March 9, 2017 ~ Jeffrey D. Stacey, Chairman and CEO, Stacey Muirhead Capital Management

Ben Graham Centre (BG): Can you tell us about yourself and how you became a value investor?

Jeffrey Stacey (JS): I went to Wilfrid Laurier for an undergraduate business degree but candidly I did not do a lot of investment courses there. After graduation, I left and worked in the consumer products industry for a couple years, and then entered the securities brokerage business with a small firm. I was fortunate to have a mentor there who took me under his wing and introduced me to Buffett and Ben Graham. I went away from the firm and started a partnership that attempted to replicate as closely as possible the structure that Buffett had, despite the significant regulations today.

The truth was I was always interested in the stock market and I would skim through the annual reports at my father's office at a young age. I bought my first stock when I was 16 years old. I've just always been fascinated by stocks and stock picking. My interest is over time seeing those holdings grow into a meaningful accumulation of capital.

BG: What encouraged you to make the leap and start Stacey Muirhead Capital Management? Did you feel ready or were you anxious to begin the fund?

JS: In the brokerage business you don't really get any time to research companies and you are only paid to sell securities. In 1987, before the stock market crashed, I felt that our team handled it well because we saw that stocks were getting pricey and we liquidated. The market corrected and we bought back more Graham and Dodd deep value companies. I had no time to study the high quality types of companies and this was a once in a decade time to buy them.

Candidly, I was in a wonderful position of being young and poor, with no children, and my wife was a full time teacher. We knew we could live on one salary for a reasonable time. That was a real advantage, because I didn't have to put pressure on myself to make things happen too quickly. It was daunting, and certainly not easy. I'm not sure you could do it today with all the regulations.

BG: What advantages do you think can assist investors best in benefitting from inefficient markets?

JS: If you think about what advantages an investor might have, one of the biggest areas I see is a behavioural advantage. We're all guilty of the natural tendency to worry when a security declines and client pressures start piling on. I think there are areas to have a behavioural advantage and part of that is having a long-term investment horizon. Everyone says they are long term oriented, but it is not the case. If you can take an analytical and information advantage, and

combine it with a behavioural advantage, that's where you can begin to benefit from the inefficient markets.

BG: We know one of the short-term downfalls in portfolio performance involves investors acting irrationally. Do you have any clauses in place to prevent investors to pulling out money?

JS: We haven't instituted that. Part of that is aiming to be democratic and allowing investors to inject equity and take out equity at any time. We've spent a lot of time over the years determining who to let into the fund. Writing the cheque is not the sole criteria to invest in the fund. Investors have every right and should interview me if they are putting money into me, but it's a partnership and I also want to interview them as well. The best client relationships happen when people find you through word of mouth from satisfied investors in your fund. They share the same characteristics. That is how we try to control that irrationality or think about that dynamic.

BG: Going towards current events, how has the new administration in the US affected your views on investment risk and opportunities?

JS: My friend Tom Gayner, who runs Markel Corporation, has an expression "the world will muddle through." I think whether Donald Trump or Hillary Clinton became president, the world goes on and you'll find whatever opportunities you can. I don't spend too much time worrying about macro things. I look at businesses with good returns on shareholder capital for long periods of time, strong balance sheets with little to no debt, growing revenues, earnings and cash flows, and an understandable product. If you can buy that package at a good price that's where you'll make the most amount of money over time. One thing I'd say is don't be a timer, but recognize whether you have a headwind or tailwind in front of you, and it will affect how you behave. Again, it is not about timing, but recognizing the environment you're operating in.

BG: How do you source your investment ideas, and what type of situation do you consider to be particularly worth your time?

JS: We do some screening, but not a lot. We're shameless observers of others' ideas and we identify a universe of great investors that we respect. If three or four are buying the same security we recognize there may be something there. We still do all our homework diligently of course, but many money managers will help you identify the strong ideas.

We do our own reading and we have a watch list of companies that we have followed and continued to follow. Those are great companies where the price is not right currently but with quick confirmation you can make a decision to purchase when the price becomes more reasonable. We also go to value conferences and learn of ideas through that avenue. We had followed Ryan Air

for example for years and I was in London for an annual value investing conference and one of the participants also presented Ryan Air. It added to our analysis and we purchased the stock. It has done very well since.

BG: What were some of the biggest mistakes you've made in the past and what were some of the biggest lessons you've learned from them?

JS: One mistake we've made is that we did all our work and valued the company reasonably, but we did not turn our heads around from the rear view and decide if the future will be materially different. I think the other mistake is to push on the quality front to make something fit. This is because you have cash and not many other ideas so you go down the quality scale a little bit. And then the other part is assessing what kind of competitive advantage a company has.

We bought Blackberry around $40. If you looked out the rear view mirror of the car, this was a company that had $8 a share in cash, no debt, owned their buildings, had high return on shareholder's equity, and it seemed like they had a sustainable competitive advantage. We bought and kept buying it all the way down, but we missed the disruption of Apple. I had never seen a company go from 50% market share to 3% market share in a four-year period. Those tend to be the types of mistakes you make. You won't bat 1000, and you will make mistakes somewhere.

BG: Last year we had Guy Spier speak and he was very forthcoming about his strengths and his weaknesses. He talked about how he tried to overcome those weaknesses. What are some of the techniques you use to overcome yours?

JS: I've actually adopted many of the strategies Guy has used. I turn my smart phone off, I turn the volume off on my computer, and I return emails twice a day. My colleagues have been instructed that short of a death in the family, or someone being rushed to the hospital, I'm not to be disturbed. I've tried to think about those kinds of things. On the behavioural side, I call it the 24-hour rule where, after we reach the buy point, we take some time and walk away from the investment for 24 hours in order to step back.

BG: Do you find it's helpful to reflect on your thoughts through writing, and do you recommend other investors do the same in their analysis?

JS: I believe so. It's the time invested that slows you down and gets you out of the mode of wanting to act too quickly. We report quite extensively to our investors both quarterly and annually.

BG: How have you improved your investment process over time and how has 2008 affected your investment process?

JS: We went down a lot less in the crash because I think we view risk management in a certain way. I'm here at a time where we haven't done all that well recently and the environment is a little silly. Many companies are priced for perfection and do not have a margin of safety. I have not changed the process at all, but I hope we have gotten better at executing it. I think it would be a negative if we switched our philosophy in the crash. As you get older, you seen more things and you hope that you can execute and see clues easier.

BG: For young aspiring value investors, what advice would you have for them in achieving success in the industry?

JS: I don't know that the content of the CFA does anything to make you a better investor, but it's a good way to enter the industry. The other part is reading and learning by doing. I recommend finding some capital or setting up a fake account. That will involve mistakes, but just keep learning and keep reading. Read from a multidisciplinary point of view and not just the investment books. Learn by travelling and visiting new places. You'll learn a lot about what people are wearing, what they are doing, what they are eating, and more.