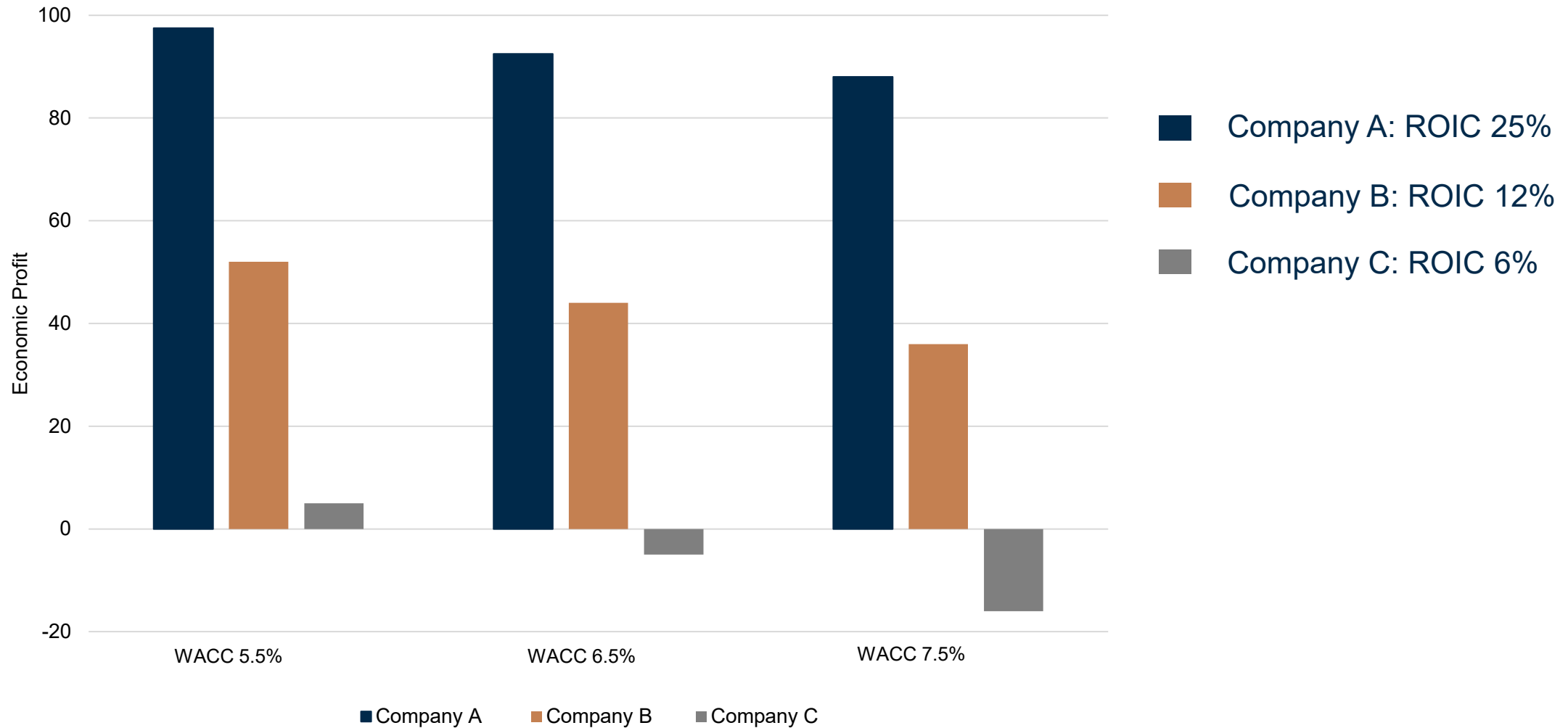


# EV / EBIT Multiples at Purchase to Get Identical Return

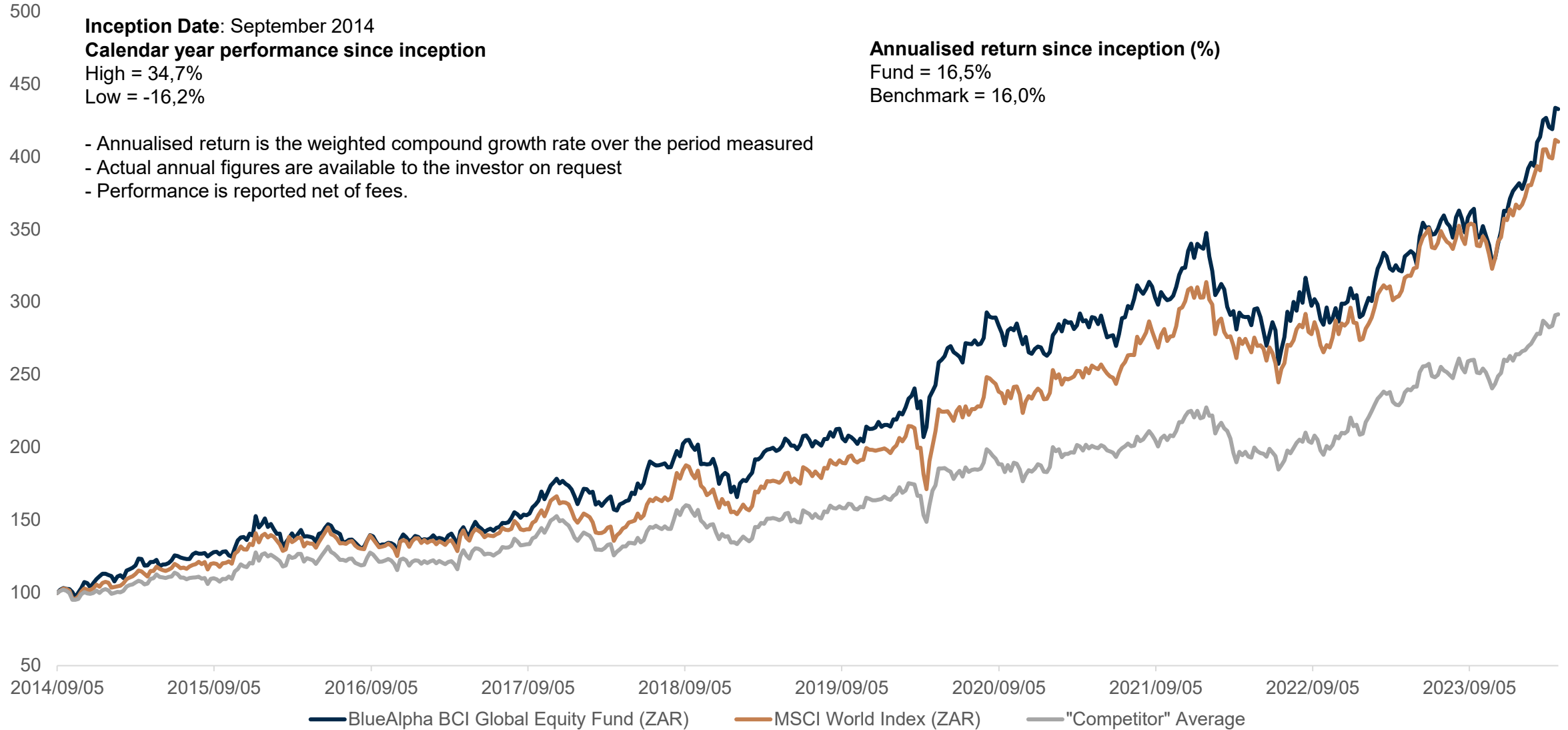
<i>Multiple Comparison</i>	<i>0% Return</i>	<i>10% Return</i>	<i>15% Return</i>	<i>20% Return</i>
<i>Great Business</i>	38	22	17	12
<i>Good Business</i>	21	12	9	7
<i>Growth</i>	13	8	6	4
<i>No Growth</i>	10	6	4	3
<i>Value Trap</i>	1	0	0	0

Good companies tend to be “expensive” and cheap companies tend to be....  
“cheap” for a reason

# What is Value ? “CHEAP” or “Low Quality”



# Looking back



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