

Inside the minds of successful value investors



[GEORGE ATHANASSAKOS](#)

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Executing on an investment decision is the most difficult step of the investing process. It requires the right character and temperament – qualities that are difficult to teach.

According to market strategist James Montier, a value investor needs to be contrarian, patient, disciplined, unconstrained and skeptical. Noted value investor Sir John Templeton believed that “It is impossible to produce a superior performance unless you do something different from the majority.” And famed value investor Warren Buffett has frequently indicated that what he is looking for in his successor is temperament and a keen understanding of human psychology and institutional biases.

I decided to develop a less anecdotal and more formal and systematic understanding of what character strengths and virtues successful value investors embody. I wanted to answer the question: Does character matter in investing, and if so, how? While the technical aspects of value investing are well understood and documented, there have been no attempt to understand the role character plays in this type of investing.

I and two of my colleagues at the Ivey Business School conducted in-depth interviews with 19 successful value investors in Canada and the United States for insight on the importance of character in value investing.

The questions we asked and the most common answers we received are summarized below. Interestingly enough, there was little deviation in the answers among the interviewees, which is consistent with the view expressed in the interviews that [value investing](#) is a profession:

Q: When did you first identify yourself as a value investor? Was there a singular event that propelled you to become a value investor or that helped you realize that you want to be a value investor?

A: Reading *The Intelligent Investor* or working in an environment with a senior manager who coached and mentored them on value investing ideas and principles.

Q: You have been a committed value investor. What has kept you committed over the years?

A: Because value investing works and makes so much sense.

Q: Given the success of value investing, why don't you think other investors follow this path?

A: Either you get it or you do not, and there is nothing you can do about it. You also have to be in the right environment to excel in value investing. The formula is easy but the application of it in the psychological and emotional sense is very hard.

Q: What makes a good value investor?

A: One has to be contrarian and be willing to do things out of the ordinary. One has to have conviction in what he is doing, be patient and disciplined.

Q: What is the most important thing you have learned in life and investing?

A: Humility, integrity and independence.

Q: What is the character strength that helped you the most in your career?

A: Humility, collaboration, courage, confidence, perseverance, integrity, open-mindedness.

Q: Can these character strengths be taught? Or one is born with them?

A: Genetics play a big role, as well as family upbringing. But character has to be honed in the right environment. A value investor cannot work in an environment that does not believe in value investing. It is difficult to teach the behaviour, as it is not an IQ thing. It is more a frame of mind in making decisions. If you have the right framework, everything falls into place.

Q: How different are value investors from other investors?

A: Value investors tend to be low-key, not necessarily anti-social, but certainly asocial.

Q: What character strength was most helpful in bear markets and in bull markets?

A: Conviction – a good value investor is indifferent to what the market is doing.

Q: How do you deal with client pressure to manage investments differently than you think is wise?

A: One needs to educate clients. Sometimes clients need to be fired, too.

Q: Are there any institutional barriers to becoming value investor?

A: Yes. It is difficult to be a value investor in an environment of quarterly performance evaluations. One can be right in the long run, but lose his job in the short run if his portfolio looks different. That is why in this environment portfolio managers tend to become closet indexers. As Keynes used to say, “It is better to fail conventionally than succeed unconventionally.”

Success in investing is not a matter of IQ. Most successful investors are intelligent, but intelligence has nothing to do with their success. It is rather a matter of having the right character. As Greek philosopher Heraclitus used to say “Character is Destiny”

George Athanassakos is a professor of finance and holds the Ben Graham Chair in Value Investing at the Ivey Business School, University of Western Ontario.