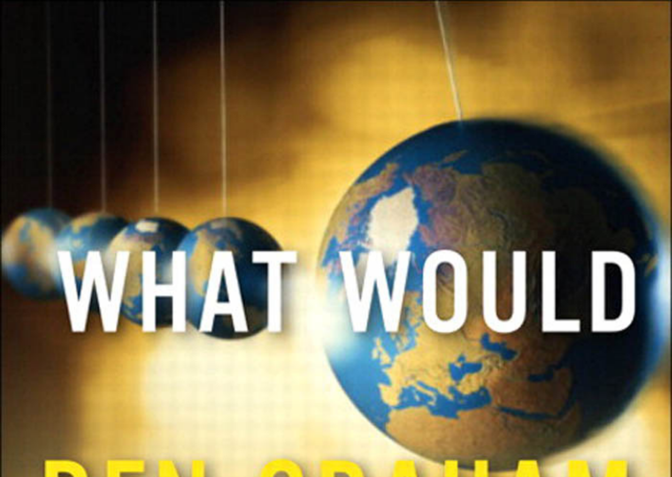

WHAT WOULD BEN GRAHAM DO NOW?

A NEW VALUE INVESTING PLAYBOOK FOR A GLOBAL AGE

JEFFREY TOWSON

Praise for
What Would Ben Graham Do Now?

"With more than half the world's GDP growth coming from developing countries and regions like China, India, Brazil, and Africa by 2020, a clear approach to participating in this new global landscape is imperative. Jeffrey Towson delivers one such view. He takes a powerful old paradigm—that of fundamental value from Ben Graham—and applies it to the financial and cultural nuances of the developing world. Towson's real world experience and application of Graham's theory is a thoughtful read for any business leader."

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"Throughout my career, I've found it difficult to identify international professionals with a grasp of the intricacies of investing in the Middle East. Jeffrey successfully draws on his vast experience accumulated through working closely with HRH Prince Alwaleed bin Talal to develop an optimal investment approach, marrying the well-understood principles of international investing with the idiosyncratic aspects of emerging markets, including the requisite differentiated risk perception, eye for value, and intricate understanding of local business culture. This book is an excellent reference for any international investor looking to spot value and avoid pitfalls in emerging markets."

—**Tony Hchaime**, Head of Middle East and North Africa,
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"Identifying and profiting from market inefficiencies has always been at the core of value investing. Yet most investors are still trying to uncover these in overworked, developed markets. Towson's book is a wake-up call to the powerful fact that in the 21st century the real opportunities lie elsewhere: in the inefficiencies that are thrown up when developing and developed markets collide. Not only does he show investors where to look to profit from today's globalization, he provides a practical guide as to how to go about investing on the basis of this new paradigm. Rich in ideas and examples [of] how this new approach has spectacularly delivered, this book will revolutionize your investment strategy."

—**Peter Williamson**, Professor of International Management,
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"This is more than just an offering on value investing. Without realizing it, or at least without intending to do so, the author has set before policy makers a startling analysis of the world in which America competes. If it doesn't challenge your concepts of the global competitive environment, you aren't paying attention."

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"Jeff has a view of global investing that incorporates both the developed and developing economies that is virtually unmatched … the dislocations occurring daily have the potential to create many opportunities … his insights and investing framework will help investors better understand this changing world."

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—**Donald J. Palmisano**, MD, JD, Former President of AMA, and author of *On Leadership*

"Towson's book addresses one of the greatest challenges for today's investor—the world might be globalizing, but that doesn't make it easier to understand. Towson wisely shows how the differences between developed and developing countries are not barriers to investment, but instead value opportunities, whether by bringing Western management expertise to a deal, or leveraging political relationships. Neither East nor West has the right model. But finding the value in each is the way forward. Towson points the way."

—**Ben Simpfendorfer**, author of *The New Silk Road: How a Rising Arab World Is Turning Away from the West and Rediscovering China* and Former Chief China Economist of RBS Global Banking & Markets

"In a decade of opening distressed asset markets in Asia, I've never met anyone quite like Jeffrey Towson, which explains why so many international investors lost money."

—**Jack Rodman**, President, Global Distressed Solutions, LLC

"If you subscribe to the theory that equity-investing exclusively in Western markets in coming years will provide lackluster returns, read Jeff Towson's thought-provoking analysis of how to create a modern framework for global investment. A value investor to the core, Jeff has modified the historic model with new concepts such as 'value point' and 'capabilities migration' which make value investing more effective in complex regions offering high growth potential, such as the BRIC countries and the Middle East."

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—**William T. Allen**, Nusbaum Professor of Law & Business,
NYU Stern School of Business and NYU School of Law;
Director, NYU Pollack Center for Law & Business

"Investors seeking returns in emerging markets must adapt tried and tested techniques to a daunting array of country-specific circumstances. Jeffrey Towson is uniquely qualified to help value-hunters sharpen the tools they already possess to capture unprecedented opportunities in a new, hyperglobalized era."

—**Tom Mitchell**, Deputy News Editor, *The Financial Times*

"Jeff Towson combines a fascinating narrative of his experience in emerging market investing with specifics for us all to engage on a professional level over the decades to come in securing value for our investors."

—**Steven Rockefeller**, Chairman and CEO, Rose Rock Partners, LLC

"Insightful strategies to value investing in today's global markets."

—**Ragnar Meitern**, Managing Director, Regional Head of Telecoms,
Media and Technology, Standard Chartered Bank

"Jeff's book is a fantastic framework for going global—and investing into the unstructured universe of emerging markets opportunities."

—**Bertrand Valet**, Head of MENA SWFs and Financial Sponsors Coverage,
Bank of America Merrill Lynch

"Jeffrey Towson lives at the intersection of multiple worlds. He is able to put forth a timely and thought-provoking framework for cross-border investing. His raw intellect, interdisciplinary approach, and life experiences combine to demystify and provide a paradigm for investing in emerging markets."

—**Cary A. Kochman**, cross-border M&A expert

"A fresh take on the timeless Graham and Dodd by an author with exceptional global business credentials."

—**Erik Bethel**, Founding Partner and CEO, SinoLatin Capital

"Jeff Towson presents the first practical guide for global value investors. His unique experience and perspective makes this a must-read for the professional investor or for anyone interested in better understanding how the rules of modern finance apply in a global world. I recommend it highly!"

—**Jonathan Woetzel**, Director, McKinsey & Company

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What Would
Ben Graham Do Now?

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What Would Ben Graham Do Now?

A New Value Investing Playbook for a Global Age

Jeffrey Towson

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Copy Editor: Gayle Johnson
Proofreader: Gill Editorial Services
Indexer: Erika Millen
Senior Compositor: Gloria Schurick
Manufacturing Buyer: Dan Uhrig

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For my parents, Wayne and Linda Towson

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About the Author

Jeffrey Towson is a specialist in global and cross-border investing. He has developed more than $15 billion in investments across multiple geographies (United States, China, the Middle East) and industries (real estate, hotels, banks/financial services, insurance, healthcare, retail, technology, petrochemicals, energy/infrastructure). He is currently Managing Partner of the Towson Group and is based in New York, Dubai, and Shanghai.

Previously, Mr. Towson served as Head of Direct Investments for Middle East North Africa and Asia Pacific for Prince Waleed, who could be considered the world's first private global investor. Nicknamed the "Arabian Warren Buffett" by *Time* magazine, Waleed's distinctions include being the world's fourth-richest person (2004, *Forbes*); the largest foreign investor in the U.S.; the biggest shareholder of the world's largest bank (Citigroup, 2007); and the world's second-largest media owner, after Rupert Murdoch.

Mr. Towson is a frequent speaker and writer (visit www.jeffreytowson.com). He is a fellow at Cambridge University's Judge Business School in the UK and is cohead of the Current Topics in Chinese Strategy and Investment course at Peking University Guanghua School of Management in Beijing. He holds an MBA from the Columbia Business School, an MD from the Stanford University School of Medicine, a BA in physics from Pomona College, and a Fulbright from the Karolinska Institute in Stockholm, Sweden.

Preface

I have a pet theory about Ben Graham—the father of value investing—and the lasting impact of his books on generation after generation of investors. Certainly, the logic of his thinking is both compelling and convincing, but I think it's the emotional impact that has made his ideas particularly widespread. Emotional impact is not something one usually expects in a business book.

Reading *The Intelligent Investor* for the first time gave me a somewhat euphoric feeling—a feeling of insight, of "I can understand this." Almost immediately, I found the confusing and anxious world of stocks and investing becoming understandable. For many of us, this initial feeling of insight was followed quickly by a secondary feeling of greed, of "I can get rich doing this." For most, this second feeling passes, and life returns to its normal daily habits. For some, it lasts a lifetime (greetings, Mr. Buffett).

But I think the emotional impact is unmistakable—and its deepest roots are in the appeal of a logical method to those of us with overly rational minds. We have been completely won over by its staunchly logical approach to business and investing.

With Graham's value approach as their weapon, generations of investors have laid siege to confusing and seemingly chaotic markets. And slowly and grudgingly, previously inscrutable markets and systems have become both understandable and actionable. Graham's approach has proved to not only be exceedingly profitable but also fascinating. The opportunity to understand the business world as it really exists, outside of our limited perceptions, is as satisfying as the returns. Graham's thinking offers what physicist and Nobel Laureate Richard Feynman called "the pleasure of finding things out." Unsurprisingly, value investing tends to attract both the ambitious and Feynman-type "curious characters."

This book started with a similar emotional reaction. Almost a gut feeling—that at the start of the first global century, confusion and anxiety seem to be growing. I am increasingly struck by the sense of gloom and doom Westerners in particular have about globalization and a changing world. The U.S. is in decline? Globalization will move my job overseas? The global financial system is precariously unstable and will inevitably collapse? The future is one of belt tightening and lowered ambitions? China's rise fundamentally threatens the West? (How many ways can the word *dragon* be used in a book title?)

Since returning to the U.S. after a decade in the emerging markets, and particularly following conversations with and readings of macroeconomists, I have been startled by the pervasive sense of anxiety and pessimism. And this mostly Western anxiety is such a stark contrast to the feeling of ambition and excitement I encounter almost everywhere else. If nothing else, this book is intended as a good solid whack at what I believe is an overly fearful and completely false worldview with an almost Hobbesian sense of human limitation. And my baseball bat of choice is a worldview and investment strategy based on Graham's thinking—rational, value-focused, ambitious, curious, and optimistic.

One of the nice things about being a value investor is that we are occupationally optimistic. We are almost always betting on prices going up. We are also one of the few groups that get excited by recessions (but we generally try to keep quiet about this). And rather than being frustrated by changing times, we both learn and profit from them. Graham's value concept gives the rational mind an anchor in times of changing markets, companies, and actors. And somehow, surprisingly, occupational optimism leads to real optimism. Somehow, out of this stubbornly rational approach, comes an optimism about business and life—and a deep belief in principles-based capitalism.

For value-obsessed investors, the arrival of a new and chaotic global investment landscape is anything but anxious or depressing. It is truly fascinating. And I suggest that if you are willing to walk out onto this new global terrain, you will re-encounter, as I have, those same original *Intelligent Investor* feelings. A blast of insight and confidence, of "I can understand this" and "I can get rich doing this." These are truly thrilling and unique times. Good hunting.

Chapter Descriptions

Chapter 1 introduces some of the opportunities and challenges value investors face in a rapidly changing world. How to deal with fundamentally different economic systems and their increasing impact on developed markets? How to apply Ben Graham's thinking to such situations? I begin to introduce a framework for investing, making deals, and building wealth in a global age.

Chapters 2 and 3 introduce value point as an extension of and complement to traditional value investment strategies. I reapply Graham's method to various investment environments and from this generate a series of frameworks and methodologies for global value-based investing.

Chapters 4 and 5 introduce political access as a tool in value-added deal-making. This is about recognizing and taking advantage of the fundamental role of government in many markets, industries, and companies. This view stands in contrast to the traditional value investing view that most often sees government involvement as something that decreases the attractiveness of specific companies or creates additional long-tail risks.

Chapters 6 and 7 discuss the strengths and limitations of reputation and capital in various environments. As new markets emerge and cross-border deals increase in number and size, differences in politico-economic systems, cultures, regulatory structures, and behavioral patterns become more important. Within this, reputation can have a particularly strong effect and can be used to turn these large cross-border inefficiencies—inherent to a colliding world—into returns.

Chapters 8 and 9 extend investing and deal-making to include the use of various businesss capabilities. Capabilities such as brands, technologies, operating systems, and management are continually migrating into developing economies from more advanced economies. Leveraging such capabilities into deal-making can be particularly effective in many situations and can create significant advantages for the investor.

Chapter 10 pulls everything together and shows how all the introduced tools (political access, reputable capital, capabilities, and management) can be combined into investments in a powerful way. I detail how this approach has been used by private equity firms, multinationals, entrepreneurs, and global tycoons.

Chapter 11 presents various tactics for finding and structuring investments. This includes going from focusing on screening investments to more actively networking. It includes expanding traditional concerns about competitive advantage to concerns about defensibility. And it focuses on simplifying deal-making in complicated locations to the primary goal of capturing companies of the highest possible quality at the lowest possible price.

Chapter 12 details a global investment playbook for the next several years. I show where I believe the most attractive opportunities are and the strategies to capture them.

Finally, Chapter 13 looks ahead to the next twenty years. We are only at the beginning of global investing. Investors and deal-makers from around the world are beginning to meet, but the strategies are still evolving. This chapter looks at the various investors and market players and assesses their various approaches going forward.

1

Introduction

This book was written to help you profit from the arrival of a new global investment landscape—a “new destination” created from the bending, shifting, and reshaping of economic power centers around the world.

Instead of Wall Street and European money centers dominating the investment world, multiple systems are now coming to prominence. China, India, Brazil, Russia, and the Middle East are all coming to the fore, both rivaling the traditional investment hubs in their ability to create economic wealth and challenging their way of doing business. Autocratic governments, regulatory uncertainty, limited legal structures, exotic consumer habits, and odd kinds of company ownership (including government and quasi-government ownership) are all characteristics of the new investment world. In many ways, it is a post-Wall Street economy.

For investors, it’s an exciting time. Markets and companies are emerging everywhere, offering more and more opportunities. This is in turn attracting, and perhaps creating, a new breed of global investor who crosses borders and sees the entire world as his hunting ground. I was fortunate to spend much of the last decade working for the most prominent of this new breed of global investor, Prince Waleed. Often regarded as the world’s #2 investor after Warren Buffett, Waleed is arguably the world’s first private global investor. With projects and holdings in more than 130 countries, he is one of a rare few who can definitively claim the title of global tycoon. This book reflects many of the lessons I learned working on his investment team.

The Struggle to Go Global

Going global as an investor is conspicuously problematic—particularly for the value crowd. When we dig into the public markets in places like China and India, we find that corporate behavior is far different from what we have learned to expect in the United States and Europe. The companies just don't appear to be very stable, making calculations of a useful intrinsic value difficult. In fact, the economies themselves appear to be changing rapidly (that is, developing). Additionally, information, even in published financial reports, appears questionable. Unless you're investing short-term, it's a struggle to invest in changing companies in changing environments with limited and/or incorrect information.

Looking at private companies, of which there appear to be a truly large and increasing number, there are problems as well. First, it's hard to find information. And then you discover that you can't get access to the deal anyway. These private companies often are owned by entrepreneurs, families, conglomerates, and state-backed vehicles, and they don't sell easily. And if they do, it's only a minority percentage, never a majority. Plus, significant cross-cultural and cross-border problems exist—language gaps; cultural gaps; differing political, economic, and legal systems. If value-based investing in the U.S. is mostly about finding and accurately measuring unrecognized value, value investing globally seems to be mostly about getting information and access to deals.

Finally, if you do manage to get a deal done, you find yourself a minority owner of an emerging-market company, frequently known as the "sucker at the table." You quickly discover that your contract and Board seat mean little. Corporate governance and minority shareholder rights are nonexistent. A foreigner and his money are very easily parted. Don't be surprised if you are diluted or forced out after you have paid in.

The classic long-term value investing approach assumes many things: ready access to deals, the rule of law, shareholder rights, accurate and available information, a separation of commercial and government activities, and a significant degree of stability in both the company and the market. Few of these assumptions hold as you start to go global. So Western investors either stay in the West or go global but limit themselves to short-term, highly liquid, or speculative and technical strategies.

In doing so, they miss the point and ignore the most important lesson of value investing: An investor can build the most wealth not by speculating or going short-term, but by capturing real economic value in companies. This means staying focused on economic value. It means thinking long-term. And that is the crux of the problem. How do you focus on economic value over the long term, particularly for private companies and illiquid assets, in environments that are inherently unstable and uncertain? The struggle to go global is really the struggle to apply a long-term and value-based investment approach in unstable and uncertain landscapes.

What Would Ben Graham Do?

How would the "father of value" have viewed the global investment landscape of the 21st century?

What would Ben Graham—the father of value investing, author of the classic text *The Intelligent Investor*, and coauthor with David Dodd of *Security Analysis*—have thought of the 21st century? Could he have imagined the rapid rise of China, India, Brazil, and Russia? What would he have thought of an investment world that included autocratic governments, limited (or absent) legal and regulatory structures, and odd kinds of company ownership (public, private, government, quasi-government)? What would Graham have thought about investing in a state capitalist system like Russia?

At the start of the 21st century, it is startling to see how far the world has moved from the investment landscape in which Graham invested and taught. The increasing collision of developed and developing markets has created a very new and different terrain.

On one side, half of the human population is rapidly rising, creating new markets for both business and investment. We see thousands of companies emerging in non-Western markets, offering investment opportunities and changing the competitive dynamic for Western companies. These markets, socioeconomic systems, and companies are clearly different from their developed counterparts. Yes, China and India have billions of new customers for products and services, but the average gross domestic product (GDP) per capita is around $2,000. Yes, China has the world's largest mobile company, but it is state-controlled. Yes, there are thousands of new small family businesses to invest in, but there is no consistent rule of law to protect the investor.

On the other side, developed markets and companies are changing in response. Traditional value investing targets such as Coca-Cola and Sees Candies now have both customers and competitors in Asia and Eastern Europe. Is Coke's competitive advantage sustainable in Russia?

Could Graham have imagined the collision of these worlds? Brazilian capital is starting to enter the U.S. at the same time that all foreign capital is trying to exit Dubai. Filipino labor is entering the Middle East while American companies are opening call centers in Manila. American-owned casinos are opening in Macau to serve a flood of Chinese gamblers (often using black-market consumer loans) while reporting to the Nevada gaming authorities but being indirectly controlled by Beijing. Such investment situations would have been unimaginable just 20 years ago. Could Graham have imagined that the world's richest person would make his fortune in Mexico? Or that one day Warren Buffett, his greatest student, would buy PetroChina, a state-owned oil giant under the direction of the Chinese politburo?

More important, how would he have thought about "value" in a global age?

It has been 76 years since Graham published *Security Analysis*, laying the foundation for an investment methodology and mindset based on fundamental value. But Graham and most of his disciples' approach cannot be separated from the economic and historical circumstances under which it was developed and used. Even the best of thinkers are captives to their experiences and environments. What would value investing have become if Graham had invented it not in America in the 1930s but in China in 2010? What if his investing experience was not in moderately regulated free markets but in state capitalist systems with gray regulations, shifting laws, and active government involvement? Would he have spoken of Mr. Market or Mr. Government? Are we sure Mr. Market still returns to intrinsic value in Russia?

What would value investing have become if Graham had invented it in Singapore or Dubai? In these environments, skilled investors operate agnostically between these small city-state economies, the nearby autocratic systems of China and Russia, the chaotic developing markets of India and Latin America, and the developed markets of the U.S. and Europe. Would U.S. equities still have constituted most of his portfolio?

How much of what we refer to as value investing has been shaped by the American experience and not by the value principles themselves? And what is the best value-based methodology going forward into the first global century? Are we really targeting the best value opportunities in a rapidly changing environment? Or are we simply holding on to what we know as the ground moves beneath our feet?

About That Nagging Feeling That You're Missing Out

Much of the tension between economists/policy-makers/globalization theorists and global value investors can be understood this way. They see a globalizing macroeconomy with interconnected but fragile financial systems, while we see a rising sea of new companies that are wildly mispriced.

We are witnessing the breakneck chaotic development of half the planet's markets and their collision with the Western economies. At the company and asset level it is pure chaos, which is great for value investors. If China is building the equivalent of one to two Chicagos per year, how can this not create huge market inefficiencies? The pure scale and complexity of the activity, combined with erratic investor behavior, guarantee mispricings.

But many value investors, the experts at identifying such mispriced value, are conspicuously quiet. How can a Marriott spin-off be an exciting market inefficiency and the chaotic development of half the planet not be? I suspect more and more Western-based investors, staying strictly in their home markets, have a quiet nagging feeling that they are missing out.

I suspect that if Graham were looking at this chaotic sea of rising companies, he would see a world of opportunity. My guess is that he would mostly ignore the rampant theories of globalization and stay tethered to the concept of value. He would examine the fundamentals of companies around the world and build an investment methodology from the bottom up. Instead of going big and thinking macroeconomics, I think he would have gone small and thought of fundamentals.

Graham might also have seen it as a great intellectual challenge—a chance to understand a truly new and singular event in human history—the emergence of a global world. And instead of limiting oneself to the opportunities current strategies could capture, why not try to retarget the largest inefficiencies this event offers? This book, and much of my last decade, is my best attempt at this type of approach to the newly arrived global landscape—a *de novo* reapplication of fundamental value, learned on the ground and in the trenches around the world.

The investment strategies presented are the result of *de novo* reapplication of value and specifically target what I believe is the core "going global" problem: how to invest long-term in inherently unstable and uncertain environments. I call the resulting strategies *value point*. It is a logical extension of well-known value techniques and, hopefully, easily recognizable to most readers. It also explains most of the successes I have witnessed of Western firms going global—as well as the startling rise of developing market tycoons such as Carlos Slim and Prince Waleed. It is an action plan for profiting in a colliding world.

The Search for the Opportunity to Add Value

Going global is about capturing quality companies at a low price through a really big advantage

The animating idea at the core of Graham's (and Buffett's) methods is the search for value—a quest for unrecognized value caused by seemingly endless market inefficiencies. On a daily basis, the classic value investor estimates the economic value of companies, mostly by screening stocks, reading annual reports, and calculating intrinsic value. Accessing the deals, acquiring the assets, and managing the assets are key steps but not the major focus (you buy the shares and put them in your portfolio). A prototypical value investment would be Warren Buffett's purchase of Coca-Cola. He recognized the mispriced value, purchased the shares on the public market, and put them in his portfolio.

Value point is the search for the opportunity to add value. Finding unrecognized value is actually not the primary challenge in most global markets today. These are rapidly developing markets with limited and often inaccurate information—and they are overwhelmingly inefficient. The value point investor's problems are accessing inaccessible investments, eliminating the larger uncertainties, and strengthening the weak and often impractical claims to the enterprise.

A prototypical value point investment is Prince Waleed's launch of two Four Seasons hotels in Egypt. He partnered with the Four Seasons and made private bids for both prime land and existing hotels in Cairo and Sharm El-Sheikh. The offer added so much value beyond just capital that the local owners and government officials were willing to sell a minority share at a good price. His added value (the Four Seasons brand and management contract) made an inaccessible deal accessible. Furthermore, his long-term control of the hotel management contract enabled him to comfortably become a minority shareholder of an illiquid private asset in a country with limited rule of law. Per Graham, it was a value-based surgical investment. The risk was minimized by a large margin of safety, and the returns were effectively secured at the time of the investment.

In both examples, we see that the investors identified a quality company, acquired it at a cheap price, and secured a margin of safety. The key to value point is knowing what constitutes a quality company in a developing economy or cross-border situation and how to solve the "going global" problems mentioned. I have found that a surgical addition of value at the time of investment is the most effective approach. It both increases access and expands the margin of safety to compensate for the increased uncertainty and instability of these environments.

Intelligent Global Investing

Five simple recommendations for investing in a colliding world

Much of the presented strategies can be reduced to the following five recommendations/observations for moving to a more global posture for value investing and deal-making.

Point #1: The World Has Changed—and Our Worldview Must Change with It

Dislocations such as economic crises—and wars—often reveal changes that have been quietly accumulating. The 2009 financial crisis revealed that a global economy defined for the past two centuries by dominant Western markets and systems has become just one part of a much larger and more complicated global economy.

From 1950 to approximately 1995, the investment world can be described as "Western-centric" or "unipolar," as shown in Figure 1.1. The world's developed economies all had advanced legal and regulatory systems and were relatively comfortable places to do both domestic and cross-border deals and investments. Investors between London, New York, and Tokyo were fairly good at doing deals together.

Beginning in the early to mid-1990s, interactions with the developing economies began to grow exponentially, as shown in Figure 1.2. American factories were moved to China, Saudi investors were buying office buildings in London, and call centers were moved to India. Western investors began tentatively "reaching out" from their home markets to these very different systems. But investments and deals were conspicuously limited, mainly because of a lack of comfort. Large risks were perceived and avoided. Activities were circumscribed to what was similar to Western investment strategies and operating methods. In practice it resembled classic value investing, but with a larger, and often impractical, margin of safety demanded.

There is the impression that for the past 15 years, we have been awkwardly stretching out from this unipolar core, trying to apply familiar techniques to fundamentally different economic systems. But as the world evolves further and further from what we knew, we are stretching and contorting ourselves more and more.

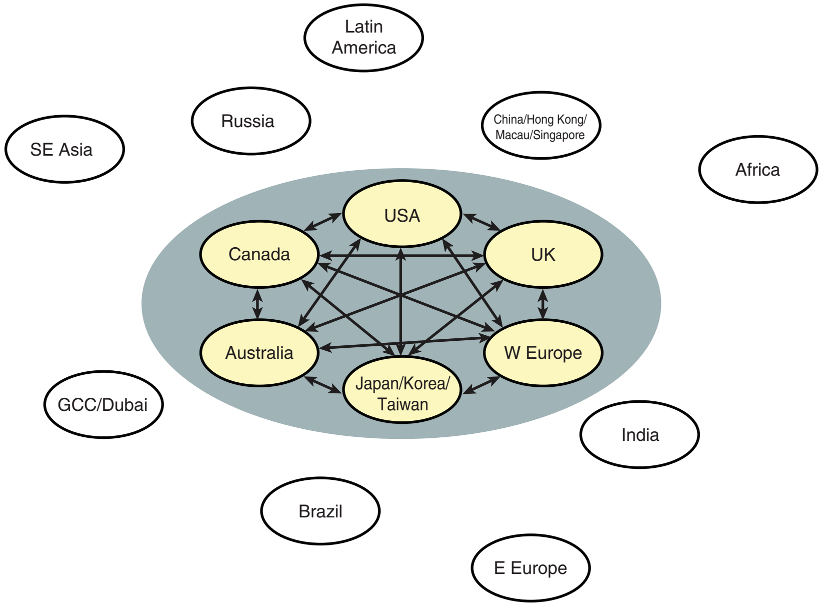

Figure 1.1 The 1950s to the 1990s: The Western-centric investment worldview

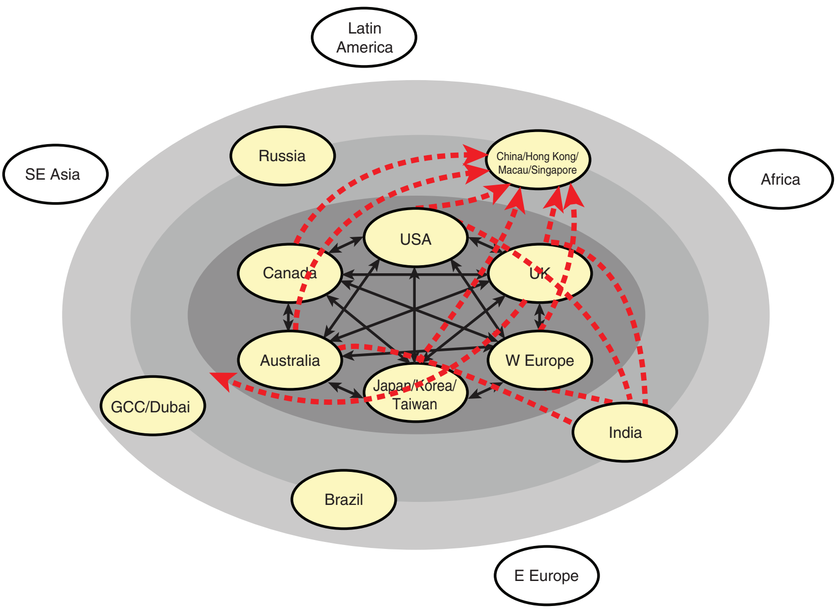

Figure 1.2 The 1990s to the 2000s: A Western-centric accommodation to a changing world

To create wealth in a multipolar economy, we need a mindset free of the Copernican model of Western developed economies as the centers of gravity with developing nations circling us. The biases of this Western-centric strategy are profoundly limiting to investing across national borders.

The international capitalism of the U.S. and Europe has now been joined by the state capitalism of places such as Russia and China and the "godfather capitalism" of places such as the United Arab Emirates (UAE) and Singapore. The world now has more systems, and many of them are fundamentally different. Competitive dynamics, the role of government, the role of the press, the rule of law, cultural traditions, governance practices, and many other important investment factors are very different depending where you are. Capabilities, particularly management ability, also vary dramatically depending on the location. The world is multipolar.

It is also colliding and surprisingly local. We are witnessing a great migration of capabilities from developed economies to developing. The migration of professional management is the most important, but many others exist, such as technology, brands, products, and business models. The increasing collision of differing ecnomic systems is an important part of the value worldview. And this collision is increasingly being fueled by local competitive pressures. As will be discussed at length, the multipolar world is not only colliding but increasingly local.

Point #2: The Key Is to Reapply Graham's Thinking to New Environments

Ben Graham's value principles are the key to direct investing within this multipolar, colliding, and local worldview. However, the starting point is not in his conclusions—Mr. Market, intrinsic value, and margin of safety—but in his method. We look at the value approach before many of the developed economy assumptions were incorporated into the methodology. "Graham's Method" turns out to be far more valuable than any particular strategy. My own approach for translating fundamental value to different landscapes is to combine security analysis with uncertainty analysis and hands-on dealmaking. So I have followed Graham's Method but reached a different methodology. In this book, I focus less on measuring a margin of safety and more on strengthening the claim to the enterprise. I talk less about Mr. Market and more about Mr. Government. To be honest, I am somewhat pleased with this, as I have never really liked the term Mr. Market. It sounds odd in Chinese (shi chang xian sheng) and ridiculous in Spanish (Señor Mercado).

Graham's Method could be considered the scientific method for investing. His assertion that a company has an independent value is very similar to scientists' assertion that the world has independent natural laws to which it adheres. And although it is somewhat common to argue that finance is alchemy without any sort of independent or stable natural laws, this underestimates the insights to be gained by testing measurements against an independent and stable thesis. It also overestimates the actual consistency of most natural laws. Newtonian physics and quantum mechanics work only in specific situations and fail in others. Seeing where a thesis holds and where it fails can be equally valuable. Much of this book is about studying the margins where traditional value investing breaks down.

For the purposes of this book, I have taken some liberties and inferred Graham's Method to be the following three steps:

1. **Eliminate the uncertainties** in both your direct measurements (past versus future revenue, tangible versus intangible assets) and your calculated values (cash flows, intrinsic value). Calculating an answer is fairly easy. Calculating the uncertainty around an answer is the real challenge.
2. **Quantify the risk.** Remove the human element, and set a standard quantitative measurement for the risk of loss from the investment. Note that I am claiming something different from the usual statement that value investing is about minimizing risk. The real insight in Graham's Method is to quantify risk and then to invest only in situations where it happens to be acceptable.
3. **Invest surgically,** and make your returns at the time of investment.

Using Graham's Method on public stocks in the U.S., you naturally derive the well-known value investing methodology (buy when

Mr. Market is 30% below a stable intrinsic value, and hold). However, when using Graham's Method on developed, developing, and cross-border environments (the global landscape), you derive a broader methodology that combines both value investing and value point concepts. Mr. Market is joined by Mr. Government. Sustainable competitive advantage is joined by the concept of defensible investments. And the search for value is complemented by the search for the opportunity to add value. Traditional value investing in developed economies can be seen as a simplified subset of a longer equation.

This makes intuitive sense. As we move from U.S.-style developed markets to a larger global investment landscape with multiple types of investment environments, we lose many of our simplifying assumptions. We should expect our methodology to expand and our tool kit to get larger.

Point #3: Seen Through the Prism of Value, the World Is Full of Inefficiencies and Opportunities

Value investing and value point methodologies show a global landscape full of attractive opportunities. And it appears much larger, more varied, and more inefficient than the investment landscape previous generations had to work with. But its biggest inefficiencies and its most attractive opportunities turn out not to be the ones frequently considered when going global. Western-listed companies with exposure to India are not terribly compelling, and Hong Kong pre-IPOs are nice but not thrilling. However, family-owned private companies in China and India are a deep pool of mispriced value. And crane-leasing companies in the UAE and infrastructure deals in Saudi Arabia offer huge upside. At the moment, agribusiness deals between Chinese state-owned enterprises and Mexican companies get my attention. As will be detailed, a chaotic, developing, and colliding world is full of market inefficiencies and value opportunities, but they are not necessarily in places where investors are comfortable. But what you see depends on the prism through which you look.

Point #4: It's Still About Price and Quality

Value point is a more complicated and hands-on version of value investing but seeks the same end result: a quality company purchased at a low price, relative to value. The higher the company's quality and the lower the price, generally the higher the returns.

In fact, value point is, for all effective purposes, a series of techniques to significantly expand the number of companies that can be targeted and to boost the margin of safety. Logically, that is the only way to eliminate the additional uncertainties and instabilities of many global landscapes. As we move to more developing-type environments, we need to significantly increase the margin of safety, both at the time of the investment and long-term.

Point #5: A Value Personality Is the Same Everywhere

With the right worldview and a consistently applied value methodology, we seem to naturally evolve in our mindset and posture to the "intelligent investor" that Graham described so well. We are value-focused. We don't speculate. We are microfundamentalists. We are on the ground and in the trenches, spending our days studying the details of specific companies. We are skeptics, constantly retesting our assumptions and always doing all our own research. We invest only when we are assured of making money, and we never lose money. And when we do find an investment that meets our criteria, we go in big. We don't diversify. We concentrate (and obsess).

Most importantly, we are optimists. Whether this is by personality or a natural result of a rational approach to business and life, we see a world of attractive investment opportunities. That makes us optimistic about business and investing. None of this changes when going global. A value framework and personality are the same everywhere.

The Prince Waleed Years

Second only to Graham's influence, this book is the result of working for the world's first private global investor

I began writing this book in 2009 in Riyadh, Saudi Arabia. It had been almost ten years since I had left New York City financial services to work for Prince Waleed internationally. It was a fairly radical move at the time. Few people left New York to go off to the emerging markets back then, let alone to the Middle East, let alone to Saudi Arabia. But Waleed was the world's fourth-wealthiest person (*Time* magazine had nicknamed him the "Arabian Warren Buffett") and arguably one of the few master investors. Having met him on a consulting engagement, I had been struck by what I called the "Waleed mystery": How had a pure investor with only two or three staff members built $30,000 into a $22 billion fortune? Furthermore, how did he walk so effortlessly between developed and developing markets when so many others struggled? He could buy Fortune 500 companies in the U.S. on Monday, hotels in Africa on Tuesday, and banks in China on Wednesday. So I took a chance and became one of his few staffers. In the first year of the first global century, I had joined the world's first global investor.

Of all the major investors (George Soros, Buffett, and so on), Waleed is unique in that he is the only one to have come from a developing economy. He made his first fortune in the Middle East, yet he also became the largest foreign investor in the U.S., the largest shareholder of the world's largest bank (Citigroup, 2007), and the world's second-largest media owner, after Rupert Murdoch. Even Warren Buffett has wryly called himself the "Waleed of America." He is the only master investor who has been equally successful in developing and developed environments.

His Western investments are fairly well known: 5% of Citi, more than 200 hotels (Movenpick, Fairmont, The Plaza, George V, the Savoy, the Four Seasons hotels), EuroDisney, Canary Wharf, News Corp., Saks Fifth Avenue, TimeWarner, Apple, eBay, priceline.com, and many others. Less-well-known investments include Bank of China, a Manhattan-sized real estate development (27 square miles of land), a private Airbus 380, multiple Africa projects and private equity funds, a one-mile-high skyscraper, hospitals, insurance companies, schools, petrochemical facilities, banks, architecture firms, market research companies, and many others. His deal history is an interesting combination of public stocks and private investments in both developed and developing economies.

Sitting at my desk in Riyadh in 2009 and thinking about this book, I began rereading Graham's *Security Analysis* and Mohamed El-Erian's *When Markets Collide*. And I began asking many of the questions posed at the start of this chapter. What would Graham have thought of the colliding world El-Erian so accurately described? Why didn't Graham's methodology work very well in other economic systems? And why is it that so many Western-based investors seem to be sitting on the global sidelines while investors like Waleed are making money hand over foot? In my experience, I have found that Graham's concepts are the theoretical anchor for global investing but Waleed's deal history is the Rosetta Stone.

I concluded I had gotten unbelievably, and unintentionally, lucky. I had somehow become part of the first generation of investors trained on a global playing field. Not only did I have a front-row seat at a singular time of global transformation, but I had also ended up in the inner circle of likely the most successful global investor thus far. Now, almost ten years later, I was in a position of being equally comfortable buying hospitals in India, buying stocks in Chicago, and building mortgage companies in Africa.

I think my entire generation has gotten lucky. We are the first wave of investors to see the entire world as our opportunity—being equally excited and comfortable in Shanghai, New York, Dubai, and Mumbai. It is a thrilling time if you are ambitious. And, like many value-focused people, I have a fascination (compulsion?) with understanding things as they are. And now there is much more of the world to learn about. Beijing banks. India–U.S. cross-border mergers and acquisitions (M&A). African natural resources. It's all fascinating—and profitable.

I am ridiculously optimistic about the new century and its opportunities. Absent some sort of new animal analogy, I could not be more bullish (a bull elephant?). For the intellectually curious, it is fascinating. And for the ambitious, money can be made almost everywhere. The first global century is as you would expect any grand new frontier to be—thrilling and chaotic, daunting and confusing, energizing and fascinating.

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