MILANO FINANZA

The treasure? Stay in the stock market

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An end to central bank stimulus and farewell to zero interest rates? A discussion with Paramés, the European Warren Buffet

by **Andrea Cabrini**

This inspirations are the masters of value investing: from Peter Lynch to John Templeton and Benjamin Graham. But to really understand the markets he recommends learning German and reading the economists of the Austrian School: Friederich A. Hayek and Ludwig von Mises. With their principles as a compass and consistent double-digit performance, Francisco Garcia Paramés has gained the reputation of the European Warren Buffett over the past 25 years and sets and example for long-term investors. His career began in the early 1990s when he joined Bestinver, the asset manager of the Acciona Group, as a young analyst. After less than two years he started managing the Spanish equity fund. From 1993 to 2014 he achieved a cumulated return of 2,279% (15.7% per annum) compared to the 410% of the benchmark index. And since then his tactics have not changed. This means 100% equity investments. He never makes predictions about markets or economies, but rather starts from a fundamental analysis and the competitive position of companies. By doing so, he has beat the indices even in international management, achieving a return of 10.5% a year with his global funds through 2014. That year, Paramés left Bestinver and spent the last two years of non-competition in London to devote himself to writing a book summarizing his method ("Long-Term Investing", Deusto editions). He been back in management since January and has launched five funds with his new asset management boutique: Cobas AM. ClassCnbc met with him in Milan on the occasion of the presentation of partnership with Azimut, which has entrusted him with the management of a new sub-fund that will be launched by the Group.

Question. Paramés, this week the American indices have reached historic highs. Where do you look for value under these conditions?

Answer. We currently 53 securities in our portfolio, eight of which are Spanish. Once we were focused on Europe, which was our natural market, though now it represents less than 50% of our fund and we are developing in other areas. 21.4% of the portfolio is invested in the United States on companies exposed to global growth, while 21.7% is represented by Asia, where there are countries we like, such as Korea. Then 3% of the fund is in Brazil. We have also invested in Great Britain by buying some securities discounted 50% in the post-Brexit period.

Q. What are the most important positions?

A. Two examples. One is Aryzta, a Swiss company specializing in frozen bread. It has had problems over the last three years and the security has lost 60%, but we have seen value. The second example: The shipping industry, which in the last few years has suffered a lot because of its excess capacity due in particular to Chinese trading trends, and which now deals with great prices. This is why we have been with Teekay Corp and Teekay Lng Partners for a long time.

Q. In the past you invested in several Italian securities, from Danieli to Beni Stabili. What about today?

A. Ever since we created the global fund in 1998, we have always had Italian companies in the portfolio. For a long time one of our five most important positions was Exor, which I also described as our ideal security.

Q. Is it still?

A. Yes, but it is less important in the portfolio. We purchased Exor

six years ago, when it was below the €10 mark. Now it is at 50. John Elkann has done very well for the company and the shareholders.

Q. In your book you describe the three-year period from ’96 to ’98, when the Spanish market tripled in

value, as a "horrible bullish market". Currently the stock markets have been rising for nine years and from their 2009 lows they have tripled their level. Do you think we are at the precipice of a crisis like the one that followed that three-year period?

A. No, I don think so. The worst year of my 25 career was in '98, which was the end of the longest Bull market of the twentieth century, lasting from 1981 to 1998. Everything was 25 times the profits. Everything was very expensive. The future seemed very complex for investors. Warren Buffett wrote an article about this very thing, predicting a decade of very low returns. And he was right. At the time I was very afraid. We have been very lucky because then the technological bubble came and we were able to find interesting opportunities in 2000 and things have gone well. However, from 1998 to 2012 the market remained flat. In 2008 it fell by 50% but then quickly recovered.

Now we are in a situation where the market deals with 17 times the profits. But there are also companies like Amazon dealing with

40 times as much. So there are points in the SC market that are overvalued, but in general it is not overvalued and we are not in a bubble. It is still possible to find interesting investments.

Q. Over the last ten years everything has changed. The rules are made by the central banks. Liquidity is the master. How can your strategy remain the same?

A. We opted for this philosophy because it has always been successful. In the end, it's about buying undervalued titles and waiting for them to go up. From this point of view what the central banks do is not relevant. Of course, they are able to create a crisis and, indeed, have done so on a few occasions. But as a possessor of assets you have to live with this and not change your strategy. Our ideal investment is always 100% equity.

Q. What does this mean?

A. Allow me to give an example. In Argentina the system collapsed 17 years ago. If I had been a government creditor, I would have lost 70%. If I had had money in the banking system, I would not have been able to withdraw it from my checking account. Conversely, if I had invested in the Argentinian stock index today I would have 15 times the initial capital.

Q. However, now the market is nervous, because after almost ten years of drug money, there are no talks of standardizing the central bank's policies. Is this expected to have a big impact?

A. No. Despite the Qe, the evolution of lending in Europe has been nothing. There has not been any increase in lending. This means that the money has not gone to people or businesses. As such, the impact will not be excessive.

Q. But that liquidity sustained the share prices. What is the situation like now?

A. It has only partially sustained them. The largest share remained in the balance sheets of banks without ending up in the market. I do not think that there will be such a strong impact when liquidity begins to decrease in the system. Rather, some are waiting for that very moment to invest. In fact, these years many have been paralyzed by the anomaly of negative rates. By normalizing the rates people will begin to benefit.

Q. You assert that the primary virtue of successful investors is patience, but it is also the rarest. How patient does an investor need to me?

A. The most fascinating aspect of value investing is that time always plays in your favor. Shares are the best asset for getting rich in the long run. The important thing is not to give up when the level of uncertainty becomes uncomfortable. The US stock market has yielded positive returns at five years in 97% of cases. The market rewards loyal investors who remain consistent with their choices. From this point of view I think ten years is the appropriate window of time for a successful investment.