



Lessons of a contrarian

FROM PHILATELY AND GUINNESS TO THE DEATH OF EQUITIES VIA THE SEVERN BRIDGE, our Chairman, Jonathan Ruffer, tells us about his life in investments and shares some of the lessons he has learnt.



JONATHAN RUFFER

Chairman

'TELL ME WHAT YOU EAT AND I WILL TELL YOU WHAT YOU ARE.' SO STATED THAT DIETARY SUPERSTAR JEAN ANTHELME BRILLAT-SAVARIN IN 1826'S 'THE PHYSIOLOGY OF TASTE'.

The US Air Force Resilience Team use the more common 'You are what you eat', but are at pains to point out that it's not strictly true. Which is something of a relief, as I have just consumed a frankfurter and bap – the best that can be said about that experience is that the two ingredients seemed perfectly matched.

It set off a cynical line of enquiry: if we can't be defined by what we eat, can we be defined by what we invest in – or, rather, can the investments we choose define who we are?

When a young thing in my local church, I confided to my vicar, a severe man of advanced years, that I wanted to set up a pop group, and call it Monosodium Glutamate. He gave me an old-fashioned look, and quoted from Dad's Army – specifically, the jocular words which Captain Mainwaring used when he had something dismissive to say to Private Pike. This was a reminder that silly decisions emanate from silly people, and not the other way around – so this essay makes the assumption that we individuals are masters of the ship when it comes to investment decision-taking.

GUINNESS WAS GOOD FOR ME

I made my first investment in the summer of 1967, just ahead of my sixteenth birthday. I was working in a stockbrokers office in Middlesbrough – this counted as sophistication in the world in which I was brought up. I acquired 100 shares of Arthur Guinness; I can't remember what attracted me to the vehicle, but the timing of the investment is something I remember clearly – it was the knowledge (which might or might not have been accurate) that someone under the age of 16, like madmen, did not have the power to enter into a valid contract, so that if Arthur G failed to deliver, I could get my money back. My backstop was not, in the event, needed; a fortnight after my sixteenth birthday, the shares had risen by a satisfactory amount; I spent my gain – £10 – on old gramophone records (known as 78s, as they spun around at 78 revolutions per minute).

Those old records nearly got me a job when I left Cambridge in 1972. I applied to Hambros Bank for a job in its investment department, and had the distinct impression, a quarter of an hour into the interview, that it was not going frightfully

well. The interviewing panel resembled those basking seals one sometimes sees in wildlife films – the listless flapping of the flipper, the massive yawn and the unwillingness to look the candidate – this candidate, anyway – in the eye, all pointed to the rejection slip. Then the question, “Mr Ruffer, if we gave you £1,000 [oh blessed pre-inflationary days!], what would you invest it in?”

Nobody had told me that the right answer to this question was not what one actually would do; it was an opportunity to highlight the foothills of one's investment horizon with a zappy answer. Remembering the proceeds of my successful liaison with old Arthur, I said firmly, “78s.” The seal population sprang to attention, and one asked me what I thought the curve of the fixed interest market might look like after the Budget. A slightly fluffed answer led to a mystified, “But why are you so sure that six-year duration is the place to be in the gilt market?” I never got to work for Hambros.



Instead I got a job with Myers, the stockbrokers – a detail which would have served Mr Tommy Cooper, the comedian, well at the Myers 1972 Christmas party. He told a series of jokes which appeared to have been taken from the coal shed, suffixing them with a knowing wink, and a conspiratorial reference to our line of work. The riddle of this baffling aside was revealed when someone shouted out that Tommy had muddled us up with Myer's (Comfortable Beds); Mr Cooper hurried off the stage, fezzless, to prolonged cheering.

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SOMETHING FOR NOTHING

If I had to assess what had given me an edge in the investment arena to that point, I should not have been able to come up with a greater self-compliment than ‘promising’. But in fact, some of the building blocks for a serious career in the investment world had already been laid. I was, I believed, a stamp collector. In reality, I was a speculator in the stamp market, and throughout my schooldays had an annual income which would have paid for a couple of years of the school fees. I learnt to see that, if the King Edward VII issues had gone up, then perhaps it wouldn't be long before that phenomenon might widen to include those of his son, King George V.

I scoured the reference books for the numbers printed of commemorative issues from the Crown Colonies. The best coup I had was the Gibraltar 1965 International Telecommunication Union issue: the two shilling denomination had only 55,000 issued – and this was still priced at the same level as similar issues from different countries, which generally had print runs



of 200,000 or so. I clattered around the dealers, bought what I could, and waited. It wasn't quite a bitcoin moment, but it hardwired the idea that if you get something for nothing – here the low print number – then sooner or later, you get lucky.

LUCKY SEVERN

In the 1990s, I had a similar experience – anyway, it felt similar – with an issue of Severn River Crossing preference shares. Some time before the Severn Bridge funding, investors had been offered a chance to invest in the Channel Tunnel. The issue had failed and, despite seemingly generous interest rate returns on the bridge, the institutions, wounded by their Channel Tunnel experience, baulked.

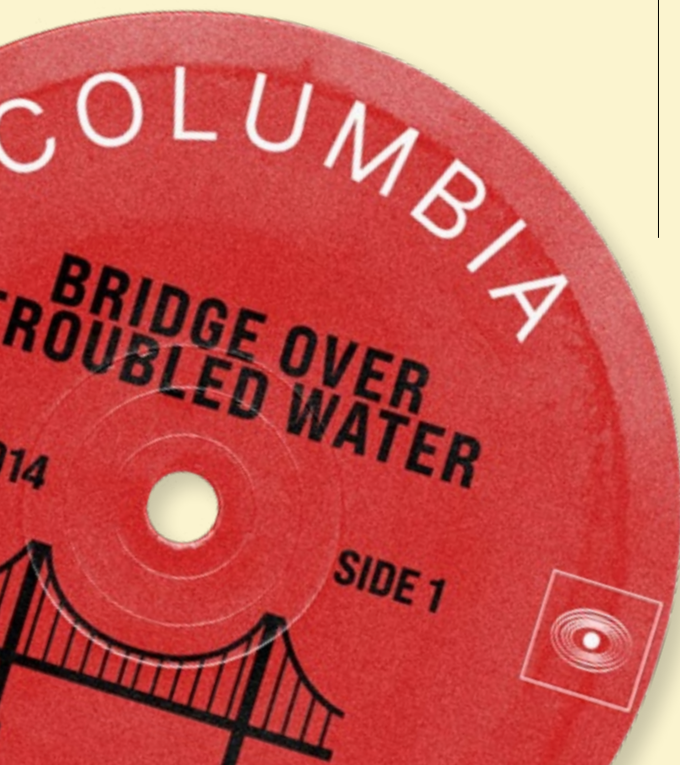
A sweetener was offered. Subscribers to the substantive debt package were offered a preference share (for 'free'), which had the

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startling terms that the income generated to give it a return would first have to pay off the whole of the debt incurred in building the bridge. But then investors would receive a largish slice of the income of the bridge until, from memory, 2013, when the preference share would cease to have any value.

The key, of course, was whether the bridge came in on time and below cost. I kept an eye on the fortunes of the building project, and vigilance was rewarded when I noticed a three-liner in the Evening Standard that the bridge had opened two years early. The obvious question arose – was 'early' the same as 'lower than budget'? It was indeed.

I started buying this issue, and got lucky. They were held largely by big insurance companies which had the quoted loans on their books on scales often of many millions of pounds. This pipsqueak issue was worth little in comparison (remember the insurers had received it as a freebie); moreover, because they were unquoted, the auditors kept moaning at them for an estimate of



fair value. I offered to take the preference shares off their hands and, by jingo, they were worth having! Nothing of course for a number of years as the prodigious income paid off the prodigious debt, but then the income was ours. I considered writing a jubilant Investment Review in Welsh – and then thought better of it.

My father encouraged this sort of attitude. He was not a party-goer, and had once been dragged to a grand event at which there was a roulette wheel and a croupier, who, in the event, turned out to be bad at maths and was paying out four-to-one on the ‘dozens’. My Dad sat there all night, happy as Larry, making 30% on each roll of the wheel. Nought came up just three times in the course of the evening. My mother ticked him off for fleecing his host, but I don’t think he heard.

TRAINED BY A BEAR

Strategies come later, in my experience, than individual opportunities. I am one of the few people left who was trained in – and by – the bear market of the 1970s. For those who came to the party in the 1980s or later, investment has been the opposite to the rain in Ireland. The first has seen markets going up and up; the latter, rain falling and falling. Those who read my Investment Reviews sometimes mistake me for a perma-bear. In truth, I am a contrarian. Reading my thoughts from the late 1970s through to the time the market turned in 1982, I was constantly chattering about the coming market opportunities. The mischief of contrarianism is the constant refrain of being too early. I have pummelled myself to find an antidote for this. That antidote is absolutely not to try and become a better market timer.



The key to escaping the mischief of being early – often much too early – is to be right. Fortunately, this is easier than one might think, providing one thinks rightly.

Over the last 40 years, I have done well enough in constantly rising markets to justify the fees, and the cheesy jokes. I did some amateur sleuthing some time ago on my ‘calling the shots’ when I was actively investing for clients. I found that my success/failure rate of individual investments was almost exactly half and half. The striking thing was that the amounts invested were much higher in the successes than in the failures. One solid reason for this was that I routinely broke one of the golden investment rules – cut your losses, and reinforce your winners. My success came from the exact opposite of that.

As I write this, we are once again in a ‘tractor on motorway’ moment in our investment performance. My apprehension is not, therefore, about timing – will we be vindicated quickly – but, rather, will we be vindicated at all? It is important not to lean back in satisfaction, but to lean forward in nervous anticipation.

NUGGETS

Here are some of my golden rules. I don’t invest in what I don’t understand.

I remember saying that to a high-flying broker of tech stocks in the US in the early 1980s; it was a counter called VF Technology which occasioned my observation. Unkindly, I thought, his next recommendation to me was American Greetings Card Corporation.

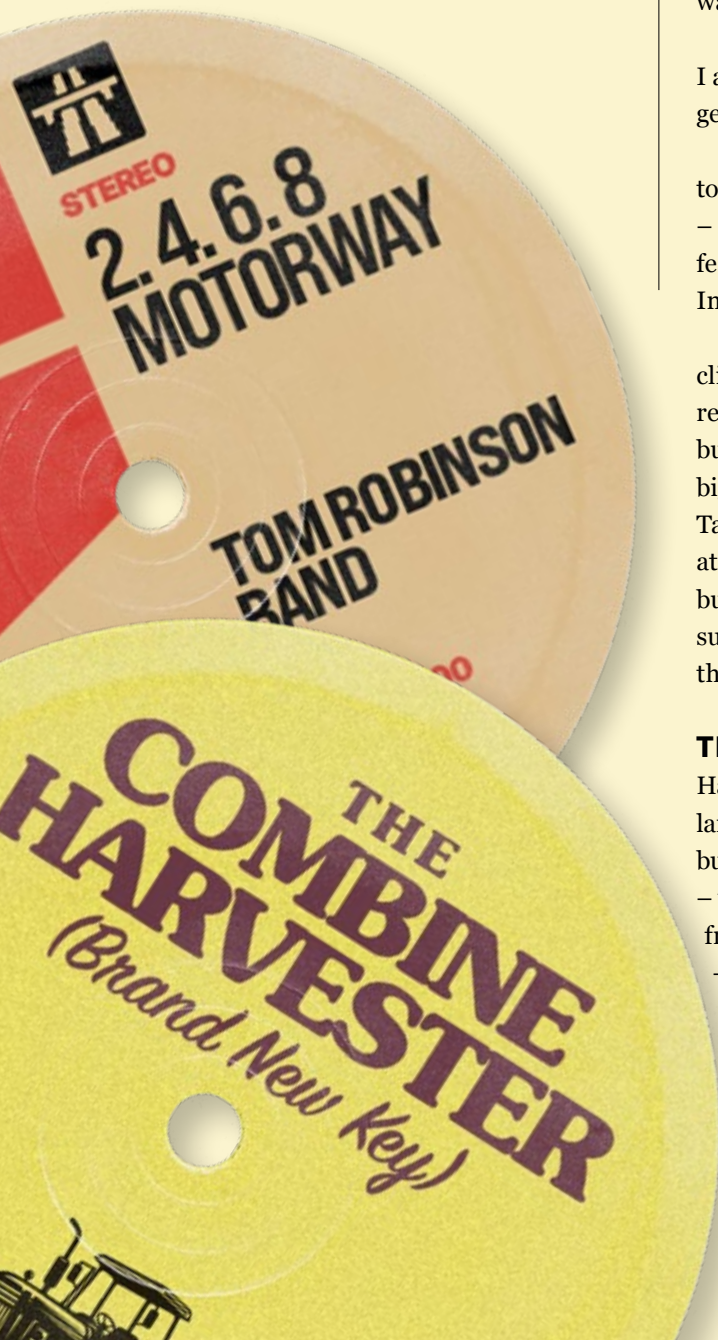
I try not to conjure up a view – I wait until I am hit in the face by a flying fish before getting interested.

I rarely like currencies, because they seem to me to be random. But, when I do, it’s lurve – witness my shrill excitement on the yen, featuring strongly in two out of the last three Investment Reviews.

I prefer value stocks to momentum – as clients who have missed out on superior S&P returns may well have noticed. I like staple businesses which trade cheaply because of big government equity positions. Austria Tabak, NatWest, Japan Tobacco all traded at a discount because of supply overhang – but the selling machine of the City relishes supply, so, provided the businesses are right, the performance is likely to be right, too.

THE SUN ALSO SETS

Has the City and, with it, the investment landscape changed? Indubitably. The 40 year bull market has been created by a single factor – the leveraging up of the financial system, from the Federal Reserve to the fantasist – and, during this phase of the financial floodtide, the amount of money going into assets exceeds the supply of decent investments. It won’t last (as I was saying in 1998...). Money is attracted to new configurations, its allocators not really allowing themselves the obvious thought that the underlying investments present



the same risks and opportunities. Private credit and private equity is perhaps the most obvious example of this.

I have a bee in my bonnet, which would be irritating, except for the fact that I am right: equity, as an asset class, is dead. A minority holding of an equity is intrinsically worth very little. I once held 9% of Essex Water, which had a high yield, and I offered it to the French holding company which had the majority. They offered me around 60% of what I had paid. I expostulated and refused. But, in the end, I accepted the offer. Lesson learned by me – not yet by the market.

The equity market, especially in the US (which accordingly trades at a premium multiple), has been supported by buybacks, which are proposed by corporations' senior management – a case of sleeping investors (you and me) in cahoots with the interests of management. This partnership has little to do with wedlock.

Inflation is back, even though it might be a while before the world sees that. It looked to us as though the covid-inspired inflation would change attitudes, given the 'surprise' and ferocity of its onset. But it was Joe Public's perceptions which changed, and not the investment world, which looked through it. That came as a surprise to me – but perhaps it shouldn't have done, since this is exactly what happened in the post First World War boom of 1921, which was followed by a sharp depression – neither of them

seemingly relevant to the gilts market, which saw through both extremes.

No: inflation is the by-product of the workforce doing well at the expense of capital – this runs pretty consistently on a 50 year cycle; that's about the length of time since the unions drank beer and ate sandwiches with the prime minister. We are in the period when inflation-busting wage settlements are going to be the norm.

What are the disadvantages of such a seasoned career as an investor? By far the biggest is that people hang first on one's every other word, and then, increasingly, on every word. It is an open invitation to feel good about one's accumulated wisdom. And what are the advantages? Being surrounded by younger, brighter colleagues who listen, often intently, to what I have to say, but then have the sense and courage to tell me when I'm wrong. I commend them to you. ●



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