

Chris Davis: Now is the Time to Move Forward

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In the midst of the most challenging investment landscape in half a century, advisors looking for direction will appreciate the insight Chris Davis brings this year's investment conference.

The opening session of the conference features Davis, chairman of Davis Selected Advisors, L.P. This promises to be a lively, energetic discussion of why advisors need to move their clients forward, now. His long-view perspective on investing will give advisors insights they can use to de-power the negative emotions that have consumed the media and paralyzed so many clients. Davis will share how to put the recent economic events into context for your clients and guide them from a negative perception of increased risk to the reality of opportunity.

Chris Davis literally learned the business of investing on his daddy's knee. And he learned it from his grandfather, legendary Wall Street investor Shelby Cullom Davis. Chris Davis' grandfather is best known for his skill in compounding an initial investment of \$100,000 in the late '40s into more than \$800 million by the early 1990s.¹ A third-generation manager, Chris Davis holds true to his family's traditional view of buying well-managed companies that are then evaluated on 10-year performance cycles.

When asked what his family legacy might have taught him about succeeding in bear markets, he states that the most important lesson was that investors make most of their returns in a bear market even though they might not realize those returns until much later. He refuses to speculate on whether we've seen the bottom yet, or when we will, but he is certain that the next 10 years may be better for equities than the past decade.² He encourages advisors to ignore the "when will it get better?" question from clients and instead be prepared to answer "Why will it will get better?"

Talk about Risk

The current view many investors hold is that the current climate is too risky to invest. Davis believes that clients are paying a huge price for the illusion of safety, and he cautions advisors to warn their clients that they have little chance of seeing their "risk-free" assets outperforming equities over the next decade or so. Davis sees possible negative trends that do present risk going forward, such as inflation, higher taxes, lower profit margins, and lower productivity. "The possibility of one or more of these events materializing is not the issue, the issue is what events have already been discounted, and by how much." Davis wants advisors prepared to help clients realize that we have seen periods that presented these same trends and also saw strong growth in stock prices. He says that it is the unanticipated risk that causes him to worry.

Boring is Beautiful, but Only at the Right Price

Davis considers himself to be a value investor because of his concern about the price paid to acquire a company's stock. The Davis family philosophy, he says, is based more on common sense than calculus. He values the durability of returns more than their velocity, and he has always sought out companies that align their interests with the interests of their shareholders. This might sound boring, but to Chris Davis, boring can be beautiful.

Although only in his early 40s, Davis is an old-school manager with a preference for buying solid, well-run businesses at a good price and then holding them as long as they continue to perform. In his presentation, he will share his insights on the importance of buying at the right price to reduce risk and the advantages of dollar cost averaging in a down market. He cautions advisors to prepare their clients for long periods of underperformance and he will explain why those periods are inevitable.

¹ While Shelby Cullom Davis' success forms the basis of the Davis investment discipline, this was an extraordinary achievement and other investors may not enjoy the same success.

² There is no guarantee that the next decade for equities will be better than the last decade. Equity markets are volatile and an investor may lose money in the short-term and in the long-term. **Past performance is not a guarantee of future results.**

'Camels'

While convinced that we are heading into a period of inherent certainty, he also keeps a stable of defensive companies that he calls "camels." These are companies that can spend decades in the desert without the financial equivalent of water—that is, capital. Davis will discuss what characteristics he looks for when seeking these "camels," why they represent durable returns, and what risks are involved when buying them.

Headline Risk

Davis says that the financial services meltdown cannot be permanent, and in his presentation, he will explain how to take advantage of this sector's weakness without assuming unnecessary risk. Davis holds that financial services as a sector is not a single industry—there is a tremendous amount of non-correlation between various companies in this sector. He has been known to hold companies that are unpopular with the media, ignoring what he refers to as "headline risk," which is affecting many financials. When asked if he thinks this sector will recover soon, Davis says that borrowing and lending money is probably the second-oldest profession, and there will always be profit for firms that do it well.

Stewardship

Stewardship is a trendy word these days, but for Davis and the employees at his firm, it is truly a guiding principle. He is as concerned with the culture of his firm as he is with the culture of potential companies for his portfolios. Many managers talk about managing client objectives. Davis, his family, and the employees at Davis Selected Advisors are proud to share the same objectives as their shareholders, because they are large shareholders of their funds. Almost \$1.5 billion of family and employee money is invested alongside their shareholders. "You could say we eat our own cooking," he says. This is why when a bad decision is made (the example he gives is his decision to buy AIG), Davis communicates this openly and honestly with shareholders. He encourages advisors to hold themselves accountable for their investment mistakes as well.

This alignment of objectives and expectations is a driving force in the Davis culture, he says. Davis believes strongly that culture begins at the top in any organization. It is no accident that he has one of only two funds with the highest possible Morningstar Stewardship.

Davis says that he firmly believes that the work of investment managers and investment advisors has life-changing consequences for

clients and should be approached soberly. He says that it's extremely important that this line of work evolves into a profession rather than a business, and that the work, regardless of employment situation, needs to be measured by client outcomes and not by profit.

Chris Davis is unquestionably one of the premier industry thought leaders. He believes that opportunities abound in this climate, and his opening remarks are designed to help advisors learn how to get their clients off the fence and forward thinking again.

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While we research "headline risk" companies, we cannot be correct every time and a company's stock may never recover.

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