

## Extract from Giverny Capital 2001 Annual Report

### Conclusion : «The Art of Investing »

Pierre Péladeau, the famous Quebec businessman (now deceased), used to say, « Business is an art ». It's a cliché but what he probably meant is that being a good businessman requires mind opening, creativity and lots of patience. Also, being a master artist is often being a contrarian (although you rarely see this label on art movements) or in other words: to rebel against what is perceived as conventional. The Montreal artist Marc Séguin said this very short phrase on Art: "It's an affirmation. Period". In that line of thinking, an artistic stock picking method would then be an affirmation by the manager on the kind of companies that are, in his eyes, at the avant-garde of businesses: Those companies (and people) that will create the wealth of tomorrow. And with time, the really artistic manager tends to develop his own personal way of selecting stocks and building portfolios. The famous investor Philip Fisher, then 89 years, said in a Forbes interview in 1996: "I want to know: Who is working on the things that others are barely aware of? I want companies that welcome dissent, rather than stifle it, that don't penalize people who criticize what management is doing". Philip Fisher is not just a great artist, he is a master!

Like art, portfolio management can rarely be done in teams (or worst in committees). We can add experience but we lose in personal creativity. Like Warren Buffett once said: "My vision of a group decision is to look into a mirror". Good artists also know that their number one enemy is the comfort that celebrity and success can bring. Marc Séguin added that after a successful show, he then would start on a totally new pictorial path. So to really continue to move forward, as a money manager, we have to find a balance between two emotions that are seemingly opposite: Self-confidence and humility. Of course, self-confidence is crucial to properly judge a company and its leaders. Also, it is the cornerstone of the huge patience often needed for a stock to be rewarding. Moreover, without self-confidence, it can be quite challenging to be able to purchase a stock that Wall Street rejects (and these are sometimes the best buys).

But at the same time, humility is widely needed: at the moment of analysis (to be humble enough to recognize what you know from what you don't), when errors occurs and also – ironically – after one or two great years of performance. The market has a way of punishing, rapidly and severely, lack of humility.

Humility is important because it is the essence of reason. The famous philosopher Eric Fromm explained why in his marvelous book "The Art of Loving":

"The main condition for the achievement of love is the overcoming of one's narcissism....The opposite pole of narcissism is objectivity; the faculty to see things as they are...The faculty to think objectively is reason; the emotional attitude behind reason is that of humility. To be objective, to use one's reason, is possible only if one has achieved an attitude of humility, if one has emerged from the dreams of omniscience and omnipotence which one has as a child. I must then try to see the difference between my picture of a person and his behavior, as it is narcissistically distorted, and the person's reality as it exists regardless of my interests, needs and fears."

What can be said about the art of love is true in the art of investing. In fact, genuine love - in a more personal way – is an essential part of any human creation. Woody Allen once said: "In order to be a jazz musician, you have to listen to a lot of jazz. And that's an act of love. You

don't think, I'm listening to study it. You just listen because you love it...and gradually you learn. You really learn everything valuable through osmosis. It's the same with play-writing or movie-directing or acting. You love either reading or watching films or plays or listening to music. And in some way, over the years, without making any attempt, it gets into your blood, into the fiber of your body".

The art of investing is made out of the same framework.

I wish you the best of times for 2002.