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Investor Education Centre

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Zebra's can get fat in lion country

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Many years ago, I enjoyed a book called *A Zebra in Lion Country* written by US fund manager Ralph Wanger. It was a book about investing in small company stocks and the basic message was that you should ignore the crowd and invest where nobody else does.

The book likened investors to zebras in lion country. A zebra has a choice to settle for half-eaten grass in the middle of the herd, or seek fresh grass at the outer edge, where hungry lions lurk. The skinny zebras in the middle of the pack eat less well, but when lions approach, they can at least be sure they'll survive.

The same goes for investors – as long as you buy the same stocks as everyone else, you'll get a similar return as the rest of the market. However, if you trawl through unfamiliar, unloved stocks, you could get it wrong and underperform everyone else. On the other hand, you could be the first to pick a winner – the equivalent of a zebra having an enormous feed of fresh grass.

The concept of contrarian investing has always appealed to me and it is a real buzz finding a great stock before anyone else discovers it.

However, you need a different mindset to be a contrarian investor, and you can't pay too much attention to what others think. Investing involves an element of both intellect and emotion, and it is often the latter that makes contrarian thinking difficult.

While we might know intellectually that a stock is undervalued, if nobody else likes it, we tend to discard it and move on to another more popular stock. It is easier emotionally to buy a popular stock, because it is easier to imagine a successful outcome when everyone else is doing the same thing as us.

It is harder to imagine success when you are the only person who likes a stock. For an undiscovered, unpopular stock to be a successful investment, first the company has to live up to its potential, then the market has to discover it, and then the market has to see the value in it that you first identified.

Warren Buffett once told a story about buying shares in Washington Post when the whole company was valued at \$80 million. At the time the company was debt free, it owned the Washington Post newspaper, a couple of television stations, a half share of 800,000 acres of timberland in Canada, and various other small interests. Most analysts at the time, if asked, would assess the value of Washington Post's assets at between \$400 million and \$600 million. But they didn't think of Washington Post, the company, they thought of Washington Post, the stock (which hadn't been a great performer), and valued it at \$80m.

Buffett's win was two-fold – he made money out of Washington Post as first the company's profitability increased and then the market learned to value its stock properly.

In the current market climate I reckon there is plenty of lush grass to be had - bugger the lions.

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