### [Bob Robotti's Presentation on Enterflex: Value Investing Congress](http://www.marketfolly.com/2012/05/bob-robottis-presentation-on-enterflex.html)

Continuing our coverage, today we're posting up more [notes from the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below are notes and the slideshow presentation from **Bob Robotti** of **Robotti & Company**. He presented the bull case for Enterflex (TSE: EFX).

He thinks natural gas will fill the hydrocarbon gap in the coming decades. 1mm ft cubic is energy of 1 barrel oil - historically interchangeable with 1 barrel of oil. The following notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

Investment Opportunity: Enterflex (TSE:EFX)

• Installs compression and processing equipment.
• $980MM EV
• Decade long drilling activity
• Started trading in June 2011
• Oil and gas firms are end customers
• Service is 21% of revenues – key component to this firm. Expected to grow to 40% of revenue in next 3 years.
• Oil compressors – leverages due to fracking technology as fracked gas comes out of the well as low compressed volumes.
• Engines – Caterpillar and Waukesha was 50% (Cat been growing significantly). Waukesha bought by GE from private equity backing. Enterflex distributor for Waukesha.
• 2% dividend yield and share buyback.
• Intrinsic value is $18 to $24 per share. 6.0x to 8.0x multiple on the business.
• Competitive advantage – engine part important (distribution system). As Waukesha engines (Enterflex US distributor) get better from GE engineering this drives margins higher including

## Tuesday, May 8, 2012

### [Chuck Akre on Judgment in Investing: Presentation from Value Investing Congress](http://www.marketfolly.com/2012/05/chuck-akre-on-judgment-in-investing.html)

Continuing our coverage, today we're posting up more [notes from the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below are notes and the slideshow presentation from **Chuck Akre** of **Akre Capital Management**. He gave an insightful talk on using good judgment in investing. We've also posted a separate post with his bull case for MasterCard (MA).

On Judgment in Investing

The following notes are courtesy of Kyle Mowery from GrizzlyRock Capital. Akre quoted Will Rodgers: "Good judgment comes from experience and experience comes from bad experience."

He learned to ask the questions: what makes a good investment? And what makes a good investor?

Good judgment is output of neural network and pattern recognition of what you have come to know. Ask CEOs how they measure their success of company. Akre suggests "the success of investment is realized as the per unit increase of book value per share."

Recommends ["100 to 1 in the Stock Market" written by Thomas Phelps](http://www.amazon.com/gp/product/0070497729/ref%3Das_li_tf_tl?ie=UTF8&tag=markfoll-20&linkCode=as2&camp=1789&creative=9325&creativeASIN=0070497729) (former WSJ writer & editor). Phelps' qualifications are as follows: small, relatively unknown, unique product that does something better/cheaper/faster.

Have courage. Have patience. Thinking big and compounding capital: most investors don't think on large enough scale. $10mm a penny doubled daily for 30 periods. Recommends ["Money Masters" by John Train](http://www.amazon.com/gp/product/0887306381/ref%3Das_li_tf_tl?ie=UTF8&tag=markfoll-20&linkCode=as2&camp=1789&creative=9325&creativeASIN=0887306381).

Warren Buffett: understandable, generate cash, high asset turns, owner oriented management

**Buffett's 6 Qualities of Good Investors**

1. Animated by controlled greed and fascinated
2. Patience
3. Think independently
4. Have security and knowledge without hubris
5. Accept when you don't know things
6. Flexible on types of businesses

Train adds 4 more: 10-15 years of practical experience, genes, perfect intellectual honesty, and avoid distractions.

Look for low teen ROE. Overconfidence bias is a huge risk. Malcolm Gladwell's talk on the recent financial crisis: failure comes from competence and overconfidence. Essence of study people overly believing marginally more information. But this doesn't improve the accuracy of judgment but does increase the confidence of one's predictions. "Less is more." "Value is in simplicity."

This is just one of our posts on Chuck Akre's talk. We're also posting up his bullish stance on MasterCard (MA).

Read more: <http://www.marketfolly.com/2012/05/chuck-akre-on-judgment-in-investing.html#ixzz1uacuiXSx>

Investment Idea: Purchase MasterCard (MA)

- Payment network, global GDP summation of transactions. Royalty business on growth of consumer spending worldwide earning small piece of trillions of transactions across the world. 45% FCF return over last 5 years.

- Requires little capital to grow. 5 years was $680mm capex while after tax NI increase $1,900 over the same time (2002 to 2007). Pricing power. People: new CEO is solid.

- Cash is 85% of world's transactions and MA will benefit from the shift to payments. 37% FCF margins in 2011.

- Management like share repurchase over dividends. Could repurchase billions annually without levering up.

- ACH is banks system but not handle large number of small transactions rather built to handle few large transactions.

Question & Answer Session

Why prefer MA to Visa (V)? US domestic debit transactions, $0.42 interchange fee - Durbin suggestion to $0.11 per transaction (ended up at $0.22). MA had mid-teens exposure to US while Visa had much more. Market Folly note: A previous issue of our [Hedge Fund Wisdom newsletter](http://www.hedgefundwisdom.com/) has an in-depth analysis of Visa.

The above notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

Tuesday, May 8, 2012

### [Isaac Schwartz's Presentation on Sampson Holdings, Thai Reinsurance & KazMunaiGas: Value Investing Congress](http://www.marketfolly.com/2012/05/isaac-schwartzs-presentation-on-sampson.html)

Continuing our coverage, today we're posting up more [notes from the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below are notes and the slideshow presentation from **Isaac Schwartz** of **Robotti and Company**. He presented three investment opportunities in Southeast Asia: Sampson Holdings (SEHK:531), Thai Reinsurance (SET:THRE), and KazMunaiGas Exploration and Production (LSE:KMG).

**Sampson Holdings** - Furniture company selling US, manufacturing in China, listed in Hong Kong. $160mm EV. $423mm 2011 revenue. Perfected manufacturing and experts on distribution side (300 commissioned sales people). Trades different than Ethan Allen due to listing in Hong Kong. Cheap company in out of favor industry.

**Thai Reinsurance** - Recently Prem Watsa comes in to buy 25% after the Thailand floods. Remarkable 15 year track record. 20% ROE since before Asian crisis in 90's. Has special position in industry due to knowledge. $15 billion insured loss. Rates of many lines have gone up over 100% since the flood.

**KazMunai Gas Exploration & Production** - Publically listed national oil company of Kazakhstan. The government owns 63% of the company. Went public in London 6 years ago. Spending $1 billion. $300mm share repurchased authorization and $100mm bought to date. Dividend up 63% with only partial earnings payout. KMG is selling at 6x earnings, 7% dividend yield, as well as $2 per barrel valuation for quality and producing assets.

Tuesday, May 8, 2012

### [Whitney Tilson's Presentation on AIG: Value Investing Congress](http://www.marketfolly.com/2012/05/whitney-tilsons-presentation-on-aig.html)

Continuing our coverage, today we're posting up more [notes from the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below are notes and the slideshow presentation from **Whitney Tilson & Glenn Tongue** of **T2 Partners**. They presented their idea of American International Group (AIG).

Spencer Capital aided in the presentation. Bruce Berkowitz of Fairholme Capital presented AIG last year and T2 now likes it. We've posted up [Berkowitz's presentation on AIG](http://www.marketfolly.com/2012/04/bruce-berkowitzs-case-study-on-aig.html) before if you missed it.

Idea: AIG

• Very much different from before crises
• Worth at least 1x tangible net book
• Will get easier to understand in the next year
• Closed at $31.84 (yesterday) and is trading at 41% discount to book
• US took ownership form 70% to 60% in today sale.
• Chartis – 45MM clients
• Sun America – 19MM clients – life insurance.
• ILFC – global aircraft leasing business. Comps are around 1x book.
• Maiden Lane III – SPV. Currently at $6.3 billion and on market for sale.
• Large deferred tax asset position
• August 2007 $170 billion market cap. Trading at 1.75x book at that point.
• Question is now how much will the US government make?
• Peak of support is $182 billion form US – now about $45 billion investment at 3/31/12.
• Sum of parts is $49 to $73 per share
• Normalized earnings are ~$5 per share.
• T2 thinks AIG will buy back shares
• Management incentives are to understate book value.
• Warrants are very attractive.

Question & Answer Session

P&C business? Very large esoteric investments as well? Yes AIG is still good at these big investments. Government wants out - probably won't be out by election but the government is not in the business of holding AIG.

### [Doug Grey's Presentation on the Cost of Money: Value Investing Congress](http://www.marketfolly.com/2012/05/doug-greys-presentation-on-cost-of.html)

Continuing our coverage, today we're posting up more [notes from the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below are notes and the slideshow presentation from **Doug Grey** of **Saddle Peak Asset Management**. His presentation focused on how current interest rates are distorting things and highlighted PepsiCo (PEP).

PEP: Too cheap? Value investors must now look at the macro picture. Pepsi is just an example to discuss how the current interest rate picture is distorting things. Bernanke: Fed view is the flow (buying and/or selling) that dictates the price or level of interest rates, not the quantity of securities held.

Pepsi cost of money in 2002 was 7%, now cost is 2%. Value = EPS / (r - g). With r plummeting 5% there is a significant implication on allocation of capital. So, interest rates make a significance in these valuation matters. CFO of Pepsi should be borrowing money to buy stock. Institutional investors should think about actuarial rate considerations.

Discount rate lowered from 7.75% to 7.5%. Saddle Peak - straightforward - use leverage (i.e. in the money calls). Hedge interest rate risk with ETFs and interest rate futures. "All it takes is guts because no one can tell you when interest rates turn around ... just be what you should be - a patient value investor." The above notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

Question & Answer Session

Own Pepsi - biased to high quality, growing businesses: American Express (AXP), GM (GM), Caterpillar (CAT), Halliburton (HAL) ~ 12% of his portfolio, and Exxon Mobil (XOM).

Oil drillers like HAL is cheapest way to play natural gas.

Use of options versus equity - they buy long dated in the money calls. Black Scholes does not accurately price long dated options - rather intrinsic value growth makes these long dated calls very cheap.

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### [GoodHaven Capital's Presentation on Alleghany & White Mountains Insurance: Value Investing Congress Omaha](http://www.marketfolly.com/2012/05/goodhaven-capitals-presentation-on.html)

Today we're posting up [notes from day 1 of the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below is the presentation from Larry Pitkowsky and Keith Trauner of GoodHaven Capital on Alleghany (Y) and White Mountains Insurance (WTM).

**About GoodHaven Capital**: Before founding GoodHaven, Trauner and Pitkowsky worked at Bruce Berkowitz's Fairholme Capital. After starting the mutual fund GOODX in April 2011, they're in the top 1% of mutual funds.

Their goals are above average returns - consistent with capital preservation. They seek to exude consistent behavior irrespective of short-term performance and want to run towards a fire. "Better yet figure out when conditions are ripe for a conflagration before the match is lit."

Larry's rule is: "Perfection in avoiding permanent loss of capital is impossible but it is a worth goal." They don't diversify, they want money in their best ideas. And of course, price matters: price is what you pay and value is what you get. The following notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

"Back to the Future" Presentation

• Larry and Keith - were buying insurance companies in 1999 and are now doing it again.
• Bought 5% position of BRK at around book.
• Markel – Berkshire like firm with good capital allocation.
• Markel is an owner of GoodHaven.
• Insurance interesting as you get money up front – create value by holding float.
• Past couple years have been tough – catastrophe, poor insurance pricing, ultra-low interest rates, and financial crisis and volatile markets.
• Negatives – inv. Income squeezed, rising rates = bond losses, pressure to increase duration
• Think this might be about to change: Industry comments are getting stronger with respect to pricing
• Interest rates are too low. Central bank is now in 4th year of low rates. Financially destabilizing, societally distorting, historical anomaly, horrible if you bet wrong.

On Alleghany (Y)

• Strong capital allocators. Main business is transatlantic holdings, RSUI, Capitol Transamerica, Pacific Compensation, Alleghany Capital Partners, and Alleghany Properties.
• Alleghany – acquisition of Transatlantic Holdings
• Board change and estate and concentration of ownership.
• Normalized earnings are at least $35 per share and may be as much as $60 per share.
• Risks: potential Transatlantic reserve inadequate, large property cat loss, raid rise in interest rates before repositioning.

On White Mountains Insurance (WTM)

• Strong capital allocators. Have 75% of OneBeacon, 100% of Sirius Group, 20% of Symetra, 100% of White Mountain Advisors.
• White Mountains sold esurance
• Last 3 years good but not great exposure (profitable underwriting)
• Buybacks are hard to ignore from $500 down to 425.
• Shares declining over last 5 years from over 10MM now to just under 7MM.
• Singleton and Teledyne – “largest share shrink in Wall Street history”
• Franklin Mutual is 26.4% of firm, ex CEO controls 10%
• Est. of normalized earnings power is $65 to $85 per share.
• Risks: Foolish capital allocation, larger than expected reinsurance exposure

Question & Answer Session

Have you looked at financials? Stayed away from unknowable factors at the large companies (AIG & BAC). No opinion on AIG. Bought a big slug of Jeffries (2% of balance sheet is Level 3). Market Folly note: You can view [Berkowitz's presentation on AIG here](http://www.marketfolly.com/2012/04/bruce-berkowitzs-case-study-on-aig.html).

Elaborate on both companies having investment leverage? Modest increase in investment portfolio will be magnified in per share value.

How do you evaluate insurance company's underwriting? Important to look at management compensation - run up near term EPS or long term value. One Beacon - all incentive comp is tied to having a combined ratio less than 95%.

Common thread with Leucadia, Markel, Fairfax, Berkshire, Vornado, Howard Hughes Corp - management companies run by smart guys.

How do you think about the brokers long term, such as AON? Will do well in the hardening cycle. Market Folly note: AON was analyzed in a past issue of our [Hedge Fund Wisdom newsletter](http://www.hedgefundwisdom.com/).

What improvement of interest rates? Some but not an enormous amount.

## Monday, May 7, 2012

### [David Nierenberg's Presentation on Superior Energy Services: Value Investing Congress Omaha](http://www.marketfolly.com/2012/05/david-nierenbergs-presentation-on.html)

Today we're posting up [notes from day 1 of the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below is the presentation from **David Nierenberg** of **D3 Family Funds** on **Superior Energy Services (SPN)**.

**About D3 Family Funds**: Started 17 years ago (David's dirty dogs is how they got the D3 name). "Busted growth companies." Take ~10% stake with firms and work with management. Average investment is ~30MM. Average market cap is $300mm to $400mm. The following notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

Superior Energy Services (SPN)

• Undervalued growth opportunity
• Diversified mid cap oil field services company ($3.9Bn). Invested at $100MM in late 90s
• Natural Gas and tectonic shift in US energy
• Opportunity created by the market lumping this company in with other poor run oil field services.
• Buying at “half normal multiple” Expect 3x on investment.
• New CEO (2 years)
• 65% NA land17% gulf of Mexico, Intl 19%
• Broad product mix
• 1.6x net debt to EBITDA at 3/31/12 – expect 12/31/12 net debt to EBITDA
• Current PE of 7.3x 2013 PE of 6.3x
• Former decade aver forward PE of 13x
• “average market cap equivalent to size”
• In and out 4 times this is 5th time in.
• Price of natural gas is variable across globe. Creates Opportunity (Fracking had huge impact)
• Growth drivers – Other NA services, deep water, Intl (Brazil Australia etc.), and water management.
• BP Macondo incident shut down deep water drilling – permit activity was 0. But permitting has spiked recently.
• D3 expect SPN gulf’s revenues to shortly exceed pre-Macondo.
• Near term catalysts: hot summer – reduced drilling activity
• Long term drivers: Displacement of coal & nuclear in electricity generation, growing demand for fertilizer, fleet usage, and LNG export opportunities ($15 in some countries)
• CEO Dave Dunlop is focused on capital allocation – making non-core asset sales and investing in the water management applications. (CEO claim ROIC could be 4x higher on bought businesses than sold businesses)
• SPN’s normative earnings per share is $5.25 per share.

Question & Answer Session:

On CPX purchase: Just about doubled share count. Dave Dunlop realized the fracking techniques could also be applied to domestic and international oil bases. People thought of the company as gas-levered which created the selloff but not wholly accurate given the oil rig count.

Long term margins pressure pumping? How to think about this? Coil tubing was large business before recent growth of fracking. Queue of projects for coil tubing capacity - no downturn in coil tubing as we have seen in pressure pumping.

Natural gas storage filled up (October) before weather starts to get cold. If too early, price of gas will go down. D3 still likes LT prospect. Don't build position right away.

Embedded below is David Nierenberg's slideshow presentation:

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## Monday, May 7, 2012

### [Tom Russo's Presentation on Global Equities: Value Investing Congress Omaha](http://www.marketfolly.com/2012/05/tom-russos-presentation-on-global.html)

Today we're posting up [notes from day 1 of the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below is the presentation from **Tom Russo** of **Gardner, Russo & Gardner** on global equities. The following notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

Capacity To Suffer - Global Value Equity Investing

• SAB Miller, Pernot Ricard, Nestle, Berkshire: Total 4 above 28% of his portfolio. (total 70% international)
• High agency cost risk in public markets
• Used to speak of Weetabix (cereal company with family control) compound of 21%. Was worth £150MM then sold to Hicks use for £600 pounds
• Nestle saying Chinese companies are becoming players on the international front. Sure enough – food firm from China just bought this cereal company for £2,000MM
• Europe is where they are looking now
• Culture of Nestle has culture of centuries old Japanese temple – take the time to do it right: Nestle has 35 year planning horizon.
• Buying brands around the world that are strong and stable – Russo investing in companies’ which are investing across the emerging globe building brands and product lines.
• Holds positions a very long time to take advantage of attributes compounding returns without taxation
• Berkshire: GEICO has $30mm advertising budget in 1996 to $1,000mm over period of owning GEICO. Reason was $250 loss per new sub but BRK changed - but NPV of sub is $1,500. So short term profits down with significant growth of subs. Equity Put Options: $37bn of insurance sold for $5bn. At peak, BRK has $15b of losses on the income statement. $3bn charge for multiple.
• Pernot Ricard (Credit Default Swap mayhem): Invested in China in early 2000’s, Absolute 2009, India now, Family controlled – so can take the losses
• SAB Miller investing aggressively in Africa – huge opportunity over time.
• 300MM bottles of homemade beer – will shift to bottled beer over time in Africa.
• Just bought Fosters – will do well over time.

Question & Answer Session: ABInBev managers 2nd best in the world only to Buffett and Munger. Mentioned Brazilian railway with a 40% ROE.

## Monday, May 7, 2012

### [Chan Lee on Korea as a Goldmine of Ideas: Value Investing Congress Omaha](http://www.marketfolly.com/2012/05/chan-lee-on-korea-as-goldmine-of-ideas.html)

Today we're posting up [notes from day 1 of the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below is the presentation from **Chan Lee** of **Petra Capital Management** on Korea as an attractive investment opportunity. Since inception, their flagship fund has returned 20.4% annualized. The following notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

Korea: A Goldmine for Value Investors

- Korea is the size of the state of Maine; 7th largest exporter & 10th largest importer in the world

- There are more than 100 net nets on Korean stock exchange - two are Samsung Climate Control and Pangrim (textile producer). Market Folly note: We recently posted up [notes from Warren Buffett's meeting with MBA students](http://www.marketfolly.com/2012/05/notes-from-warren-buffetts-meeting-with.html) where the legendary investor said he sees opportunity in Korea as well.

- **CJO Shopping**: TV home shopping company (71.8% revenue, internet shopping is 18%). Trades 9.9x earnings and is about $1,000mm USD. Stock dropped sharply after Chinese JV as market regarded it as weakening position in China. Public in 2000 acquired by conglomerate. Received 3 new licenses. Average ticket higher than QVC, standard shipping is one day.

- **KG Inicis**: Leading company in online transactions, focused on South Korea. Not as much Chinese exposure. Trades at 5.9x earnings. Payment gateway service which also owns mobile payment business.

## Monday, May 7, 2012

### [Bruce Zessar & Matt Swaim on Vail Resorts: Value Investing Congress Omaha](http://www.marketfolly.com/2012/05/bruce-zessar-matt-swaim-on-vail-resorts.html)

Today we're posting up [notes from day 1 of the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below is the presentation from **Bruce Zessar** and **Matt Swaim** of **Advisory Research** on Vail Resorts (MTN) as well as the value of intelligent decisions with shareholder capital. The following notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

Value of Dividends and Buybacks

• Dividend policies are important regardless of dividend tax policies.
• Net payout yield = dividends + buybacks
• Dividend is strong signal to market due to stickiness
• Dividends that are material and increasing, earning typically go along.
• Historically 40% to 45% of total return is dividends.
• g = ROE x retention ratio, but Asness and Arnott came to a conclusion that expected future growth is fastest when payout ratio are high and slowest when payout ratios are low. Could be from managers signaling future growth with dividends.
• High net payout yield (dividends plus buybacks less share issuances) produce positive abnormal returns
• Bottom line is to have a good and growing dividend augmented by share repurchases at attractive prices (not the highest yield)
• Companies should pay out something after reaching the positive free cash flow mark either buybacks and/or repurchases
• Owen Accenture, Chubb, Emerson Electric, JP Morgan, McDonalds, Motorola Solutions, Raytheon, Target, and United Health.

On Vail Resorts (MTN)

- Own 7 ski resorts in North America: mountain, lodging, & real estate.
- Apollo Group bought the company in 1990s and IPO in 1996
- Some real estate of about $150mm in this business and think they will sell for $200mm over next year or so
- Last 5 years generated a lot of cash but invested in resorts
- Next 5 years is slated to increase FCF
- Average payout ratio of 8%

Question & Answer Session:

- Buffett should not pay out dividend because he has so many different investment opportunities than standard company with only 1 business line.

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Question & Answer Session:

- Buffett should not pay out dividend because he has so many different investment opportunities than standard company with only 1 business line.

## Tuesday, May 8, 2012

### [Bestinver Asset Management's Presentation on Exor: Value Investing Congress](http://www.marketfolly.com/2012/05/bestinver-asset-managements.html)

Continuing our coverage, today we're posting up more [notes from the Value Investing Congress](http://www.marketfolly.com/2012/05/notes-from-value-investing-congress.html). Below are notes and the slideshow presentation from **Bestinver Asset Management's Alvaro Guzman de Lazaro**.

Bestinver has seen an average return of 15.2% since 1993. Europe is less efficient than the US. 80% of investments are in family controlled businesses. The following notes are courtesy of Kyle Mowery from GrizzlyRock Capital.

Investment Idea: Exor

• Past explains future – easier than projecting future
• Italian holding co – Agnelli holding co (Fiat family)
• Upside over 100% (trading at holding discount)
• CEO doesn’t have a track record of capital allocation.
• Current price of €15 with current book valuation of €31.
• Bestinver estimate of intrinsic value is €46
• Holds Fiat industrial, Fiat Auto, SGS, Cushman and Wakefield, Alpilior (Italian tourism), and Sequana.

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