

SIR JOHN TEMPLETON – A GREAT INTERNATIONAL INVESTOR

Sir John may be the least known of the top stock-pickers in the world. He must be the only living investment guru (90) to recall the 1929 crash. His comment: “I really remember 1929. It was fascinating.” He must be the biggest “contrarian” of them all with his reaction to 1929 and being absolutely overjoyed at the October 1987 market crash when all his favourite stocks suddenly became 30% cheaper.

By coincidence there have been features on his life and times in the June issue of *IfG* and the *Daily Telegraph Money* Section of 5 July 03. The former by David Watson and the latter by Martin Baker. They were prepared for different audiences from different starting points.

Sir John’s approach has much in common with Warren Buffett:-

- Business he understands
- Management believed to be sound
- Long-term prospects believed to be promising

While he preaches ignoring the market he is keen to buy at points of maximum pessimism.

His quantitative key factors are:-

- PER in relation to comparable companies.
- Liquidation value.
- EPS growth rate and its consistency.
- Profit margins, particularly if they are rising.

But he is not so much a holder for life like Warren. Sir John’s variant is “Buy quality stocks at undervalued prices and just hold on until those values are recognised”. He expects shares on average to take four years from being undervalued to being recognised by the market. It is over these years that an investor gains maximum rate of profit. In his opinion investors tend to hang on for too long.

He takes more interest in consistent increases in earnings per share than Warren whose emphasis is on return on equity. He advises investors to avoid companies whose eps slips two years in a row and those growing at an unsustainable rate.

He reduces risk by diversifying which should not be confined to a single country.

IfG quotes some of his sayings:-

- “This time is different” are among the most costly four words in market history.
- Instinct is the opposite of wisdom in investing.
- Only when a majority is selling in a panic does one find profitable stocks.
- I never bought a stock because I liked it. I bought it because it was a cheaper bargain than any similar stock I would buy anywhere in the world.
- Bull markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria.
- If you can’t explain your investment methodology in five minutes you don’t have one.

More on http://www.templeton.org/about_us/who_we_are/sir_john_templeton

Cross checking Sir John’s criteria with those in David Dreman’s book *Contrarian Investment Strategies* there is considerable correlation. Dreman indicates his respect for Warren Buffett and John Templeton several times describing the latter as one of the masters of valuing investing and stating that he used a six-year time span for holding a stock.