TABLE 1.1 Effect of Fees on the Future Wealth of a Hedge Fund Investor

	Typical Hedge Fund Fee Structure: "2 and 20"		Buffett Partnership-Style Fee Structure	
	Management fee: 2%		Management fee: 0%	
	Performance fee: 20%		Performance fee: 20%	
	Annual hurdle rate: 0%		Annual hurdle rate: 6%	
Assumed gross return	5.0%	10.0%	5.0%	10.0%
Resulting net return	2.4%	6.4%	5.0%	9.2%
Gross value of $1 million				
. . . after 10 years	$1,628,895	$2,593,742	$1,628,895	$2,593,742
. . . after 20 years	2,653,298	6,727,500	2,653,298	6,727,500
. . . after 30 years	4,321,942	17,449,402	4,321,942	17,449,402
Net value of $1 million				
. . . after 10 years	$1,267,651	$1,859,586	$1,628,895	$2,411,162
. . . after 20 years	1,606,938	3,458,060	2,653,298	5,813,702
. . . after 30 years	2,037,036	6,430,561	4,321,942	14,017,777
Value lost due to fees				
. . . after 10 years	$361,244	$734,156	$0	$182,580
. . . after 20 years	1,046,360	3,269,440	0	913,798
. . . after 30 years	2,284,906	11,018,842	0	3,431,625

I also considered investing my savings in one of a handful of public companies that operate as low-cost yet high-quality investment vehicles. Berkshire Hathaway pays Warren Buffett an annual salary of $100,000 for arguably the finest capital allocation skills in the world. Buffett receives no bonus, no stock options, and no restricted stock, let alone hedge-fund-style performance fees.[5] It certainly seems like investors considering an investment in a highly prized hedge fund should first convince themselves that their prospective fund manager can beat Buffett. Doing this on a pre-fee basis is hard enough; on an after-fee basis, the odds diminish considerably. Of course, buying a share of Berkshire is not quite

TABLE 1.2 "Mind-Set A"—Selected Investment Opportunities, November 2001[8]

Ticker	Company	Stock Price	Market Value	$100,000 Buys . . .
AET	Aetna	$30.52	$4.4 billion	3,277 shares
DAL	Delta Air Lines	29.31	3.6 billion	3,412 shares
F	Ford Motor	17.88	32.4 billion	5,593 shares
GM	General Motors	47.69	26.5 billion	2,097 shares
LMT	Lockheed Martin	45.01	19.8 billion	2,222 shares
NYT	New York Times	45.15	6.8 billion	2,215 shares
TIF	Tiffany & Co.	29.17	4.3 billion	3,428 shares
TM	Toyota Motor	53.71	99.0 billion	1,862 shares

shares of any of these stocks" ("mind-set a"). Without realizing it, we are committing the fallacy of considering the scale of our portfolio ahead of the scale of potential investments.

On the flip side, if we adopted an asset allocator's mind-set, we might ask, "If I could buy one of the above companies, which would I choose?" This question focuses attention on the relative scale of the potential investments rather than the size of our portfolio. By applying this mind-set even before embarking on in-depth analysis of the various companies, we might make the observation shown in Table 1.3.

Toyota alone was valued more highly than all the companies on the left combined (based on market value rather than enterprise value, which in this case would have been a more appropriate measure). The investor with mind-set b might wonder: "Would I rather own Toyota or Aetna, Delta, Ford, GM, Lockheed Martin, the *New York Times*, and Tiffany combined?" While after careful analysis the answer might indeed be Toyota, it is obvious that we would need well-founded reasons for that choice. Had we kept a small fish mentality, however, we might have completely missed this issue of relative scale and invested in Toyota, ignorant of the severity of the implied relative value bet.

In Table 1.4, we revisit the previous comparison as of late 2004.

As a comparison of the market values shows, Toyota outperformed a portfolio of the companies on the left over the three-year

TABLE 1.3 "Mind-Set B"—Selected Investment Opportunities, November 2001

Ticker	Company	Market Value	Ticker	Company	Market Value
AET	Aetna	$4.4 billion	TM	Toyota Motor	$99.0 billion
DAL	Delta Air Lines	3.6 billion			
F	Ford Motor	32.4 billion			
GM	General Motors	26.5 billion			
LMT	Lockheed Martin	19.8 billion			
NYT	New York Times	6.8 billion			
TIF	Tiffany & Co.	4.3 billion			
		$97.8 billion			$99.0 billion

TABLE 1.4 "Mind-Set B"—Selected Investment Opportunities, October 2004[9]

Ticker	Company	Market Value	Ticker	Company	Market Value
AET	Aetna	$12.8 billion	TM	Toyota Motor	$125.3 billion
DAL	Delta Air Lines	0.4 billion			
F	Ford Motor	23.7 billion			
GM	General Motors	21.4 billion			
LMT	Lockheed Martin	23.8 billion			
NYT	New York Times	5.7 billion			
TIF	Tiffany & Co.	4.1 billion			
		$91.9 billion			$125.3 billion

period ending in late 2004.[10] While this may come as a surprise, it simply means that mind-set b is not a sufficient condition for investment success: Good decision making requires thorough analysis of underlying fundamentals. (Giving the previous table another thought, it is interesting that, in theory, by selling short all of Toyota in late 2004, we could have bought not only the companies on the left but also 93 percent of McDonald's.)

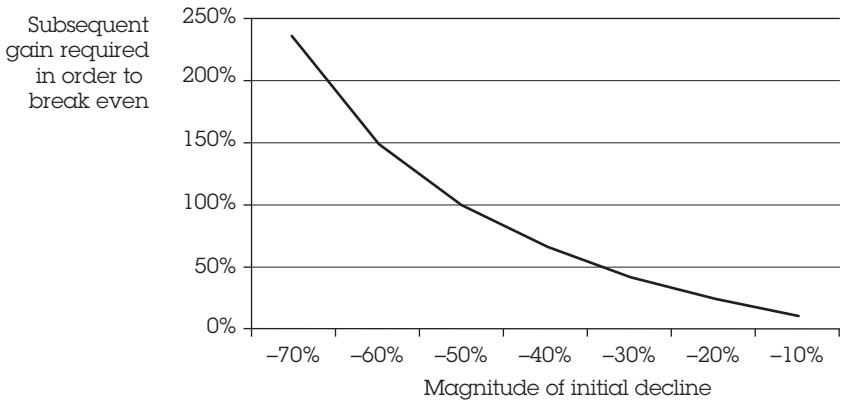
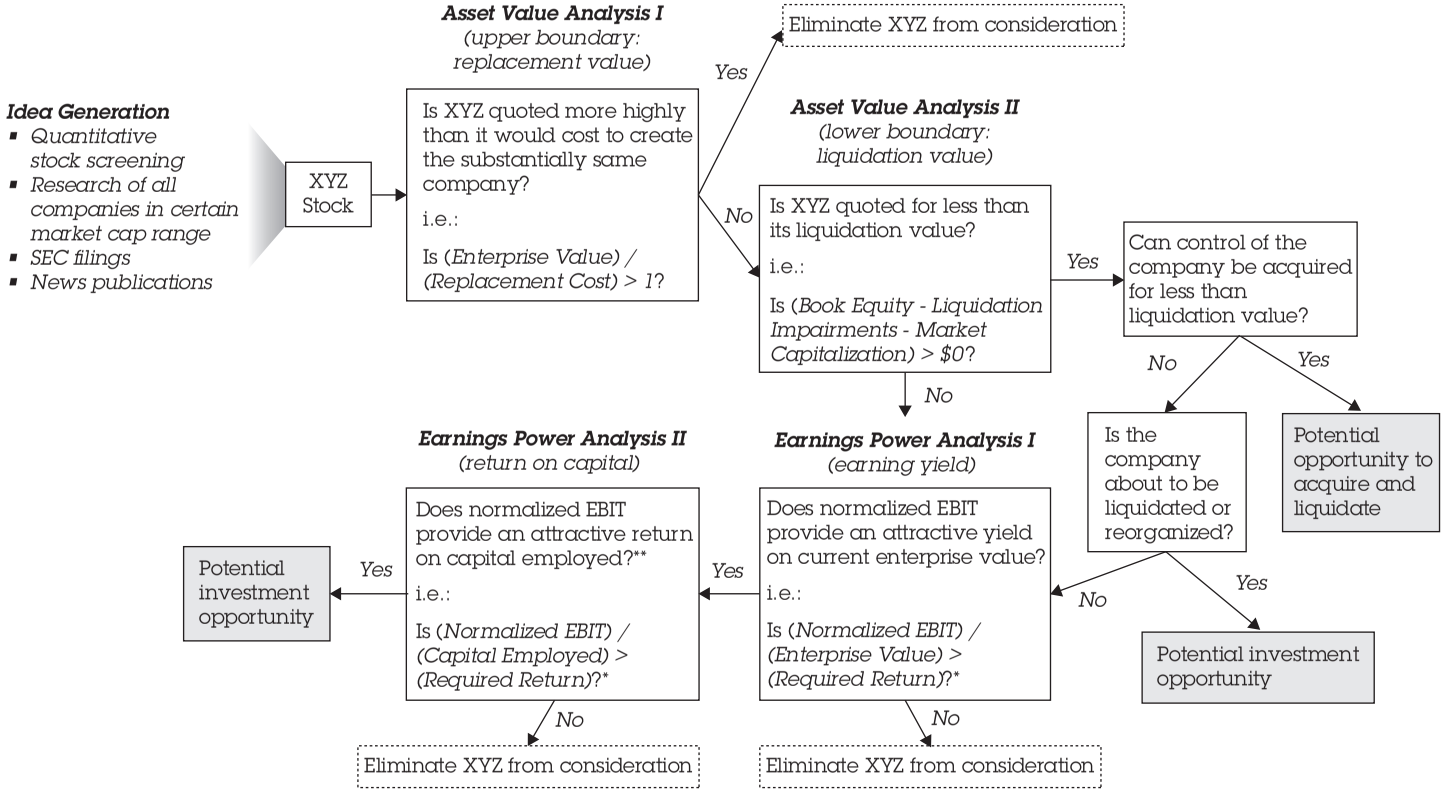


FIGURE 1.1 The Perverse Impact of Losses—Subsequent Gain Required to Break Even
Source: The Manual of Ideas.

Perhaps most important, the capital allocator mind-set enabled me to draw a sharp distinction between value and price, echoing Ben Graham's teaching, "Price is what you pay; value is what you get."[11] If I directed the allocation of the world's capital, I would not be able to rely on the market to bail me out of bad decisions. The greater fool theory of someone buying my shares at a higher price breaks down if the buck stops with me. Successful long-term investors believe their return will come from the investee company's return on equity rather than from sales of stock. This mind-set produces a very different process of estimating value than if we rely on the market to establish value and then try to gauge whether a company is likely to beat or miss quarterly earnings estimates.

Acting as a capital allocator rather than a speculator or trader required tremendous discipline at first, as I sometimes felt the temptation to outsmart other investors by betting that an earnings report would beat consensus estimates or an acquisition rumor would prove correct. Trading on such tenuous propositions required tacit agreement with the market's underlying valuation of a business, as I would have been betting on an incremental change in the stock price and not necessarily buying a fundamentally undervalued business. I learned that self-restraint was crucial, as buying an overvalued company in expectation of positive news could backfire. There is simply no way to know how an overvalued stock will react to an apparent earnings beat. Investors may be



*Required return depends on conviction regarding normalized EBIT and other factors.
**Additional considerations: Can capital be reinvested at the normalized return on capital? Are above-average returns on capital sustainable?

FIGURE 1.2 Illustrative Stock Selection Framework
Source: The Manual of Ideas.

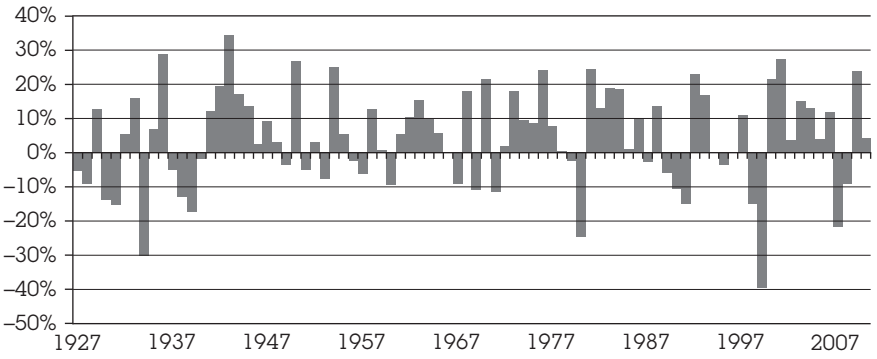


FIGURE 2.1 Annual Performance Difference between U.S. Value versus Growth Stocks, 1927–2012
Source: Kenneth French.[3]

The longevity of the Graham-style approach to investing in statistically cheap equities is remarkable, according to Toby Carlisle, managing member of Eyquem Investment Management:

> *It's a testament to Ben Graham's genius that his net current asset value strategy should be so robust, by which I mean that it should continue to work in different markets, both temporally and geographically, 76 years after it was first published. The strategy has been the subject of numerous papers. Two notable papers are Professor Henry Oppenheimer's* Ben Graham's Net Current Asset Values: A Performance Update*, and James Montier's* Graham's Net-Nets: Outdated or Outstanding? *Professor Oppenheimer studied net current asset value stocks in the United States between 1970 and 1983, finding a mean return of 29.4 percent per year against an index return of 11.5 percent. Montier looked at the performance of net current asset value stocks globally between 1985 and 2007, finding a mean return of 35 percent per year against an index return of 17 percent per year.*[4]

Some Companies Are Worth More Dead Than Alive

Investors often forget that corporations were not always meant to live forever. Many years ago, the idea of a company focused more on the limited liability such an entity could afford the individuals

TABLE 2.1 Impact of Dividend Policy on the Return of an Equity Investor

		End of Year 0	End of Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Key assumptions								
Stock purchase		($100)						
Forward P/E		5.0×	5.0×	5.0×	5.0×	5.0×	5.0×	
ROE			10%	10%	10%	10%	10%	10%
No dividend								
Beginning equity			$1,000	$1,100	$1,210	$1,331	$1,464	
Net income			$100	$110	$121	$133	$146	$161
Dividends paid			$0	$0	$0	$0	$0	
Ending equity		$1,000	$1,100	$1,210	$1,331	$1,464	$1,610	
Market capitalization		$500	$550	$605	$666	$732	$805	
Dividends received			$0	$0	$0	$0	$0	
Sale of stock			$0	$0	$0	$0	$161	
Total cash inflow		($100)	$0	$0	$0	$0	$160	
Pretax return	10%							
50% payout								
Beginning equity			$1,000	$1,050	$1,103	$1,158	$1,216	
Net income			$100	$105	$110	$116	$122	$128

Dividends paid			($50)	($53)	($55)	($58)	($61)	
Equity (ex-dividend)		$1,000	$1,050	$1,103	$1,158	$1,216	$1,276	
Market capitalization		$500	$525	$551	$579	$608	$638	
Dividends received			$10	$11	$11	$12	$12	
Sale of stock			$0	$0	$0	$0	$128	
Total cash inflow		($100)	$10	$11	$11	$12	$140	
Pretax return	15%							
100% payout								
Beginning equity			$1,000	$1,000	$1,000	$1,000	$1,000	
Net income			$100	$100	$100	$100	$100	$100
Dividends paid			($100)	($100)	($100)	($100)	($100)	
Equity (ex-dividend)		$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	
Market capitalization		$500	$500	$500	$500	$500	$500	
Dividends received			$20	$20	$20	$20	$20	
Sale of stock			$0	$0	$0	$0	$100	
Total cash inflow		($100)	$20	$20	$20	$20	$120	
Pre-tax return	20%							

Source: The Manual of Ideas analysis.

TABLE 4.1 Illustrative Investment Return to a Good Company Investor

		Year 1	Year 2	Year 3	Year 4	Year 5	IRR
Company Perspective							
Capital employed at start of period		100	140	183	230	280	
Return on beginning Year 1 capital		50%	50%	50%	50%	50%	
Return on incremental capital			10%	10%	10%	10%	
Net profit		50	54	58	63	68	
Reinvestment percentage		80%	80%	80%	80%	80%	
Amount reinvested		40	43	47	50	54	
Capital employed at end of period		140	183	230	280	335	
Amount returned to investors		10	11	12	13	14	
Blended return on average capital			45%	36%	30%	27%	
Equity Investor Perspective							
Investor buys . . .							
. . . and sells for 1x capital	−100	10	11	12	13	348	**35%**
. . . and sells for 2x capital	−200	10	11	12	13	683	**31%**
. . . for 2x and sells for 1x capital	−200	10	11	12	13	348	**16%**
. . . for 3x and sells for 1x capital	−300	10	11	12	13	348	**6%**
. . . for 10x Yr 1 and sells for 10x Yr 10 profit	−500	10	11	12	13	694	**8%**
. . . for 20x Yr 1 and sells for 10x Yr 10 profit	−1000	10	11	12	13	694	**−6%**

Source: The Manual of Ideas.

TABLE 5.1 Cash Conversion Cycle of Dell Inc.

	3Q12	4Q12	1Q13	2Q13	3Q13
DSO = days sales outstanding	42	42	43	46	45
DSI = days sales of inventory	11	11	12	13	11
DPO = days payables outstanding	84	89	87	89	88
CCC = cash conversion cycle	−31	−36	−32	−30	−32

CCC = DSO + DSI − DPO

Source: Dell Inc., *The Manual of Ideas.*

time until cash is collected, in Dell's case the number is negative because Dell pays suppliers more slowly than it keeps goods in inventory and collects cash for sales transactions.

Dell's negative working capital supports the view that the company is well managed. However, when a company has enjoyed a negative working capital position for a long time, we may wonder how much of the outperformance versus competitors is due to management and how much is due to the company's unique business model. As Dell pioneered the built-to-order model many years ago, an incoming CEO would likely enjoy a cash conversion cycle similar to the one shown here. Concluding that this CEO was better than the CEO of a competitor with a less favorable cash conversion cycle would be premature. A new CEO of Dell should instead be judged on how the company's cash conversion cycle trends during the new CEO's tenure. Even so, reasons other than the ability of the CEO could cause the statistics to trend up or down. For instance, the cash conversion cycle might become less favorable as a result of a management plan to increase shareholder value in other ways.

PROXY FIVE: CAPITAL EXPENDITURE TRENDS Many managers see a top priority in perpetuating the corporation. They regard capital expenditures or acquisitions—as opposed to dividends or stock repurchases—as default use of cash flow. While capital expenditures represent a capital allocation decision, they may also provide

TABLE 5.2 Selected Public Company Jockeys

Name	Company	Year of Birth	Year Joined Firm	Top Job Since	Stock Price When Joined	Price When Assumed Top Job	Recent Stock Price
Michael Ashner	Winthrop Realty	1953	2003	2004	$2.16	$2.76	$12.34
Raymond Barrette	White Mountains	1951	1997	2007	117.64	579.70	567.34
Warren Buffett	Berkshire Hathaway	1930	1965	1965	18	18	152,000
Patrick Byrne	Overstock.com	1962	1999	1999	13.03	13.03	12.52
Ian Cumming	Leucadia National	1941	1978	1978	0.05	0.05	28.16
David Einhorn	Greenlight Capital Re	1968	2004	2004	24.03	24.03	24.78
Charlie Ergen	EchoStar	1953	1980	1980	18.83	18.83	38.36
Bruce Flatt	Brookfield Asset	1966	1990	2002	10.45	19.65	37.80
Martin Franklin	Jarden Corporation	1965	2001	2001	2.44	2.44	59.66
Thomas Gayner	Markel Corporation	1962	2001	2010	164.75	345.55	491.79
Weston Hicks	Alleghany	1957	2002	2004	180.50	285.25	377.33
Edward Lampert	Sears Holdings	1962	2005	2005	132.52	132.52	47.19
John Malone	Liberty Media	1941	1990	1990	n/m	n/m	107.14
Joe Steinberg	Leucadia National	1944	1978	1979	0.03	0.04	28.16
Kenneth Peak	Contango Oil & Gas	1945	1999	1999	1.50	1.50	41.70

Michael Smith	MFC Industrial	1948	1986	2010	11.75	13.15	10.07
William Stiritz	Post Holdings	1934	2012	2012	26.89	26.89	38.29
James Tisch	Loews	1953	1986	1999	4.56	16.32	43.68
Jeffery Tonken	Birchcliff Energy	1957	2004	2004	0.30	0.30	7.67
Kyle Washington	Seaspan	1970	1994	2005	21.30	21.30	19.33
Prem Watsa	Fairfax Financial	1950	1985	1985	3.25	3.25	393.50

International jockeys not shown above include Bernard Arnault of LVMH (assumed top position in 1989), Albert Frère of Pargesa (1981), Guangchang Guo of Fosun International (1992), Brian Joffe of Bidvest Group (1988), Li Ka-shing of Cheung Kong (1950), Stanley Ma of MTY Food Group (1979), and Larry Rossy of Dollarama (1973).

Note: Recent stock prices are closing prices as of February 22, 2013. *Berkshire Hathaway:* Warren Buffett became chairman in 1970. However, Buffett became a director and effectively took control of Berkshire in 1965. The $18 stock price in 1965 is based on the closing price on May 10, 1965 when Buffett took control (source: http://brkticker.com/brk-chap1.html). Overstock.com: Historical stock prices based on IPO in May 2002. *Greenlight Capital Re:* Historical stock prices based on IPO in May 2007. *EchoStar:* Historical stock prices based on IPO in December 2007. *Sears:* Historical stock prices based on March 24, 2005, the completion date of the merger transaction involving Kmart Holding Corporation and Sears, Roebuck and Co. *Liberty Media:* Historical prices are not meaningful due to various corporate restructurings. *Seaspan:* Historical prices based on IPO in August 2005.

Sources: SEC filings, other publicly available data sources, *The Manual of Ideas* analysis.

commissions, wider bid-ask spreads, greater market impact costs, and other factors.

Defenders of the efficient market hypothesis have tried to explain the small-stock phenomenon by arguing that smaller stocks are riskier (as judged by price volatility) and must compensate investors with a higher expected return. Adherents of the efficient market hypothesis use the same logic to explain the outperformance of value versus growth stocks. Neither argument is plausible, as many considerations other than pure investment risk drive equity valuations. In the case of value versus growth, an argument can be made that value stocks are actually less risky than growth stocks, as value investors generally require a greater margin of safety than do growth investors. It seems that whenever empirical data show that one group of stocks outperforms another over the long term, theorists conclude that the better-performing group must be riskier. They apparently assume the validity of the efficient market hypothesis to refute empirical challenges to the increasingly discredited concept.

Figure 7.1 illustrates the annual gap in investment return between small-cap and large-cap stocks in the United States from 1927 to 2012, as compiled by Kenneth French. The outperformance of small stocks, while not without exception, predominates the historical experience.

There is no guarantee that small or illiquid stocks will continue to outperform, and if they do, it seems reasonable to expect that

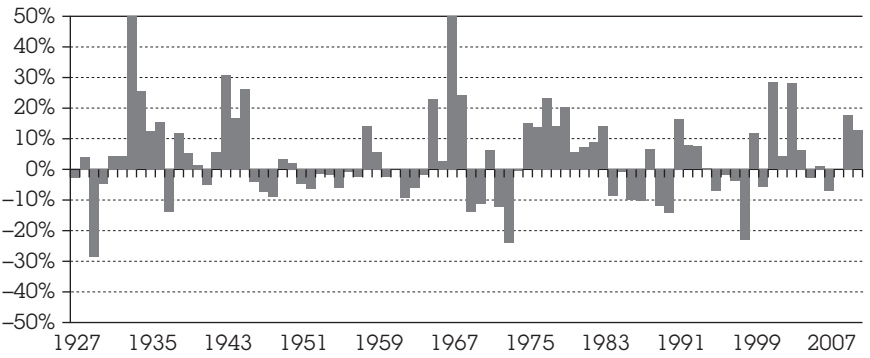


FIGURE 7.1 Annual Performance Difference between Small-Cap and Large-Cap Stocks in the United States, 1927–2012
Source: Kenneth French.[8]

TABLE 7.1 U.S. Companies Passing Selected Small-Cap Investability Criteria

Screening Criteria	Companies (cumulative)
All U.S.-listed public companies	10,068
Market value of less than $1 billion	7,980
Market value of more than $20 million	4,015
Financial statement date no older than six months	3,204
Number of employees is 10 or more	2,828
Insider ownership of 1% or more	1,581
Country not equal to China	1,571
Trailing revenue of at least $10 million	1,456

Source: AAII Stock Investor Pro, based on database update as of June 1, 2012.

TABLE 7.2 U.S. Companies Passing Tightened Small-Cap Investability Criteria

Screening Criteria	Companies (cumulative)
Companies passing criteria in previous table	1,456
Market value of more than $50 million	1,261
Stock exchange not equal to Pink Sheets	1,218
Industry not equal to Gold & Silver	1,216
Industry not equal to Metal Mining	1,212
Industry not equal to Tobacco	1,212
Industry not equal to Biotechnology	1,166
Industry not equal to Semiconductors	1,116
Industry not equal to Airlines	1,113
Average daily trading volume of at least $500,000	756

Source: AAII Stock Investor Pro, based on database update as of June 1, 2012.

FIGURE 7.2 Indosat Stock Price Chart

filed an annual report on Form 20-F in mid-2004, the stock had climbed to $21.20, up 140 percent from year-end 2001. The total return was sweetened by a meaningful dividend yield.

In retrospect, we may wonder how the market could possibly value Indosat at just five times trailing earnings in 2002 and 2003 when the mobile subsidiary was already showing strong growth and was quickly becoming a large piece of the business. Given the wide availability of public information on Indosat, behavioral factors might have played at least as important a role in keeping investors from embracing Indosat shares as did the fact that Indosat was underfollowed. Quite simply, many investors seem to lack confidence in their own reasoning unless others agree with them. When I pitched Indosat to a few colleagues in the financial services industry in 2002, they seemed to doubt their judgment in deference to the market's apparent negative verdict, as expressed in Indosat's low stock price. A typical excuse for not investing was "This thing hasn't moved in five years!" Figure 7.2 illustrates why relying on a historical price chart has little relevance in investing, especially if a fundamental inflection point is at hand.

MEADOW VALLEY CASE STUDY: GROWTH BUSINESS MASKED BY LEGACY LOSSES Meadow Valley Corporation would have shown up on some micro-cap screens in early 2004. If we looked for companies with a low ratio of enterprise value to revenue and a high ratio of tangible book value to market value, we might have come across

TABLE 7.3 Meadow Valley Corp. Selected Financial Data, as of February 20, 2004

Trading Data		Valuation Metrics	
Price (2/20/2004)	$2.40	Tangible book/market value	1.4x
Shares out (mn)	3.6	Price/LTM EPS	11.9x
Market value	$8.6	Enterprise value/LTM revenue	0.1x
Enterprise value	$16.1		

	Fiscal Year Ended			Nine Months Ended	
Operating Data	**12/31/2000**	**12/31/2001**	**12/31/2002**	**9/30/2002**	**9/30/2003**
Revenue	$163.6	$174.1	$151.0	$114.5	$117.0
Operating income	($2.1)	($3.4)	$0.9	$0.9	$0.6
Net income	($1.6)	($2.5)	$0.7	$0.5	$0.4
EPS	($0.44)	($0.71)	$0.21	$0.13	$0.12

Source: Company data, *The Manual of Ideas* analysis.

TABLE 7.4 Meadow Valley Corp. Selected Financial Data by Division

	Fiscal Year Ended			Nine Months Ended	
($ in millions)	**12/31/2000**	**12/31/2001**	**12/31/2002**	**9/30/2002**	**9/30/2003**
Revenue					
Construction Services	$144.6	$143.1	$114.2	$87.9	$84.1
Construction Materials	$19.0	$31.0	$36.8	$26.6	$33.0
Gross Profit					
Construction Services	$3.9	$3.1	$3.6	$2.5	$2.5
Construction Materials	($0.6)	$0.0	$1.8	$2.7	$3.2
Net Income					
Construction Services	($0.7)	($1.9)	($0.5)	($0.3)	($0.3)
Construction Materials	($0.8)	($0.6)	$1.3	$0.8	$0.8

Source: Company data, *The Manual of Ideas* analysis.

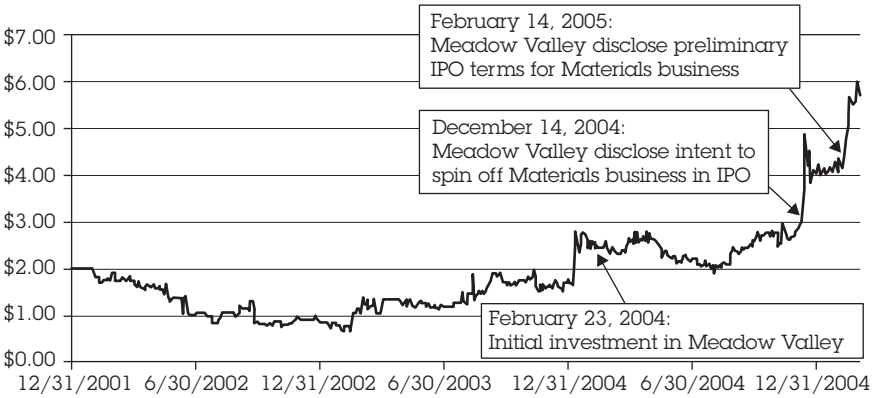


FIGURE 7.3 Meadow Valley Corporation Annotated Stock Price Chart

If we run a deep value screen, we will be looking at companies that may be going through a downturn in their businesses, perhaps causing their stock prices to languish below tangible book value per share. In such a case, we will be most concerned about the screened companies' ability to survive and turn around operations. To gauge survivability, we may focus on liquidity requirements, the ratio of debt to equity, financial covenants, and the near-term profit outlook for the business.

Contrast this with the research we may do after running a screen for companies meeting selected criteria for growth at a reasonable price. Our primary goal will be not to gauge survivability but rather to ascertain the prospects for continued revenue growth and margin expansion. Adjustments in analytical focus notwithstanding, we may structure the research process to answer several initial questions, followed by in-depth analysis and, ultimately, a judgment call on whether an investment makes sense.

Did a Company Pass the Right Screen for the Wrong Reason?

Anytime we use quantitative screening as the first step in the idea generation process, we may want to determine if there is an obvious reason that a company should not be considered further. This allows us to eliminate bad investments quickly and move on. To do so, we check if the financial data used in a stock screen are still

TABLE 8.1 Potential Sources of Opportunity in the Stock Market

What?	Why?
End-of-year tax selling	Value of tax shield impacts sell decision.
Deletion from index	Index funds must sell regardless of investment merit.
Dividend cancellation	Income funds and other yield seekers likely to sell.
Distressed seller	Near-term liquidity more important to seller than full value.
Spin-off	Holders of parent may sell spin-off without regard for merit.
Rights offering	Distressed companies recapitalize in shareholder-friendly way.
Growth disappointment	Growth investors sell; value investors not yet ready to buy.
High fear factor	Buyers likely doing more due diligence than sellers.
High greed factor	Short sellers likely doing more due diligence than buyers.
High judgment factor	Value not evident from book or earnings; answer years away.
Extrapolation of fad	Analysts extrapolate faddish growth too far into the future.
Friendly management	Investors underestimate benefits of good capital allocation.
Valuable intangibles	Brand, distribution, etc., not reflected on balance sheet.
1x book, low EPS, no debt	High-ROC firm with strong asset value temporarily depressed.
Recency bias	Investors overweight recent experience, misjudging situation.
Promotional company	Sell-side support and PR can keep stocks artificially high.
Multiple assets	Sum-of-the-parts value may exceed market value.

Source: The Manual of Ideas.

TABLE 9.1 The Rewards and Perils of Leveraged Equities

	With Leverage	With No Leverage	With Net Cash
Market's initial estimate of enterprise value	100	100	100
Net cash/(debt)	–80	0	80
Market's initial estimate of equity value	20	100	180
Scenario 1: The power of leverage			
Market's subsequent estimate of enterprise value	150	150	150
Net cash/(debt)	–80	0	80
Market's subsequent estimate of equity value	70	150	230
Change in enterprise value	50%	50%	50%
Return to equity holders	250%	50%	28%
Scenario 2: The peril of leverage			
Market's subsequent estimate of enterprise value	80	80	80
Net cash/(debt)	–80	0	80
Market's subsequent estimate of equity value	0	80	160
Change in enterprise value	–20%	–20%	–20%
Return to equity holders	–100%	–20%	–11%

changes in enterprise value have a disproportionately large effect on equity value if a company employs financial leverage.

The term *equity stub* illustrates quite well the nature of opportunities in this category. In prebarcode days, when you went to a concert or ballgame, an attendant would tear up your ticket at the door, leaving you with the stub. The stub typically amounted to just a small piece of the ticket, leaving you with something to remember the event. If we think of the capital structure of a company as the ticket, the equity is the stub. When a company has modest debt, the stub is quite large and does not fit the ticket analogy.

TABLE 10.1 Selected International Value Investors (outside North America)

Investor(s)	Company	Country
Kerr Neilson	Platinum	Australia
Allan Gray, William Gray	Orbis	Bermuda
Bruno Rocha	Dynamo	Brazil
Daniel Gladiš	Vltava Fund	Czech Republic
Emmanuel Daugeras	Amdamax	France
François Badelon	Amiral Gestion	France
Max Otte	PI Global Value Fund	Germany
Frank Fischer, Reiner Sachs	Shareholder Value	Germany
Peder Prahl, Florian Schuhbauer	Triton Partners	Germany
Richard Lawrence	Overlook	Hong Kong
V-Nee Yeh, Cheng Hye Cheah	Value Partners	Hong Kong
Rahul Saraogi	Atyant	India
Sidd Mehta	Beaconsfield	India
Amitabh Singhi	Surefin	India
David Coyne, Paul McNulty	Setanta	Ireland
Ori Eyal	EVCM	Israel
Ciccio Azzollini	Cattolica Partecipazioni	Italy
Robert Macrae, Mark Pearson, Peter Tasker	Arcus	Japan
Scott Callon	Ichigo	Japan
Alexander Kinmont	Milestone	Japan
Shuhei Abe	SPARX Group	Japan
David Baran	Symphony	Japan
Jiro Yasu	Varecs	Japan
Chan Lee, Albert Yong	Petra	Korea
Juan Matienzo	Mercor	Mexico
Georg Krijgh	Guardian Fund	Netherlands
Chris Swasbrook	Elevation	New Zealand
Jochen Wermuth, Sergey Ezimov	Wermuth	Russia
Ngiek Lian Teng	Target	Singapore

TABLE 10.1 Selected International Value Investors (outside North America) (*Continued*)

Investor(s)	Company	Country
Richard Chandler	Richard Chandler	Singapore
Francis Daniels	Africa Opportunity	South Africa
Simon Marais, William Gray	Allan Gray	South Africa
Pablo González López	Abaco	Spain
F. G. Paramés, A. G. de Lázaro Mateos	Bestinver	Spain
Lars Förberg, Christer Gardell	Cevian	Sweden
Guy Spier	Aquamarine	Switzerland
Philip Best, Marc Saint John Webb	Argos	Switzerland
Jean-Pascal Rolandez	L.T. Funds	Switzerland
Felix Zulauf	Zulauf	Switzerland
Massimo Fuggetta	Bayes Fund	United Kingdom
Jeroen Bos	Church House	United Kingdom
James Findlay, Charles Park	Findlay Park	United Kingdom
Andrew Green, John Lambert	GAM	United Kingdom
Simon Denison-Smith, Jonathan Mills	Metropolis	United Kingdom
Thorsten Polleit, Matthias Riechert	Polleit & Riechert	United Kingdom
Hugo Capel Cure, Rupen Patel, Mark Wallace	Rothschild	United Kingdom
Ian Lance, Nick Purves	RWC	United Kingdom
Stephen Butt	Silchester	United Kingdom
Christopher Hohn	Children's	United Kingdom
Dominic Fisher	Thistledown	United Kingdom

Source: The Manual of Ideas.