Markets

Buffett Followers Score a Rare Win for Value Investing in Spain

Madrid has turned into a value hub thanks to years of market-beating returns by Francisco García Paramés and his peers.

Francisco García Paramés *Source: Cobas Asset Management*

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Takeaways by Bloomberg AI Hide

- Value investors are a dying breed, but Francisco García Paramés and his followers in Spain are an exception, with Paramés achieving top-tier returns year after year.
- Paramés's success has opened the way for other value investors in Madrid, with at least seven value shops springing up in the city in the past decade, and his philosophy has influenced fund managers at several asset management firms.
- Despite the current popularity of growth funds and tech stocks, Paramés and his followers remain committed to their "buy cheap and be patient" ethos, and some believe that value funds may look like an attractive alternative if the AI frenzy creates a bubble.

Value investors are a dying breed these days. That's what makes the story of Francisco García Paramés and his ever-expanding band of acolytes in Spain so surprising.

Over a four-decade career, Paramés has reached legendary status in value circles by churning out top-tier returns year after year. His flagship €1.2 billion ($1.4 billion) Cobas Internacional fund achieved an average annual return of 20% in the past five years, after a run at asset manager Bestinver that earned him comparisons to Warren Buffett.

Alongside his rise, other investors adopted his same "buy cheap and be patient" ethos, turning Madrid into something of a value investing hub in Europe. Fund managers at Azvalor Asset Management, A&G Global Investors and Magallanes Value Investors have all worked alongside Paramés or been influenced by his philosophy, and at least seven value shops have sprung up in the city in the past decade.

"It is something unique to Spain, the fact that Paramés's success opened the way for flourishing value boutiques," said Francesco Paganelli, who researches fund managers for Morningstar Inc.

The emergence of Madrid's value club stands out at a moment when Wall Street is enthralled with the speculative promise of AI, and when metrics like price-earnings ratios seem to matter less. And in Spain, stocks tend to be a hard sell. The majority of individual savers still prefer to put their cash in real estate or bank deposits.

But despite that, Paramés's contrarian style of managing money has won him a devoted following. In conversations, his loyalists speak about value investing as a mindset as much as a way of picking stocks. They see it as a discipline of rejecting herd mentality and embracing the delayed gratification of bets that take a long time to pay off. More than 500 people turned up to Cobas's investor conference this year.

"I've been in one of these and it's like going to a soccer game full of fans," said Marc Badia, an accounting professor at IESE Business School in Barcelona. "It's not the same as Warren Buffett; this is not Omaha. But it had this kind of flavor."

Paramés, 62, describes his strategy as buying cheap assets and being patient, saying that many of his best picks have been medium-sized, European companies that have less analyst coverage. He made his name during a more than two-decade run at Bestinver, where he delivered 16% annual returns. In 2014, he left the firm and launched Cobas in 2017.

"When I discovered Peter Lynch and later Warren Buffett, I found a solid intellectual framework for investing: buying assets below their intrinsic value and being patient," Paramés said by email. "We are not trying to predict the future or make macroeconomic bets."

Peter Smith at Palm Harbour Capital is one of his disciples. He got his start fresh out of business school by pitching stock tips to Paramés at Cobas. After working at the firm as an analyst, he left to start his own firm in London with an investment from Paramés.

"We basically look for the same kind of things. Things that are out of favor, unloved and off-beaten track," said Smith. "You take the things where everybody just throws out everything and says, 'we hate it and we are all chasing some other fad.' And you're just like, `wow, there's plenty of things that the market is ignoring.'"

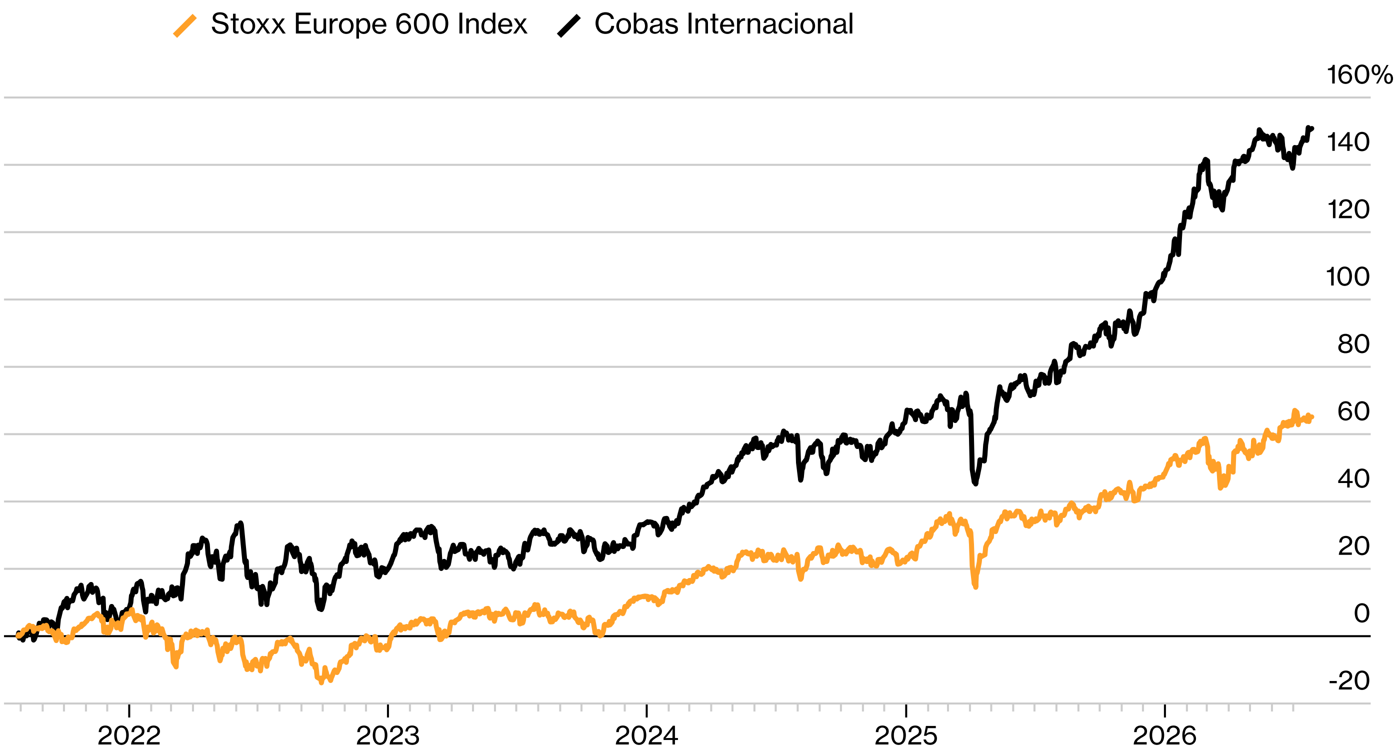
Some of the other investors with links to Paramés:

- *Alvaro Guzmán de Lázaro, Fernando Bernad*. They worked with Paramés at Bestinver, later co-founding Azvalor Asset Management, where their Azvalor Internacional fund has returned 22% annually over five years, beating 97% of peers.
- *Andrés Allende*. He worked at Cobas before joining A&G Global Investors. His Paradigma Value Catalyst Equity fund has returned 20% annually over the past three years.
- *Iván Martín*. Co-founded Magallanes Value Investors with Blanca Hernández, a long-time investor with Paramés when he was at Bestinver. Martín's Magallanes European Equity fund is beating 87% of peers over five years.

Martín, who has traveled to Omaha, Nebraska, with Paramés for the Berkshire Hathaway Inc. annual meeting, credits Paramés with reshaping Spain's asset management industry. "Value is a way of living, it's intrinsic to who you are," Martin said. "It's about investing for the long term, being very disciplined.''

Cobas Internacional's Value Focus Pays Off

Fund has outperformed the Stoxx 600 in past five years



Note: Total return since July 28, 2021
Source: Bloomberg

Still, it's been a tough time to be a value investor. While Cobas Internacional is up 21% this year, putting it in the 95th percentile of funds, all that many investors want to talk about is the wild moves in tech stocks, with an index of semiconductor shares up more than 50% even after a selloff in recent days.

Many value investors have struggled to stay relevant against growth funds, and have seen their funds shrink. Managers who follow the strategy oversee about 7.5% of equity assets, according to Morningstar. It's down from 13% when the firm began tracking the data in 2008.

It's part of the reason why Madrid's value crew is relatively unknown, and assets under management are still modest, compared with other star managers. Others say the small size allows the funds to stay nimble, making it easier to take a concentrated position and then exit it without fear of moving the market.

And at a time when investors are worried that the AI frenzy has created a bubble, one that's beginning to lose altitude, value funds may look like an attractive alternative.

To Antonio Hidalgo, options professor at LWS Academy, it's unusual to find a group of investors so willing to ignore the big US tech stocks owned by everyone else.

"What makes them particularly interesting is the contrast with Spain's broader level of financial education," he said. "To use an analogy, it's as if a country with no football tradition kept producing world-class footballers year after year."