RWC

10 PILLARS OF VALUE INVESTING

Ian Lance and Nick Purves believe value investing is making a comeback.

Here is why from their 30 years' experience in these markets.

1 SIMPLE BUT NOT EASY

Buying shares for less than their worth then selling when the value has been realised is easy to understand. But most don't invest this way due to a lack of 'sticking with it'. Value investing is tricky – we are hard-wired to conform – but can be rewarding.

2 CYCLES, CYCLES, CYCLES

Profits and share prices are impacted by cycles such as credit, commodity and business. An investor's overreaction can throw up opportunities. An advantage lies in knowing which cycles impact an investment and where we are in that cycle.

3 BE CONTRARIAN BUT NOT MINDLESSLY CONTRARIAN

Investors love to buy what everyone else hates. But having respect for what the market is saying is key. Eagerly buying shares being sold in companies with too much debt, or declining profits, can prove costly and mindlessly contrarian.

4 THERE IS NO SINGLE CORRECT METHOD

Value investing relies on estimating the intrinsic worth of a business. Our experience tells us to be flexible, by adjusting earnings for cyclicality, and to recognise the positive (hidden value), and the negative (e.g. pension fund deficit), on a balance sheet.

5 BE PATIENT, BE LONG TERM

A struggling, out-of-favour business is unlikely to turn around the day after you invest. It's more likely that things continue to get worse, so we try to be patient, allowing for profitability to improve and for the market to recognise it. Our typical holding period is at least five years.

6 ADOPT AN ABSOLUTE RETURN MINDSET

Value investing is a risk averse strategy born out of a reaction to the Great Depression. By buying a dollar of value for 50 cents, you build in a 'margin of safety' in case the economy and/or the stock market suffer. Value investors see risk as the risk of permanent capital impairment, so, invest with this at top of mind.

7 BARGAINS ARE RARE, MAKE THE MOST OF THEM

It's unlikely that you're going to buy a business trading at half its intrinsic value. However, a company or an industry will suffer a drawdown at some stage, which may present an opportunity to buy at a good value.

8 DON'T BUY RUBBISH

Recently the market has become fixated with quality and growth. Quality and growth are intrinsic to a business' value. We've had success when high quality businesses have been questioned by the market, resulting in low value entry.

9 CONSIDER PROBABILITIES AND PAYOFFS

No matter the research, there are always surprises, positive and negative. Think best and worst case scenarios. If we think a share price could go to zero, but has 400% upside in another, there is probably a case for investing.

10 ENHANCE, DON'T DRIFT

Discipline is key to value investing – stick to your philosophy, you're here for the long run. Always look to improve and adapt as things change.