"The world of finance hails the invention of the wheel over and over again, often in a slightly more unstable version."

**-- from "A Short History of Financial Euphoria"
by John Kenneth Galbraith**

It is truly unfortunate that investors continue to be bamboozled by hucksters. Reuters recently carried a number of stories from India, England, and China of people allegedly duped of their investment capital by promises of high returns. Unfortunately these stories have transcended the ages – from the tulip mania in the Netherlands of the early 1600's, through the story of the Sir Roger Tichborne claimant in the mid-1800's, to Bernie Madoff…people chasing easy riches have been easily separated from their hard-earned wealth.

Even some of the very best "long-only" investment managers mislead investors with promises to exceed benchmark averages, only to offer a portfolio which "hugs" index standards. While this may provide little risk of underperforming an index, it also virtually guarantees sub-optimal performance. Why? Because the manager has chosen to "follow the crowd" and exchange any chance of out-performance for the safety of going along with the herd.

Yale University research presented in 2006 by Martijn Cremers and Antti Petajisto introduced "*active share*" as the measure by which a manager differs from the benchmark index. The study showed that managers with high active share consistently outperformed their benchmark. By extrapolation, we contend the only way to add any significant value to other managers is to construct a portfolio completely unlike everyone else. In short, take "the road less travelled".

Of course, there is the "risk" that taking the more difficult road can provide a less favorable outcome than following the herd. But is that financial risk, or reputational risk?

Most investors prefer to place their money in investments where everyone believes in the outlook, and where recent performance has been positive. With money flowing into these "rosy outlook" investments, market prices are bid up, creating a self-styled prophecy.

Of course an investment with a rosy outlook doesn't come cheap because everyone wants it. Conversely, the "bargain basement" priced stock is one that people are pessimistic about or don't closely follow (because nobody wants it). These stocks take a lot of hard work to analyze and understand before discomfort in the business turns to expectation – and realization – of great long term returns.

It is virtually impossible to consistently make correct investment decisions. That's another reason why herd mentality is preferred – fear of looking foolish. Most investors would prefer not to look wrong, particularly in the eyes of their clients. Our preference is to find spectacular investments at a price that is languishing, than being late to the party and purchasing a stock with a rosy outlook only to have the price collapse.

We admit that short term gains can be made by investing in rosy outlook stocks. However, the petals on any rose eventually wilt and, when they do, the turndown and loss on a saturated investment can be significant. Not so the bargain basement stock – where there are fewer early adopters, there is less buying pressure to over-inflate prices.

We believe our role is to take the road less travelled. Using our knowledge and experience, we diligently search for companies with enduring high returns on equity and capital - not as a function of earnings, but of free cash flow. Evaluating a long term investment strategy using short term price fluctuations makes no sense – unless those emotional fluctuations can be used to our advantage. We define risk as permanent capital loss and not as deviation from the herd.

I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I -
I took the one less traveled by,
And that has made all the difference.
from "The Road Not Taken" by Robert Frost

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