Investing with Anthony Bolton – the anatomy of a stock market phenomenon. Jonathan Davis, Harriman House Publishing, 174 pages, £12.99.
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This book pays tribute to Anthony Bolton, the UK's best known fund manager and "the professional's professional" running Fidelity's Special Situations fund. At around £4 billion this is the largest in the UK All Companies sector, with a staggering 250,000 holders.

Bolton has run the fund from its inception 25 years ago, when he joined Fidelity's nascent UK operation as a young fund manager. His outstanding long-term record as a stock picker has seen the fund grow from a few millions to its present size and, partly as a result, Fidelity's UK operation grows from a dozen to over 3,000 staff.

The book comprises an introductory chapter by Davis, a chapter by Bolton himself ("Daring to be different – my 25 years as a contrarian investor"), and two further chapters by Davis analysing the performance of the fund and setting out lessons for the investor, a number articulated by Bolton's colleagues and peers. Appendices provide further performance analysis.

Bolton's chapter and his colleagues' comments are the heart of the book. The focus of his fund is on capital growth through investing in shares that are out of favour, unrecognised or undervalued. Whilst the overwhelming weight of evidence is that value investing provides superior returns over the long term, "special situations" in Bolton's case ultimately reflects an opportunistic approach to investment allied to a clear view of value. Bolton therefore seeks a wide range of investment ideas from which to pick (his commuting time is spent scanning brokers' reports for the unrecognised gems buried within them). In assessing value, again he takes account of a wide range of factors, including traditional PE and EV ratios, free cash generation, the strength of the balance sheet, share dealing by directors etc. Whilst he is a contrarian in investment matters, he also looks for the factor that may change investors' views of the share concerned, and which will allow it to achieve the value he is looking for – the "special situation". Unusually in professional investment circles, he uses technical analysis to help him assess whether other investors are starting to share his view. All this allows him to develop a conviction of the merits of a share as an investment. He has traditionally invested in smaller and mid cap companies with limited regard for market weightings, both in his search for value but also because to beat the market (how a fund manager competes for fund) a portfolio must be different from the market.

Bolton operates comfortably with a contrarian style that does not buy stocks because they are fashionable but because others are not doing so, regarding the market more as a "voting machine and than a weighing machine" in the short term – and using its excesses to his advantage. He worries if too many brokers ring him with the same idea. This contrarian approach has generally led him to "value" stocks and to a relatively short average holding period, of 1 – 2 years, selling when he sees his shares as fully valued. One of his colleagues remarks that Bolton uses both sides of his brain – the numbers side that develops an acute sense of the value of a stock, and the imaginative side that understands crowd psychology and can sense what the market is discounting in its valuation. Bolton says that his contrarian style is particularly useful at turning points in the market, when the tendency is to do the opposite of what is sensible – for example, to sell after a crash.

Bolton would be first to acknowledge the advantages he enjoys over private investors, not least the extensive research support that he has built around him. This enables him to monitor the 200 holdings in the fund whilst, importantly, he prospects for new ideas. Success has however brought problems of size, and it is clear that Fidelity increasingly uses its clout to achieve its value expectations through corporate deals and grappling with governance issues.

Bolton's approach contains a number of lessons and sources of encouragement for the private investor. These include the likelihood of there being greater value amongst smaller companies; the need for disciplines such as recording why particular shares are bought (Bolton's notes of company meetings go back 25 years) and setting clear value targets; the use of technical analysis (to avoid the "value trap" of shares that never perform); and the importance of developing a personal investment style, even if it has elements that vary with different market conditions. Bolton's own advice to the private investor, in Davis' earlier "**Money Makers**" (also available through *www.global-investor.com*) is to focus on companies in businesses they know, not least so that their views of the real value of a company will not see them shaken them out as markets move. His "convictions" idea, which dictates the size of his investments, sees him "leg in" and out of investments as these change but backs strong convictions strongly, will strike a chord. Other advice includes running winners, paying attention to absolute as well relative valuations, and avoiding attempts at market timing. But the really big lessons are to have a clear view of what a share is worth and of why and when it might achieve its value.

In part the book is the story of an investment professional in one of the longest bull markets ever. What is disappointing is the absence of detail on specific investments or "war stories" that would help illustrate how Bolton succeeded despite some very unpromising material in the investments he chose. Some of Davis's comments and the appendices are also repetitive, and one chapter borrows heavily on his earlier "Money Makers". And there is excessive praise of Bolton (ironic for a contrarian) and macro analysis of his funds' performance.

But Bolton's own chapter is worth the cost of the book. And the clear affection with which Bolton is regarded by his colleagues and peers, as a hard working, clear sighted and disciplined fund manager of complete integrity - and a modest and unflappable individual - is a delight. He has clearly been hugely important to Fidelity in terms of his personal style and investment methodology as well as financially - management fees from his fund alone are now over £60m a year.

Jeremy Prescott

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