

PRICEVALUEPARTNERS

Crisis and opportunity

30th March 2020

“This is rumour control. Here are the facts !”

- Andrews (Brian Glover), *Alien 3*.

“F*** it, I’m going 100% takeaway.

1. Supermarkets have earned enough
2. Local businesses need support
3. I’ve always wanted to live like this.”

- Tweet from Geoff Norcott, 20th March 2020.

“Well, it’s all going to pot
Whether we like it or not
Best I can tell
The world’s gone to hell
And we’re sure gonna miss it a lot

All of the whiskey in Lynchburg, Tennessee
Just couldn't hit the spot
I gotta hundred dollar bill, friend
You can keep your pills
Cause it’s all going to pot

That cackle-bobble-head-in-a-box
Must think I'm dumb as a rock
Readin' daily news
While I'm kickin' off my shoes
It's scarin' me outta my socks

The Red Headed Stranger I'm not
But buddy, let me tell you what

If you ask ol' Will
He'll tell ya here's the deal
Friends, it's all goin' to pot

Well, it's all going to pot
Whether we like it or not
Best I can tell
The world's gone to hell
And we're all gonna miss it a lot

All the whiskey in Lynchburg, Tennessee
Just couldn't hit the spot
I gotta hundred dollar bill
You can keep your pills, friend
Cause it's all goin' to pot

Well I thought I had found me a girl
Sweetest little thing in the world
But all my jokes went up in smoke
When I caught her makin' eyes at Merle

He said, sweet little honey
With her eye on your money
She's gonna take every penny you got
I said she's never gonna get it
Cause I've already spent it
Merle, It's all goin' to pot

It's all going to pot
Whether we like it or not
Best I can tell
The world's gone to hell
And we're all gonna miss it a lot

All the whiskey in Lynchburg, Tennessee
Just couldn't hit the spot
I gotta hundred dollar bill
You can keep your pills, friend
It's all going to pot
I gotta hundred dollar bill
You can keep your pills, friend
Cause it's all goin' to pot."

- [It's all going to pot](#) by Willie Nelson and Merle Haggard.

“Send lawyers, guns, and money
The s**t has hit the fan.”

- [Lawyers, guns and money](#) by Warren Zevon.

“The trades we make tonight will echo in eternity.”

- Someone on Finance Twitter.

So, turned out nice, again .

One of the phrases we heard in the dark days following Lehman Brothers’ bankruptcy in 2008:

There are no atheists in foxholes.

We’ll get to belief systems in a second. First, an observation from Shelby Davis that may give panic sellers pause: you make most of your money in a bear market, you just don’t realise it at the time. Or an aphorism attributed to JP Morgan: in bear markets, stocks return to their rightful owners.

Now, an opportunity. Or more precisely, two opportunities. In November 2012, Samarang Capital launched their Asian Prosperity Fund. The fund invests in profitable small and mid-sized companies across Asia (though not, historically, in China) with little or no debt, trading at exceptionally attractive multiples. A follow-on fund, Samarang Japan Value, invests exclusively in Japan using precisely the same philosophy. For some years, these funds have been closed to new investors. In a reflection of the striking opportunities that Mr. Market is now offering to investors, these funds have temporarily reopened.

As at end February 2020, Samarang Asian Prosperity had the following country exposure:

Japan	54%
Vietnam	24%
Malaysia	12%
Australia	5%
Hong Kong	2%
Singapore	1%
Cash	2%

and the fund now possesses the following metrics:

Average price / earnings ratio	7x
Price / book	0.7x
Historic return on equity	16%
Average dividend yield	5.3%.

In relation to the Japanese situation specifically, Samarang Capital founder Greg Fisher makes the following observations:

- Japanese companies, in response to two decades of grinding deflation, have been hoarding cash whilst Abenomics has helped many of them to become highly profitable. Japan Inc already has some experience of what the rest of the world is now experiencing.
- While many US companies came into the crisis with significant debts (in many cases taken on to pay for stock buybacks misaligned with the interests of shareholders), Japanese companies now have the healthiest balance sheets in the world.
- Japanese corporate dividends have roughly tripled over the last six years and Japanese companies are now buying back their stock, albeit in a more disciplined way than their US corporate cousins.

Some of the Japanese company shares held by Samarang now trade on p/e's of 3x or 4x, with dividend yields approaching 20%. To reiterate, these companies also have little or no debt.

With the funds temporarily open for new investors, we present these observations without further comment.

Onto belief..

The US fund manager Cliff Asness recently published some commentary on Twitter on the topic of the role of the State in crises such as the current pandemic. Readers are encouraged to read the entire thread [here](#). Some highlights:

I'm a somewhat (very mildly) well-known libertarian. I do indeed believe government should be mostly small and that individuals can and should be mostly trusted to make their own decisions. I think liberty should always get the benefit of the doubt.

BUT I AM NOT A LIBERTARIAN ABOUT THE CORONA VIRUS and the enormous health and economic dangers it entails (economic dangers do become health dangers to the vulnerable)..

Oh, and on a far less important (though excruciating for me) note, value is performing worse in the market panic this month than it did when the market went straight up,

which was pretty damn bad (including “value” trades in the macro world now really suffering).

This will (imho – all standard legal disclaimers apply as I really know very very little and you should never listen to me) come back stronger than ever.

Value will come back (same disclaimers apply). The people we lose in the pandemic won't. Thanks for listening.

The pace of the stimulus packages announced over the past week or so has been breathtaking, even for those of us who were managing money in 2008 before QE and ZIRP were unleashed on the world. So our primary ‘course correction’ to date has simply been to rotate equity holdings away from industrial cyclicals (Q2 and probably Q3 GDP data around the world will be a horror show) and into already profitable precious metals mining companies – again, with little or no debt. A number of investors have asked us why gold (and gold miners) have performed so erratically and perhaps counterintuitively over recent weeks. We would simply point out that post-Lehman, lots of perplexing things also happened over the short term in markets that can be accounted for, after the fact, by institutions needing to sell positions in a hurry to make up for losses incurred elsewhere – and, as in any market panic – they are selling, not what they **have to**, but simply what they **can**.

Outside of stocks, we continue to hold (and gain comfort from holding) systematic trend-following funds, whose recent (uncorrelated) returns have been encouraging, together with holdings in precious metals, and attractively priced precious metals miners largely unencumbered by debt.

Clients and interested parties are welcome to contact us to discuss strategy and our thoughts at any time. Meanwhile, we will continue to provide regular commentary in formats like this, as well as in the [State of the Markets podcasts](#).

To conclude with a line from the 1980s police drama *Hill Street Blues*:

Hey, let's be careful out there.

Sincerest best wishes to all readers.

Tim Price is co-manager of the [VT Price Value Portfolio](#) and author of ‘Investing through the Looking Glass: a rational guide to irrational financial markets’. You can access a full archive of these weekly investment commentaries [here](#). You can listen to our regular ‘State of the Markets’ podcasts, with Paul Rodriguez of ThinkTrading.com, [here](#). Email us: info@pricevaluepartners.com.

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