

Are Company Visits Good or Bad?

Our most profitable investment, ever, was probably the combined result of a lotta luck, some skill, and hard work. We indeed did an extensive fundamental dive, developed a compelling roadmap that drove our fundamental expectations, and we had a reasonable gauge on the behavioural mistakes that were preventing Mr. Market from seeing what we saw.

But to be clear - to the extent that our gains were driven somewhat by skill and hard work - we did **not** have an informational “edge”. Our edge, I think, is that we knew which public information to ignore, and which to spend all our time analysing. We also had had a good sense that Mr Market wasn’t focused on the same information, or – if he was – he wasn’t drawing the same conclusions. That was our differentiation. That was our delta. Ultimately, that is what drove our excess returns.

So, over a five year period of owning this stock, guess how many times we met with the CEO?

Three.

Sure, we also met with the CFO a few times, and had a dozen or so calls with the IR, but we got everything we needed from the CEO in those three visits. Moreover, we didn’t learn anything that the market hadn’t heard already, or didn’t know – we just simply observed what information was being presented to the consensus investor. It was our job to then decide which of that information mattered, and which didn’t.

Visiting the CEO every quarter over these five years wasn’t going to make a difference. If anything, it might have even made us less objective about the information we gathered. It may have even given us a false sense of confidence, as hearing the same thing over again might have led to us overweighting possible outcomes simply because we’d heard the same information multiple times from the same source.

This can be particularly true in cases where the CEO is overly optimistic about the prospects of his company; and while this wasn’t the case here, we’ve seen this sort of enthusiasm countless times (and been burnt by it as well).

Yet the number of company meetings a fund manager or analyst does is often wheeled out to potential fund investors as an indicator of hard work, or access, or effort.

As a young analyst at a large mutual fund company, I remember some of the marketing pitches we would make. We did a lot of company meetings. At the time, we probably did more than anyone else in the world. I’m not even kidding. And we thereafter – in our meetings with consultants and investors – always highlighted the “number of company visits” as if they were some proxy for excess returns.

Guess what, they weren’t.

Sure, it sounds great in marketing meetings to say “we’ve visited with management a dozen times in the past two years and done three site visits” but that doesn’t mean anything about stock-picking. It doesn’t mean anything about excess returns. But it might say something about bias.

So if someone says they’ve visited management for the sixth time this year, maybe just ask them “why?”



Trust me, I play golf with the CEO!

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