



---

PATIENT CAPITAL MANAGEMENT INC.

*Patiently Creating Wealth™*

# **Patient Capital Management**

## **Presentation to**

# **Ben Graham Centre's 2023 Value Investing Conference**

---



---

PATIENT CAPITAL MANAGEMENT INC.

*Patiently Creating Wealth™*

**Only a Concentrated Long Term Value  
Based Strategy is Worthy of a  
Management Fee**

---



## Warren Buffet's Advice


**"A low-cost index fund is the most sensible equity investment for the great majority of investors."**

**- Warren Buffet, The Little Book of Common Sense Investing, 2007.**


**"In my view, for most people, the best thing to do is to own the S&P 500 index fund. People will try and sell you other things because there's more money in it for them if they do."** - Berkshire Hathaway Annual Shareholder Meeting 2020

---

# Titans of the Industry



**Benjamin Graham**  
Father of *Value Investing*




Investment is most intelligent when it is most *businesslike*  
**Benjamin Graham**

**Philip Fisher**

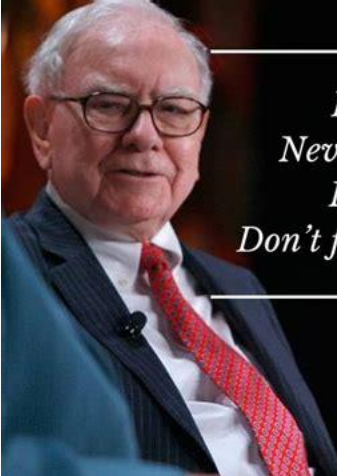
Born: September 8, 1907  
Died: March 11, 2004

**Investor**

- Among the first long-term investors to recognize a stock's growth potential based on fundamental analysis
- Founded his own investment firm, Fisher & Co., in 1931
- Author of "Common Stock and Uncommon Profits"

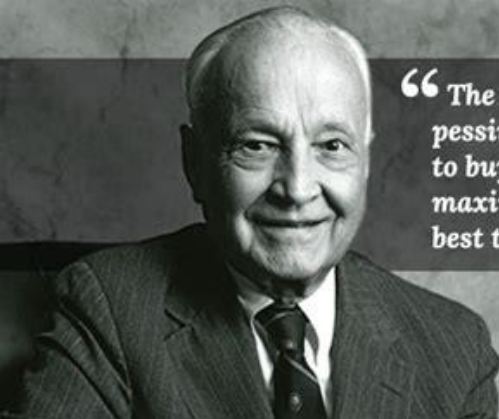


Investopedia



“  
Rule No. 1:  
*Never lose money;*  
Rule No. 2:  
*Don't forget Rule No. 1.*  
”

WARREN BUFFETT  
CEO of Berkshire Hathaway



“ The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.”

Sir John Templeton



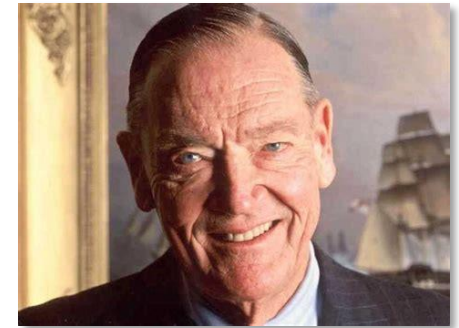
## **Fees Justified Because**

- **Believed In Philosophy**
  - **Pioneers – Very Few Were Actually Doing It**
  - **Very Labour-Intensive Process**
    - **Standard & Poor's Stock Manual**
    - **Value Line**
    - **Newspaper Stock Tables**
    - **Databases and Computer Were Non-Existent**
  - **Superior Returns**
-

---

# Over Time Thinking & Technology Evolved

- **John Bogle & Vanguard Low-Cost Indexing for the Masses**
- **Technology Adopted in the Investment Industry**
- **Electronic Databases Reduced Labour Intensity**
- **Allowed for Different Investment Strategies to be Implemented at Low Cost**
- **Style Indexes Introduced**





---

PATIENT CAPITAL MANAGEMENT INC.

*Patiently Creating Wealth™*

# Modern Portfolio Theory





# Modern Portfolio Theory

- **Data Driven – View Stocks as Pieces of Paper not as Fractional Ownership of Businesses**
  - **Statistical Concepts – Beta/Standard Deviation /Volatility**
  - **Diversification**
  - **Risk and Return Linked**
  - **Efficient Market Hypothesis**
-





## **MPT Not Intuitive**

- **To Those Who View Investing as Owning Part of a Business these Concepts Do Not Make any Sense**
  - **Volatility does not Equal Risk**
  - **Diversification does not Improve Returns**
  - **Risk is the Potential for the Permanent Loss of Capital**
-



**“Beta and modern portfolio theory and the like – none of it makes any sense to me.” - Charlie Munger**

**“The idea of excessive diversification is madness. Wide diversification, which necessarily includes investment in mediocre businesses, only guarantees ordinary results.” - Charlie Munger**

**“Risk comes from not knowing what you’re doing.” - Warren Buffet**

**“Wide diversification is only required when investors do not understand what they are doing.” - Warren Buffet**

---



## **Our Thesis**

### **Only Concentrated Portfolios Deserve a Fee**

- **Looked at it From a Practitioner's Point of View**
  - **We Analyzed Diversified Portfolio Characteristics and Compared Them to their Relevant Index**
  - **Evidence Strongly Indicates that Diversified Portfolios' Long-Term Performance Match Relevant Index Return Less Fees**
-



---

PATIENT CAPITAL MANAGEMENT INC.

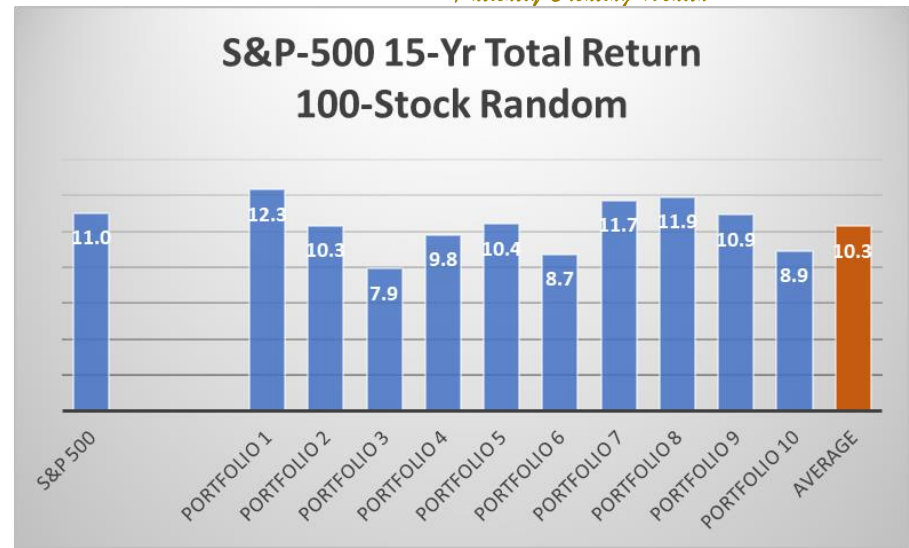
*Patiently Creating Wealth™*

## Back Tested Three Styles

- **Growth**
- **Value**
- **Concentrated**



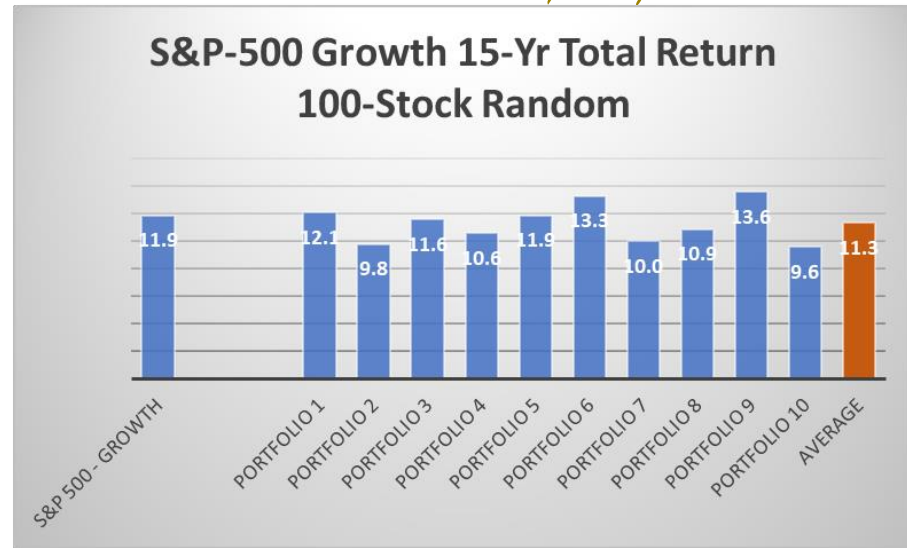
## Diversification Leads to Mediocre Results



| 100 Stock Random Portfolios (No Style/Tilt) |              |             |             |              |              |              |             |             |                 |             |             |
|---|--------------|-------------|-------------|--------------|--------------|--------------|-------------|-------------|-----------------|-------------|-------------|
|   | P/E          | P/B         | Div Yld (%) | ROE (%)      | D/E (%)      | CAGR (%)     |             |             | CAGR (%)        |             |             |
|   |              |             |             |              |              | 5-Yr         | 10-Yr       | 15-Yr       | 5-Yr            | 10-Yr       | 15-Yr       |
| S&P 500                                     | 22.52        | 3.29        | 1.77        | 15.95        | 86.10        | 11.3         | 15.0        | 14.0        | 12.4            | 13.2        | 11.0        |
|   |              |             |             |              |              | Equal Weight |             |             | Market Weighted |             |             |
| Portfolio 1                                 | 23.07        | 3.29        | 1.57        | 13.77        | 102.28       | 12.5         | 15.2        | 14.6        | 14.5            | 15.4        | 12.3        |
| Portfolio 2                                 | 20.56        | 3.02        | 1.84        | 14.90        | 87.56        | 10.5         | 13.8        | 13.2        | 10.4            | 11.8        | 10.3        |
| Portfolio 3                                 | 23.30        | 3.24        | 1.98        | 15.96        | 90.92        | 9.2          | 12.9        | 13.0        | 6.7             | 8.8         | 7.9         |
| Portfolio 4                                 | 21.13        | 3.23        | 1.56        | 17.54        | 50.96        | 12.2         | 13.7        | 12.8        | 10.2            | 12.0        | 9.8         |
| Portfolio 5                                 | 27.81        | 3.14        | 1.92        | 14.25        | 103.29       | 11.6         | 15.2        | 12.6        | 11.1            | 12.5        | 10.4        |
| Portfolio 6                                 | 19.68        | 3.47        | 1.53        | 19.10        | 83.43        | 9.4          | 12.9        | 13.5        | 8.8             | 10.5        | 8.7         |
| Portfolio 7                                 | 24.53        | 3.25        | 2.30        | 17.42        | 91.36        | 10.8         | 13.8        | 13.3        | 12.7            | 13.6        | 11.7        |
| Portfolio 8                                 | 23.18        | 2.84        | 1.83        | 16.10        | 78.04        | 11.1         | 14.6        | 13.5        | 12.1            | 13.2        | 11.9        |
| Portfolio 9                                 | 21.02        | 3.46        | 1.50        | 16.09        | 69.74        | 11.8         | 17.4        | 14.8        | 10.3            | 11.8        | 10.9        |
| Portfolio 10                                | 18.17        | 3.00        | 1.78        | 16.48        | 73.79        | 11.7         | 14.9        | 13.8        | 8.4             | 10.7        | 8.9         |
| <b>Average</b>                              | <b>22.25</b> | <b>3.19</b> | <b>1.78</b> | <b>16.16</b> | <b>83.14</b> | <b>11.1</b>  | <b>14.4</b> | <b>13.5</b> | <b>10.5</b>     | <b>12.0</b> | <b>10.3</b> |
| Std Dev                                     | 2.74         | 0.20        | 0.25        | 1.61         | 15.81        | 1.12         | 1.34        | 0.72        | 2.25            | 1.83        | 1.47        |
| CV  | 12%          | 6%          | 14%         | 10%          | 19%          | 10%          | 9%          | 5%          | 21%             | 15%         | 14%         |



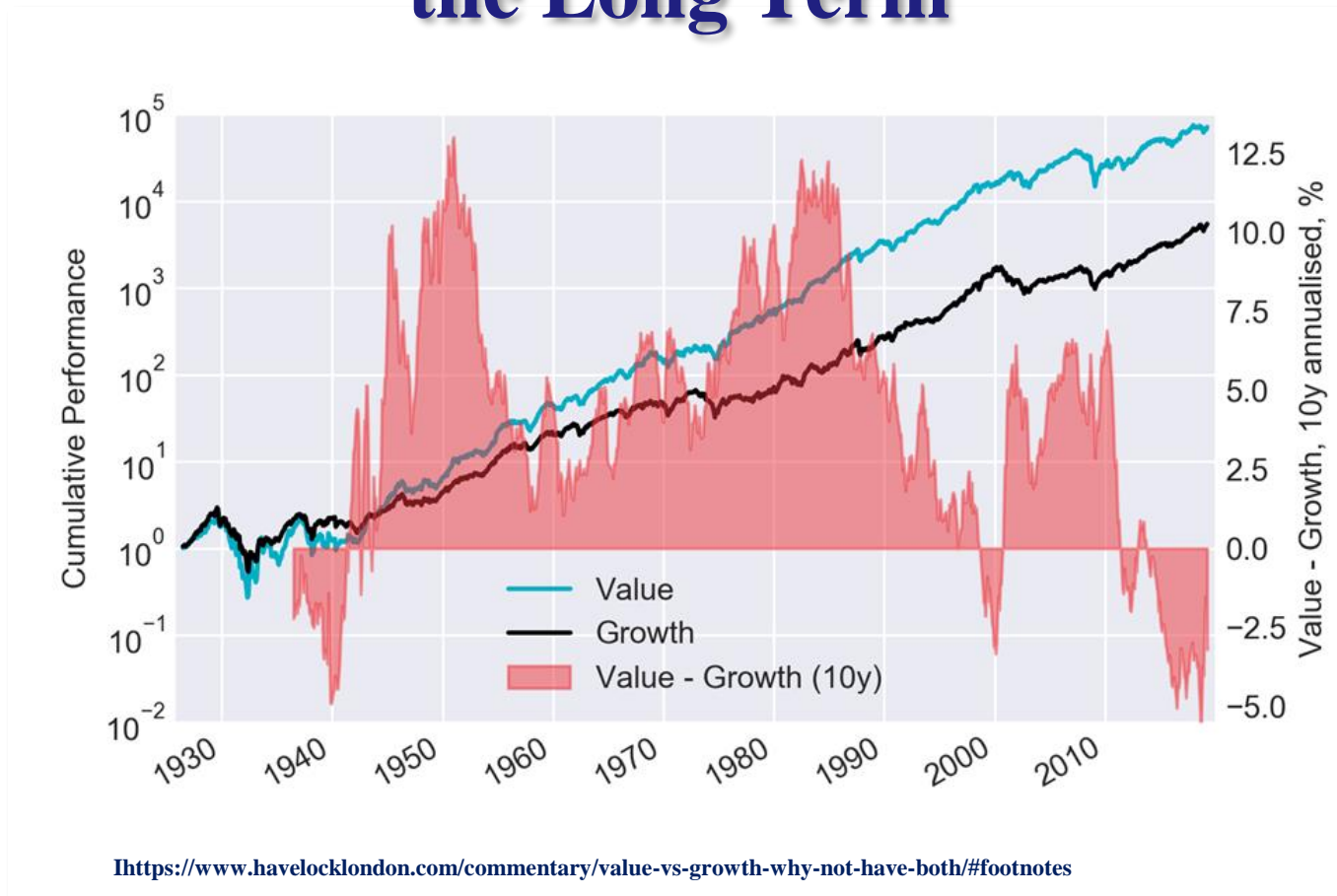
## Diversified Growth Portfolio Provides No Benefit Relative to Growth and Broad Indices



|                  | P/E          | P/B         | Div Yld (%) | ROE (%)      | D/E (%)      | CAGR (%)     |             |             | CAGR (%)        |             |             |
|------------------|--------------|-------------|-------------|--------------|--------------|--------------|-------------|-------------|-----------------|-------------|-------------|
|                  |              |             |             |              |              | 5-Yr         | 10-Yr       | 15-Yr       | 5-Yr            | 10-Yr       | 15-Yr       |
|                  |              |             |             |              |              | Equal Weight |             |             | Market Weighted |             |             |
| S&P 500 - Growth | 26.29        | 4.82        | 1.32        | 21.65        | 81.38        | 12.1         | 16.1        | 14.8        | 14.9            | 14.7        | 11.9        |
| Portfolio 1      | 24.51        | 4.67        | 1.25        | 18.32        | 74.83        | 12.5         | 15.4        | 14.6        | 16.4            | 15.9        | 12.1        |
| Portfolio 2      | 25.93        | 4.79        | 1.57        | 20.36        | 96.85        | 11.1         | 14.5        | 15.7        | 10.8            | 11.3        | 9.8         |
| Portfolio 3      | 33.28        | 4.82        | 1.07        | 18.53        | 88.05        | 12.2         | 15.5        | 15.8        | 11.9            | 13.6        | 11.6        |
| Portfolio 4      | 31.42        | 4.93        | 1.38        | 20.04        | 96.71        | 11.6         | 17.0        | 15.0        | 12.3            | 12.6        | 10.6        |
| Portfolio 5      | 23.44        | 4.66        | 1.56        | 22.34        | 71.72        | 12.3         | 17.2        | 15.5        | 12.8            | 13.9        | 11.9        |
| Portfolio 6      | 25.65        | 4.92        | 1.39        | 24.85        | 75.12        | 11.2         | 15.1        | 14.0        | 15.0            | 16.2        | 13.3        |
| Portfolio 7      | 23.54        | 4.78        | 1.35        | 21.66        | 89.97        | 11.3         | 14.8        | 13.8        | 10.8            | 11.4        | 10.0        |
| Portfolio 8      | 21.87        | 4.57        | 1.33        | 23.51        | 85.16        | 12.7         | 17.5        | 14.6        | 14.0            | 13.4        | 10.9        |
| Portfolio 9      | 26.82        | 4.83        | 1.24        | 18.66        | 67.79        | 13.0         | 16.7        | 15.5        | 17.1            | 16.5        | 13.6        |
| Portfolio 10     | 25.61        | 4.62        | 1.35        | 21.01        | 85.65        | 10.4         | 15.7        | 14.6        | 10.3            | 11.3        | 9.6         |
| <b>Average</b>   | <b>26.21</b> | <b>4.76</b> | <b>1.35</b> | <b>20.93</b> | <b>83.18</b> | <b>11.8</b>  | <b>15.9</b> | <b>14.9</b> | <b>13.1</b>     | <b>13.6</b> | <b>11.3</b> |
| Std Dev          | 3.57         | 0.12        | 0.15        | 2.20         | 10.29        | 0.83         | 1.07        | 0.70        | 2.40            | 2.03        | 1.41        |
| CV               | 14%          | 3%          | 11%         | 10%          | 12%          | 7%           | 7%          | 5%          | 18%             | 15%         | 12%         |

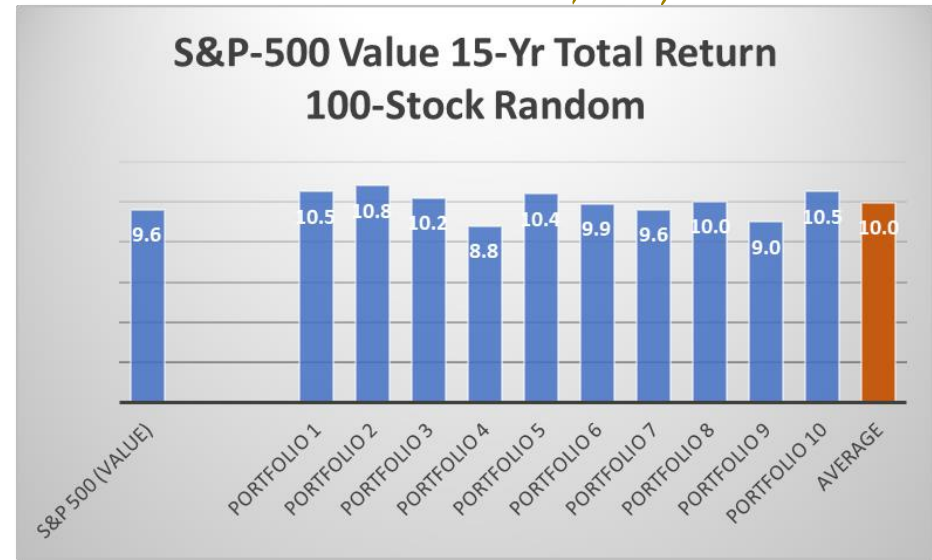


# Value Investing Outperforms Growth over the Long Term





## Match Value Index Returns After Fees Diversified Value Based Portfolio Returns



### 100 Stock Random "Value" Portfolios

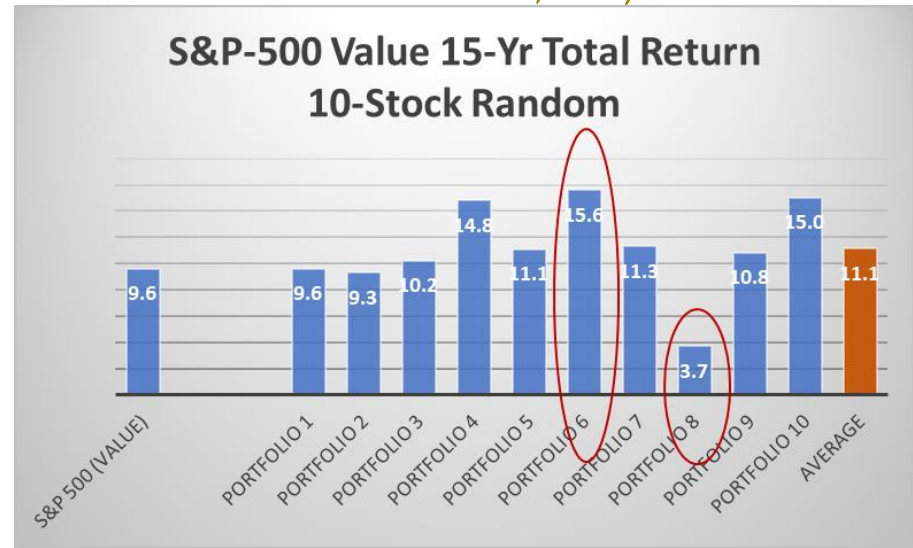
|                            | P/E          | P/B         | Div Yld (%) | ROE (%)      | D/E (%)      | CAGR (%)     |             |             | CAGR (%)        |             |             |
|----------------------------|--------------|-------------|-------------|--------------|--------------|--------------|-------------|-------------|-----------------|-------------|-------------|
|                            |              |             |             |              |              | 5-Yr         | 10-Yr       | 15-Yr       | 5-Yr            | 10-Yr       | 15-Yr       |
| <b>S&amp;P 500 (Value)</b> | <b>18.71</b> | <b>1.75</b> | <b>2.22</b> | <b>10.22</b> | <b>90.81</b> | <b>10.5</b>  | <b>13.7</b> | <b>13.0</b> | <b>8.4</b>      | <b>10.9</b> | <b>9.6</b>  |
|                            |              |             |             |              |              | Equal Weight |             |             | Market Weighted |             |             |
| Portfolio 1                | 20.06        | 1.81        | 2.59        | 10.66        | 60.91        | 11.2         | 13.4        | 12.9        | 8.3             | 11.1        | 10.5        |
| Portfolio 2                | 20.45        | 1.77        | 2.36        | 11.26        | 98.05        | 9.4          | 12.7        | 12.2        | 9.8             | 12.2        | 10.8        |
| Portfolio 3                | 15.95        | 1.75        | 2.14        | 12.17        | 97.96        | 9.7          | 13.7        | 13.2        | 8.0             | 11.8        | 10.2        |
| Portfolio 4                | 17.04        | 1.77        | 2.12        | 8.60         | 88.25        | 11.0         | 13.8        | 13.1        | 7.6             | 9.6         | 8.8         |
| Portfolio 5                | 15.30        | 1.70        | 2.18        | 9.26         | 116.09       | 10.8         | 12.8        | 12.8        | 9.2             | 11.5        | 10.4        |
| Portfolio 6                | 20.85        | 1.74        | 2.34        | 10.13        | 61.26        | 11.8         | 15.3        | 13.1        | 9.4             | 11.4        | 9.9         |
| Portfolio 7                | 16.62        | 1.73        | 2.18        | 11.04        | 101.09       | 10.4         | 13.2        | 12.8        | 9.7             | 11.4        | 9.6         |
| Portfolio 8                | 20.59        | 1.77        | 2.66        | 10.61        | 70.00        | 10.6         | 13.9        | 13.4        | 8.8             | 11.6        | 10.0        |
| Portfolio 9                | 24.16        | 1.82        | 2.21        | 9.92         | 120.59       | 11.9         | 14.6        | 13.9        | 9.9             | 11.2        | 9.0         |
| Portfolio 10               | 21.65        | 1.75        | 2.48        | 11.24        | 94.24        | 9.9          | 13.3        | 13.2        | 8.3             | 10.9        | 10.5        |
| <b>Average</b>             | <b>19.27</b> | <b>1.76</b> | <b>2.33</b> | <b>10.49</b> | <b>90.84</b> | <b>10.7</b>  | <b>13.7</b> | <b>13.1</b> | <b>8.9</b>      | <b>11.3</b> | <b>10.0</b> |
| <b>Std Dev</b>             | <b>2.88</b>  | <b>0.04</b> | <b>0.19</b> | <b>1.05</b>  | <b>20.96</b> | <b>0.84</b>  | <b>0.80</b> | <b>0.44</b> | <b>0.82</b>     | <b>0.69</b> | <b>0.66</b> |
| <b>CV</b>                  | <b>15%</b>   | <b>2%</b>   | <b>8%</b>   | <b>10%</b>   | <b>23%</b>   | <b>8%</b>    | <b>6%</b>   | <b>3%</b>   | <b>9%</b>       | <b>6%</b>   | <b>7%</b>   |





“Concentration may be the only way I can add value to the process”

Lou Simpson  
Concentrated Investing



10 Stock Random "Value" Portfolios

|                            | P/E          | P/B         | Div Yld (%) | ROE (%)      | D/E (%)       | CAGR (%)     |             |             | CAGR (%)        |             |             |
|----------------------------|--------------|-------------|-------------|--------------|---------------|--------------|-------------|-------------|-----------------|-------------|-------------|
|                            |              |             |             |              |               | 5-Yr         | 10-Yr       | 15-Yr       | 5-Yr            | 10-Yr       | 15-Yr       |
| <b>S&amp;P 500 (Value)</b> | <b>18.71</b> | <b>1.75</b> | <b>2.22</b> | <b>10.22</b> | <b>90.81</b>  | <b>10.5</b>  | <b>13.7</b> | <b>13.0</b> | <b>8.4</b>      | <b>10.9</b> | <b>9.6</b>  |
|                            |              |             |             |              |               | Equal Weight |             |             | Market Weighted |             |             |
| Portfolio 1                | 13.58        | 1.61        | 2.65        | 11.46        | 73.40         | 8.2          | 11.7        | 11.6        | 7.4             | 10.5        | 9.6         |
| Portfolio 2                | 22.15        | 1.55        | 1.70        | 2.66         | 262.66        | 10.3         | 11.2        | 11.9        | 5.4             | 7.0         | 9.3         |
| Portfolio 3                | 38.26        | 1.46        | 2.77        | 12.80        | 54.08         | 2.5          | 9.2         | 11.8        | 3.1             | 8.2         | 10.2        |
| Portfolio 4                | 13.52        | 1.73        | 1.40        | 9.34         | 71.67         | 11.4         | 15.8        | 15.9        | 12.3            | 16.1        | 14.8        |
| Portfolio 5                | 14.26        | 1.79        | 1.52        | 14.84        | 47.83         | 17.3         | 15.8        | 15.9        | 12.1            | 12.4        | 11.1        |
| Portfolio 6                | 24.54        | 1.68        | 2.41        | 8.46         | 80.85         | 8.0          | 14.4        | 13.9        | 11.4            | 16.3        | 15.6        |
| Portfolio 7                | 18.29        | 1.83        | 2.94        | 11.41        | 72.43         | 10.7         | 14.5        | 14.1        | 5.6             | 9.9         | 11.3        |
| Portfolio 8                | 15.80        | 1.39        | 3.02        | 11.19        | 65.72         | 4.5          | 11.0        | 8.9         | 3.0             | 10.0        | 3.7         |
| Portfolio 9                | 15.76        | 1.57        | 2.58        | 8.25         | 276.11        | 5.4          | 11.1        | 12.1        | 8.6             | 13.3        | 10.8        |
| Portfolio 10               | 20.53        | 1.86        | 3.25        | 5.61         | 61.57         | 7.6          | 8.9         | 10.5        | 10.0            | 13.5        | 15.0        |
| <b>Average</b>             | <b>19.67</b> | <b>1.65</b> | <b>2.42</b> | <b>9.60</b>  | <b>106.63</b> | <b>8.6</b>   | <b>12.4</b> | <b>12.7</b> | <b>7.9</b>      | <b>11.7</b> | <b>11.1</b> |
| <b>Std Dev</b>             | <b>7.55</b>  | <b>0.16</b> | <b>0.66</b> | <b>3.56</b>  | <b>86.38</b>  | <b>4.17</b>  | <b>2.57</b> | <b>2.26</b> | <b>3.54</b>     | <b>3.14</b> | <b>3.50</b> |
| <b>CV</b>                  | <b>38%</b>   | <b>10%</b>  | <b>27%</b>  | <b>37%</b>   | <b>81%</b>    | <b>49%</b>   | <b>21%</b>  | <b>18%</b>  | <b>45%</b>      | <b>27%</b>  | <b>31%</b>  |



---

PATIENT CAPITAL MANAGEMENT INC.

*Patiently Creating Wealth™*

## Summary of PCM's Approach

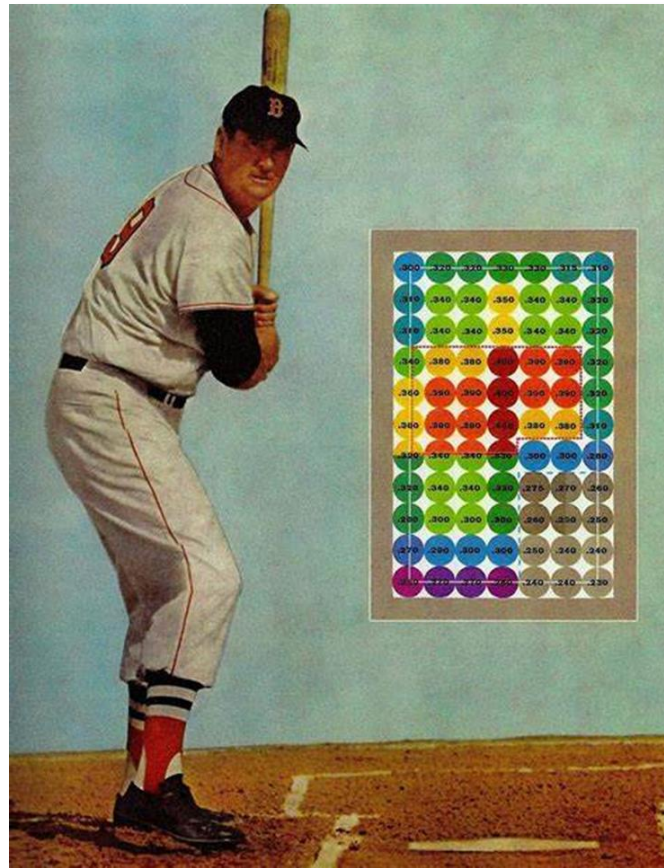
- **Concentrated → Maximum 20 Stocks**
  - **Focus on Value & Quality**
  - **Don't Compromise on Either Criteria**
  - **Purchase at 50% Discount to Intrinsic Value**
  - **If We Can't Find Appropriate Opportunity Hold Cash**
-



PATIENT CAPITAL MANAGEMENT INC.

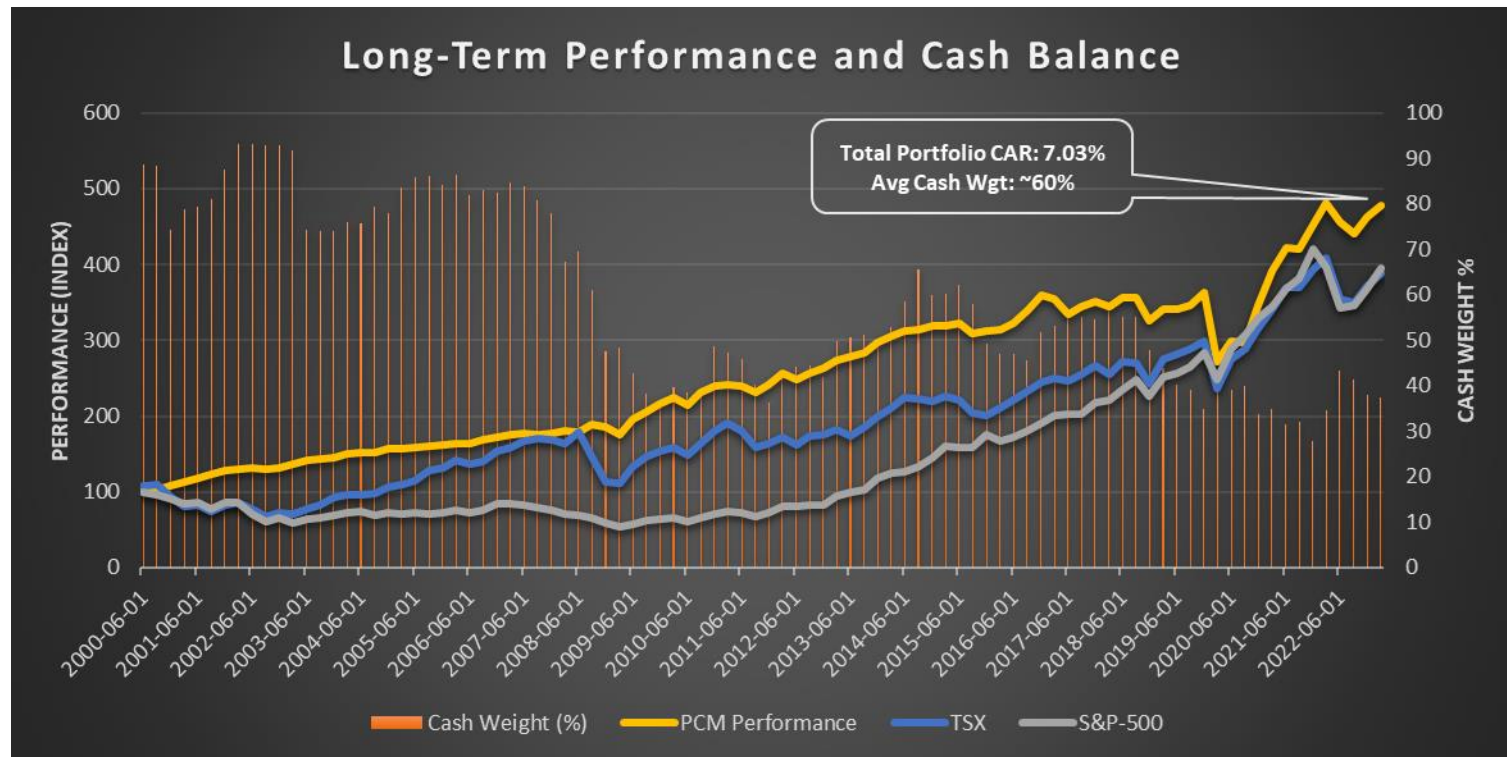
*Patiently Creating Wealth™*

# Wait for the Perfect Pitch





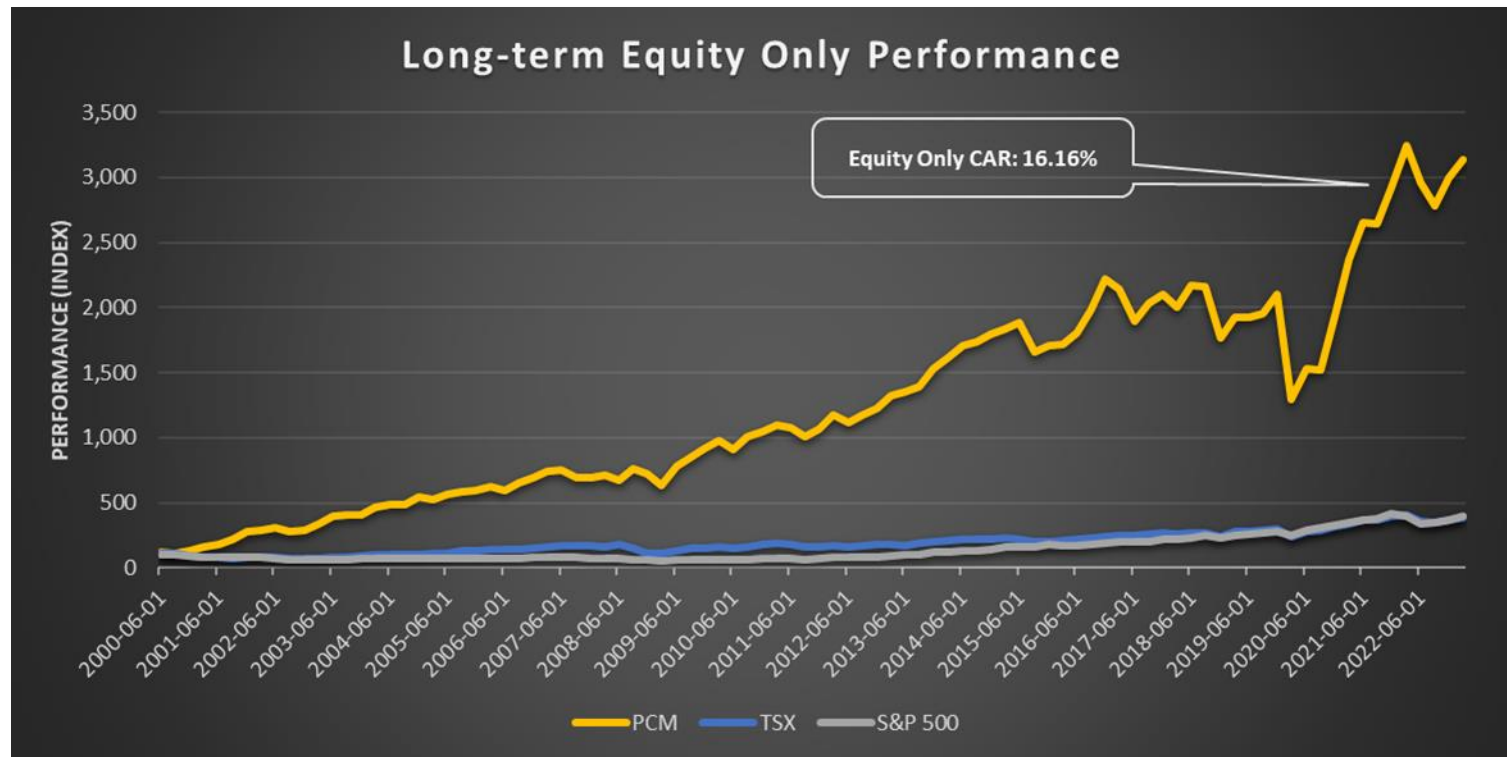
# PCM's Results



Inception Date March 31, 2000  
Before Fees and Expenses  
Based on Representative Account  
Past Returns not Indicative of Future Returns



# PCM's Equity Only Results



Inception Date March 31, 2000  
Before Fees and Expenses  
Based on Representative Account  
Past Returns not Indicative of Future Returns



## **Conclusion**

### **Concentrated Portfolios:**

- **Can Create Portfolios that are Different from the Index**
- **Potential to Generate Superior Returns**
- **But Stock Selection & Manager Temperament are Key**

**That is What Justifies the Fee**

---