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Markets. The "value investing" strategy that made Warren Buffett rich and famous is well-suited to current stock market conditions

Shares. Hidden value in the stock exchanges

The 30 stocks with a good price/profits ratio to invest in at home, in the United States and in the Chinese rebound.

New York		
The 10 most important securities of the Banor Sicav North America Long Short Equity Fund		
	2015 Performance	
Company	***30 Oct***	***10 Nov***
Morgan Stanley	-13.7%	-7.8%
Goldman Sachs Gr.	-2.3%	3.1%
Citigroup	-1.5%	3.4%
General Motors	3.1%	5.2%
Global Indemnity	0.1%	1.3%
KKR & Co	-22.2%	-16.6%
Ally Financial	-15.7%	-15.7%
JPMorgan Chase & Co	5.5%	11.1%
Lpl Financial Holdings	-2.7%	1.6%
Apollo Global Manag	-16.8%	-18.0%

Anybody can follow trends. But when the going gets tough, only people who know what they're doing can keep winning. For the stock markets that time has come: prices high on average and a "lateral" market lacking a precise direction: neither up nor down, but fluctuations without a clear trend.

People who know their stuff, in a period like this, can discover individual shares that still haven't risen as high as they deserve to and which would be more resilient than others if the wind turned southwards.

That's the job that no-one in the world does better than Warren Buffet, the third richest man on the globe with assets worth 72.7 billion dollars, and who at 84 years of age has increased his fortune yet again thanks to the performance of his Berkshire Hathaway holding. Buffet is considered the champion of "value investing", a strategy that consists of choosing stocks that are being traded below their intrinsic value. In other words, "value" investors actively seek out shares of high quality companies that they consider, after an in-depth analysis, to be under-valued by the market.

Criteria

But if you asked Buffet who was the greatest of all, he would definitely name Benjamin Graham, who taught him his trade. Let's look at the three basic principles of the value strategy.

1) Always invest with a safety margin. You need to buy the stock with a significant discount respect to what we consider to be its true value. Not just to create a wide potential margin for earnings, but also to minimise the risk if the stock goes down. Graham set himself the goal of buying stocks at 50 cents that in his opinion were worth 1 dollar. The very best outcome (and it's not too infrequent) is to buy shares of a company whose liquidity, net of debt, equates to its stock market capitalisation. Graham described this as buying a business without paying anything.

2) Expect volatility and profit from it. You mustn't be contaminated by day-to-day market sentiment but stick to your convictions as to your evaluation so that you get bargains when stocks go down and can sell more profitably when they go up.

3) Understand what type of investor you are. Active or passive? "Bold" or "defensive"? If you're the first type in these two cases, it's a good idea to use your time and energy to become a good investor aiming at returns proportionate to the quality of your research. And in the second, it's better to be content with limited returns by investing passively in an index.

Strategies

Graham's principles inspire investors the world over. One member of the "value club" is Eddie Ramsden, advisor for Banor SICAV's North America Long-Short fund. Indeed, the entire Banor group adopts this style of management, as Luca Riboldi explains. Riboldi is shareholder and investment director of Banor SIM, an independent Milan-based firm with 1000 direct clients and 4 billion under management, and whose money managers are entrepreneurs (the controlling shareholder is Massimiliano Cagliero). "Yes, our philosophy is based on value investment, reviewed on the basis of the choice of time to operate on the markets".

Riboldi is Banor's advisor for the Italy Long Short fund. Since 2009 the fund has gained about 70%, more than three times the Piazza Affair [Milan's bourse] index, even though the average net long position, i.e. the effective proportion invested in stocks bought with an eye to a rise in value, was about 48%. As Riboldi underscores, the value approach means that the fund is strong when the market is falling: in 2011, compared with a fall of 24% for the index, the fund lost just 8%. Companies are selected on the basis of an analysis of their business performance (global leadership, competitive advantages, quality of their business model, low debt, high barriers to entry). They're deemed "ready to buy" when the stock is trading at around 15 times profits, and over-valued when it reaches 35.

From 65% of net long share investment in April, Italy Long Short now stands at 36%. Does that mean the margins for potential earnings, including on individual stocks, have become much narrower? “We’re more defensive”, Luca Riboldi clarifies. “But even if we’ve recently reduced our positions for some important stocks, like Intesa Sanpaolo and ENEL, by selling call options to inject some income to the portfolio, we’re still confident”. The managers at Banor are also paying close attention to Oviesse, Telecom and some real estate and media positions.

Milan		
The 10 most important securities of the Banor Sicav Italy Long Short Equity Fund		
	2015 Performance	
Company	***30 Oct***	***10 Nov***
Enel	17.4%	16.0%
Eni	8.9%	9.5%
Intesa Sanpaolo	33.6%	33.6%
UniCredit	12.4%	13.1%
Assicurazioni Generali	4.9%	6.5%
Italcementi	107.5%	109.6%
Fiat Chrysler Autom.	39.8%	37.2%
CNH Industrial	-5.9%	-1.1%
Ferrari	-3.0%	3.9%
Telecom Italia	43.9%	34.2%

Beijing		
The 10 most important securities of the Banor Sicav Greater China Long Short Equity Fund		
	2015 Performance	
Company	***30 Oct***	***10 Nov***
Kweichow Moutai	26.3%	31.3%
Noah Holdings	34.1%	45.0%
Wuliangye Yibin	22.1%	25.5%
Nu Skin Enterprises	-10.7%	-15.4%
China Biolog. Products	69.5%	71.1%
Baidu – Spon	-17.8%	-13.6%
Netease	47.3%	49.9%
Value Partners Gr.	28.8%	41.4%
Gree Electrical Appl.	-1.5%	10.9%
JD.Com	19.4%	21.9%