INTRINSIC VALUE

'I AM TOO EMBARRASSED BY THE RUBBISHY PERFORMANCE OF MY OWN PUNY PORTFOLIO TO DWELL TOO LONG ON THE FAILURES IN MY INVESTMENT STRATEGY'

I had heard of the name Warren Buffett before. Isn't he called the Sage of Omaha? And eye-wateringly rich? And among the five wealthiest man in the world? Didn't he go walking along the Great Wall of China with Bill Gates? Doesn't he still live in the first house he bought in Omaha, and drive an old car?

I eventually found on the library shelves *Buffett. The Making of an American Capitalist* by Roger Lowenstein (Weidenfield & Nicolson: £20). I have to admit that I found the first part of the book to be on the dull side. Every American child – from future president to football player – seems to have made money by organising paper rounds, and re-selling lost golf balls. The main distinguishing feature of the early years of Warren was that he soon rose from organizing paper rounds to installing pinball machines in barber shops.

The pace quickens in the middle years. Hustling around to drum up his first investors. Switching his beverage of choice from Pepsi to Cherry Coke. Making some small investments – that with the benefit of hindsight look fairly obvious and not at all adventurous. Legendary meanness towards his children, asking his daughter, for instance, to write a cheque for a $20 advance to let her park at an airport. Then, taking control of a small, failing, New England textile mill, Berkshire Hathaway. Every cent that Berkshire Hathaway earned was tucked into amazingly successful investments which soared and soared. Warren looked for the intrinsic value of a business and eschewed theories like the Efficient Market Hypothesis and the Random Walk theory, and in fact anything which held that the individual could not hope to beat the market. He eschewed Chartism, especially Chartism. Warren's investments consistently beat the Dow for year after year, decade after decade. He spent some time saving Salomon Brothers, but, as soon as he could, rushed back to Omaha to look for intrinsic value as he sipped Cherry Coke in his first house.

The story of Warren Buffett should have been an inspiration to me, but I had a slow start. Mornings in the West of Scotland are too dark to allow for paper rounds; golf-balls, once lost in the heather, stayed lost and could not be found and re-sold; and the thought of putting pinball machines into barbers' shops strikes me as ridiculous. With these early disadvantages I am not as rich as Warren, but I try to be equally mean to my children. The other thing that I share with Warren is my distrust of investment theory.

I look at my own tiny collection of investments, built up from my Widgets SAYE scheme, from de-mutualised building societies, and from coupons clipped from newspapers for privatisations during the Thatcher years, and I think, what a well-balanced portfolio, what a good spread of sectors. Warren would look at my tiny collection, and taking a sip of his Cherry Coke, would say wisely, "What a load of rubbish". I really should have looked harder for intrinsic value, instead of clipping coupons from newspapers.

I am too embarrassed by the rubbishy performance of my own puny portfolio to dwell too long on the failures in my investment strategy. Instead, let me turn to my days at the FX desk at Widgets. Then, I tried to concentrate on the intrinsic value of various currencies. For instance, the German nation is known to be disciplined and hard-working. The Deutschmark will stay strong. The Italians are a flakey nation, too obsessed with football and opera. Therefore, the lira was bound to fall. The kroner would rise because the Swedes live in a cold climate, but have successfully overcome that hardship. I would concentrate on these fundamentals, and try to ignore market rumour, and the froth that stemmed from figures about GDP and Balance of Payments. While I just kept my eye on the fundamentals, we did fairly well.

I am not sure how I stumbled on Chartism. It might have been that it had been mentioned in the *Daily Mail* in one of those articles they run on How Visitors From Outer Space Built The Great Pyramid/ Stonehenge/Atlantis. Whatever the source, I can remember borrowing the seminal work on Charting from the Boston Spa National Lending Library, and spending hours at the copying machine so that someone else would be able to share my enthusiasm for the charts tracking pork-belly futures. At that time in Widgets treasury we had two female graduate assistants. Since we had no clear idea of what to do with female graduate assistants, they were under-employed, sitting around, looking decorative and chatting about *Beowulf*. I bullied them into playing a vital role in my Charting Analysis. We got big sheets of graph paper, and I coaxed them into recording the spot $/£ rate every quarter of an hour. I tutted loudly if the recording was missed for a trip to the coffee machine. I quickly saw a danger that we might run out of graph paper, and I changed the recording intervals to half-hourly, then, as the graph paper was still being used up too quickly, to hourly. We used to pore over the charts, and try to spot double-tops or head-and-shoulders or whatever folksy names given to the patterns we were meant to be spotting. I forget whether the charting ended because the two graduate assistants left for a more fulfilling way of life, or because an enhanced screen service provide the charts automatically.

Was the Charting helpful? As Warren would have warned me, not in the slightest. **JF**