

‘Funds in Focus’ Issue 5: Invest like Warren Buffett

Bank Julius Baer & Co. Ltd., Funds Secondary Trading

Warren Buffett is considered to be one of the most successful value investors of all time and is still given a great deal of attention by the financial community at the ripe old age of 88. The “value strategy” is an investment strategy that attempts to invest in shares with value. The Sponsored Funds segment also contains equity funds that are based on this strategy.

Using the value strategy, investors look for companies that are undervalued on the stock exchange and have the potential for their share prices to rise. Undervalued, in this respect, means that the shares in this company can be bought at a price lower than their fair value, despite good fundamentals.

This investment approach was originally conceived by Benjamin Graham, whose book entitled “The Intelligent Investor”, which was published in 1949, is still considered as mandatory reading for many investors today. Warren Buffett is regarded as the most successful student of Benjamin Graham and an advocate of his theories.

An in-depth analysis is used to reveal hidden potential. The traditional method of value investing focuses on buying shares for low prices and then waiting until the share reaches the calculated fair value. Value investors do not want to achieve short-term profits, but instead make investments with long-term expectations. The higher the calculated fair value in comparison with the current share price, the more interesting the stock is for value investors. These investors attach a great deal of importance to solid key performance indicators such as a high capital ratio, free cash flow and high dividend yields. In order to determine which shares are actually favourably priced, the intrinsic value of a company is calculated. In doing so, value investors analyse the entire sector, the company and its management. It is often the case that such stocks are not really popular on the financial markets. Any negative influences prevailing at the time must be recognised and correctly interpreted to ensure that the actual earning power and subsequently the actual intrinsic value can be calculated.

The current situation on the financial markets is not causing much concern among value investors, as they adhere to strict rules as to when to buy and resell a stock. They only buy a stock if the trading price is, for example, 40% lower than the intrinsic value that they have calculated. Benjamin Graham named this the safety margin. Value investors will only sell a stock once it has reached the calculated intrinsic value.

Warren Buffett is not the only avid follower of the value investing strategy. There are also a number of investors in Europe and especially Switzerland who have made a name for themselves as successful value managers. They make their expertise accessible to investors in a simple and secure investment format, i.e. in traditional investment funds. The Sponsored Funds segment also contains popular equity funds that are based on the value strategy.

SIX Swiss Exchange’s Sponsored Funds trading segment provides continuous pricing information, delivering up-to-date mark-to-market prices for traditional investment funds and thus guaranteeing the same degree of ongoing tradability as for equities and exchange-traded funds (ETFs).

The following selection of traditional value investing investment funds can be traded via the SIX Swiss Exchange platform in the Sponsored Funds segment:

Product name	Security no.	ISIN	Currency
ACATIS - GANE VALUE EVENT FONDS UI	4,925,520	DE000A0X7541	EUR
BlackRock Global Funds SICAV - European Value Fund A2C	567,964	LU0072462186	EUR
BlackRock Global Funds SICAV - US Basic Value Fund A2C	567,961	LU0072461881	USD
Classic Value Equity Fund EUR	30,488,453	LI0304884534	EUR
Classic Value Equity Fund	1,907,790	LI0019077903	CHF
Classic Global Equity Fund	832,821	LI0008328218	CHF
Credit Suisse Global Value Equity Fund	1,235,254	LU0129338272	EUR
E.I. Sturzda Strategic Europe Value Fund	11,877,175	IE00B5VJPM77	EUR
MFS European Value Fund	1,214,333	LU0125951151	EUR
Tweedy Browne International Value AC USD	580,565	LU0076398485	USD
Tweedy Browne International Value BC EUR	580,571	LU0076398568	EUR
Tweedy Browne International Value CC CHF	580,573	LU0076398725	CHF

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The fund specialists at Bank Julius Baer handle the market making of traditional investment funds.