



## **2016 MDRT Annual Meeting e-Handout Material**

**Title:** The Challenge of Value Investing

**Speaker:** Lawrence Sarbit

**Presentation Date:** Wednesday, June 15, 2016

**Presentation Time:** 11:30 a.m. - 12:30 p.m.

The Million Dollar Round Table® (MDRT) does not guarantee the accuracy of tax and legal matters and is not liable for errors and omissions. You are urged to check with tax and legal professionals in your state, province or country. MDRT also suggests you consult local insurance and security regulations and your company's compliance department pertaining to the use of any new sales materials with your clients. The information contained in this handout is unedited; errors, omissions and misspellings may exist. Content may be altered during the delivery of this presentation.

© 2016 Million Dollar Round Table

---

Million Dollar Round Table  
325 West Touhy Ave.  
Park Ridge, IL 60068 USA

Slide 1



---

---

---

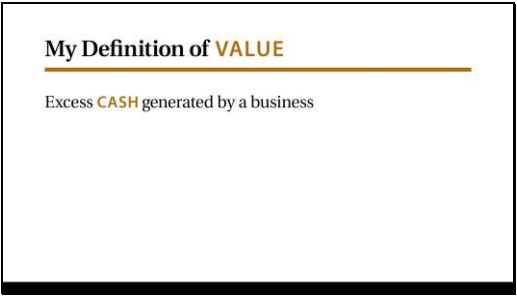
---

---

---

---

Slide 2



---

---

---

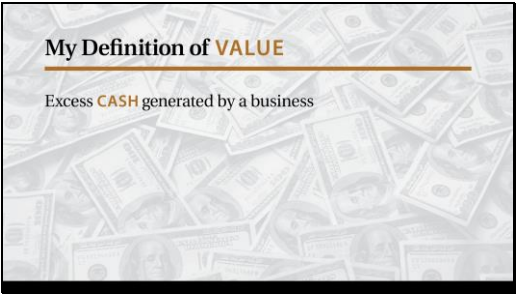
---

---

---

---

Slide 3



---

---

---

---

---

---

---

Slide 4

Benjamin Graham

MARGIN OF SAFETY



---

---

---

---

---



---

---

Slide 5

Benjamin Graham

MARGIN OF SAFETY

CONCEPT FROM ENGINEERING

"A margin of safety is achieved when securities are purchased at prices sufficiently below underlying value to allow for human error, bad luck, or extreme volatility in a complex, unpredictable and rapidly changing world."

Seth Klarman, Margin of Safety, 1991.

---

---

---


---

---

---

---

Slide 6



Warren Buffett's 2 Rules

- RULE 1: Don't Lose Money

---

---

---


---

---

---

---

Slide 7



### Warren Buffett's 2 Rules

- **RULE 1:** Don't Lose Money
- **RULE 2:** Don't Forget Rule #1
- All about **PRESERVATION OF CAPITAL**

---

---

---

---

---

---

---

Slide 8

### The Best Approach

**CERTAINTY: EQUITY BONDS**

Predictable returns

Source: Sarbit Advisory Services Inc.

---

---

---

---

---

---

---

Slide 9

“An investor should act as though he had a lifetime decision card with just twenty punches on it. With every investment decision his card is punched, and he has one fewer available for the rest of his life.”

**Warren Buffett**

---

---

---

---

---

---

---

Slide 10

### How to Deal with Uncertainty

“What you really want to do in investments is figure out what is **IMPORTANT and KNOWABLE**. If it's **UNIMPORTANT or UNKNOWNABLE**, you forget about it.”

**Warren Buffett**, University of Florida, Talk to MBA Students, YouTube 1998



---

---

---

---

---

---

---

---

Slide 11

### What we don't do

- Predict economic trends

---

---

---

---

---

---

---

---

Slide 12

### What we don't do

- Predict economic trends
- Predict interest rates

---

---

---

---

---

---

---

---

Slide 13

### What we don't do

- Predict economic trends
- Predict interest rates
- Predict currency movements

---

---

---

---

---

---

---

Slide 14

### What we don't do

- Predict economic trends
- Predict interest rates
- Predict currency movements
- Predict stock market moves

---

---

---

---

---

---

---

Slide 15

### What we don't do

- Predict economic trends
- Predict interest rates
- Predict currency movements
- Predict stock market moves

**IN OUR OPINION:** A total waste of our time!

---

---

---


---

---

---

---

Slide 16



### The Sad Fact

“There are two kinds of forecasters: those who don't know, and those who **KNOW** they don't know.”

**J.K. Galbraith**

---

---

---

---

---

---

---

Slide 17

### Predicting the Future...

**A POOR LONG-TERM TRACK RECORD**

- A number of past predictions



---

---

---

---

---

---

---

Slide 18

### Predicting the Future...

**A POOR LONG-TERM TRACK RECORD**

- A number of past predictions



---

---

---

---

---

---

---

Slide 19

Characteristics of **EQUITY BONDS**

- Sustainable competitive advantage – weak competition

Source: Sarbit Advisory Services Inc.

---

---

---

---

---

---

---

Slide 20

Characteristics of **EQUITY BONDS**

- Sustainable competitive advantage – weak competition
- Repeatable predictable revenue – growing demand

Source: Sarbit Advisory Services Inc.

---

---

---

---

---

---

---

Slide 21

Characteristics of **EQUITY BONDS**

- Sustainable competitive advantage – weak competition
- Repeatable predictable revenue – growing demand
- Stable business model – little change over time

Source: Sarbit Advisory Services Inc.

---

---

---

---

---

---

---

## Slide 22

### Characteristics of EQUITY BONDS

- Sustainable competitive advantage – weak competition
- Repeatable predictable revenue – growing demand
- Stable business model – little change over time
- Little capital input required

Source: Sarbit Advisory Services Inc.

---

---

---

---

---

---

---

## Slide 23

### Characteristics of EQUITY BONDS

- Sustainable competitive advantage – weak competition
- Repeatable predictable revenue – growing demand
- Stable business model – little change over time
- Little capital input required
- Growing free cash flow stream

Source: Sarbit Advisory Services Inc.

---

---

---

---

---

---

---

## Slide 24

### Characteristics of EQUITY BONDS

- Sustainable competitive advantage – weak competition
- Repeatable predictable revenue – growing demand
- Stable business model – little change over time
- Little capital input required
- Growing free cash flow stream
- Trading at a bargain or reasonable price

Source: Sarbit Advisory Services Inc.

---

---

---

---

---

---

---

Slide 25

### Characteristics of EQUITY BONDS

- Sustainable competitive advantage – weak competition
- Repeatable predictable revenue – growing demand
- Stable business model – little change over time
- Little capital input required
- Growing free cash flow stream
- Trading at a bargain or reasonable price

AND WITH

- Great Management – decent honest – right people to run the business

Source: Sarbit Advisory Services Inc.

---

---

---

---

---

---

---

---

Slide 26

### Buffett's Double Dip Return

"...our performance to date has benefited from a double-dip: (1) the exceptional gains in intrinsic value that our portfolio companies achieved; (2) the additional bonus we realized as the market appropriately "corrected" the prices of these companies; raising their valuations in relation to those of the average business".

**Warren Buffett**, 1989 Berkshire Hathaway Letter to Shareholders

---

---

---

---

---

---

---

---

Slide 27

### Buffett's Double Dip Return

"...our performance to date has benefited from a double-dip: (1) the exceptional gains in intrinsic value that our portfolio companies achieved; (2) the additional bonus we realized as the market appropriately "corrected" the prices of these companies; raising their valuations in relation to those of the average business".

**Warren Buffett**, 1989 Berkshire Hathaway Letter to Shareholders



---

---

---

---

---

---

---

---

Slide 28

### Buffett's Double Dip Return

"...our performance to date has benefited from a double-dip: (1) the exceptional gains in intrinsic value that our portfolio companies achieved; (2) the additional bonus we realized as the market appropriately "corrected" the prices of these companies; raising their valuations in relation to those of the average business".

**Warren Buffett**, 1989 Berkshire Hathaway Letter to Shareholders

1 Increase of business value

---

---

---

---

---

---

---

---

Slide 29

### Buffett's Double Dip Return

"...our performance to date has benefited from a double-dip: (1) the exceptional gains in intrinsic value that our portfolio companies achieved; (2) the additional bonus we realized as the market appropriately "corrected" the prices of these companies; raising their valuations in relation to those of the average business".

**Warren Buffett**, 1989 Berkshire Hathaway Letter to Shareholders

1 Increase of business value  
2 Return to rational business value

---

---

---

---

---

---

---

---

Slide 30

### Buffett's Double Dip Return

"...our performance to date has benefited from a double-dip: (1) the exceptional gains in intrinsic value that our portfolio companies achieved; (2) the additional bonus we realized as the market appropriately "corrected" the prices of these companies; raising their valuations in relation to those of the average business".

**Warren Buffett**, 1989 Berkshire Hathaway Letter to Shareholders

1 Increase of business value  
2 Return to rational business value  
3 High rate of return plus low risk

---

---

---

---

---

---

---

---

Slide 31

### Concentration

- A few wonderful businesses

---

---

---

---

---

---

---

Slide 32

### Concentration

- A few wonderful businesses
- True Business Owners own one/few companies

---

---

---

---

---

---

---

Slide 33

### Concentration

- A few wonderful businesses
- True Business Owners own one/few companies
- You only own/run one or few businesses

---

---

---

---

---

---

---

Slide 34

### Concentration

- A few wonderful businesses
- True Business Owners own one/few companies
- You only own/run one or few businesses
- Wonderful business? Own a lot of it!

---

---

---

---

---

---

---

Slide 35

### Concentration

- A few wonderful businesses
- True Business Owners own one/few companies
- You only own/run one or few businesses
- Wonderful business? Own a lot of it!
- Buy a private company? No stock price!

---

---

---

---

---

---

---

Slide 36

“An investor should act as though he had a lifetime decision card with just twenty punches on it. With every investment decision his card is punched, and he has one fewer available for the rest of his life.”

**Warren Buffett**

---

---

---

---

---

---

---

Slide 37

What is Cash?

WARREN BUFFETT ON CASH:

- A call option with no expiration date or strike price

---

---

---

---

---

---

---

Slide 38

What is Cash?

WARREN BUFFETT ON CASH:

- A call option with no expiration date or strike price
- An asset available to scoop up a bargain **WHEN** it becomes available

---

---

---

---

---

---

---

Slide 39

What is Cash?

WARREN BUFFETT ON CASH:

- A call option with no expiration date or strike price
- An asset available to scoop up a bargain **WHEN** it becomes available
- A very valuable asset when investors can use it!

---

---

---


---

---

---

---

Slide 40



### Cash Oxygen

"Next up is cash. At a healthy business, cash is sometimes thought of as something to be minimized—as an unproductive asset that acts as a drag on such markers as return on equity. Cash, though, is to a business as oxygen is to an individual: never thought about when present, the only thing in mind when it is absent."

**Warren Buffett**  
Source: Berkshire Hathaway Letter to shareholders, 2014, page 35

---

---

---

---

---

---

---

---

Slide 41

"Good investing hurts. It's not any fun. It requires the ability to endure things that most people aren't able to, such as bear markets that last for years and times when you perform worse than average."

**Charlie Munger**, Daily Journal Meeting, March 25, 2015



---

---

---

---

---


---

---

---

Slide 42

### Thanks for listening



---

---

---

---

---

---

---

---