



# Markel CIO Tom Gayner's Transcript Value Investor Conference 2011

8<sup>th</sup> Annual Value Investor Conference, University of Nebraska at Omaha

Below is [Tom Gayner's](#) talk at the [8th Annual Value Investor Conference](#) held in April 2011 in Omaha, just prior to the Berkshire Hathaway ([BRK.A](#))([BRK.B](#)) annual meeting. The upcoming 9<sup>th</sup> Annual Value Investor Conference will be held May 3 – 4, 2012, again in Omaha.

Tom is the president and chief investment officer of Markel Corp. ([MKL](#)) and manages \$2 billion in assets.

[[Tom Gayner](#)] Good Afternoon. Thank you for inviting me here this afternoon. It is always good to be in Omaha. I don't know about you, but for me this feels like a sacred pilgrimage. This is my 20th year of being here. I suspect that many of you, like me, also come to this meeting year after year. More often than not, we may learn only one or two new and interesting things. More profoundly, I know that I come away *reminded* of things that are *important*.

That is why I come. To hear the basic principles of investing taught with grace and humor, and to be reminded of what we are to do as stewards of our clients' money. I hope to play some small role in helping all of us accomplish that task this afternoon and I also look forward to your questions.

In addition to learning from Buffet and Munger, I also learn from meeting and sharing ideas and thoughts with the kind of investors that show up in Omaha year after year. I hope that the combination of my comments and your questions during the Q&A will spark meaningful interchanges from which we can both learn something.

My comments this afternoon were labeled, "The challenges of investing." I think it's fair to say that investing is indeed challenging. I know I've felt overwhelmed by the challenge at times, including as recently as right now. To be good at investing requires skills and wisdom that are difficult. It involves always changing, and learning, and adapting to new techniques and technological forces, and also knowing what not to change. At its highest level it also involves the acceptance of personal responsibility for outcomes you can not control. That is often not an attractive position to accept.

*Successful investing requires the management of your own ego and temperament and usually that of your clients as well.* It is a challenge to master the unusual feedback loop where sometimes doing the right thing looks stupid for what seems like an eternity, and brings on second guessing both from your clients and yourself. Also, sometimes the opposite is true, where doing the wrong thing looks intelligent at the moment and you need to contend with false praise, and an incorrect sense of certainty about the decisions you are making.

I believe that the challenges of investing involve multiple dimensions. I'll try just to touch on a few. There are endless dimensions involved in investing and my list today is not meant to be

comprehensive. It is just a personal thought process and small checklist to get started. I'm sure that you all will think of other important dimensions and factors as well.

The first dimension involves a lot of the mechanics of investing. I'm sure that everyone in this room has a basic knowledge of accounting and finance along with some sense of probability and statistics. I'm sure that everyone has read Graham and Dodd as well as a number of the other fine books on investing. Mastering those details is important but it only gets you to the first dimension of the challenges of investing.

In today's world, everyone with whom you are competing has those skills down cold. 50 years ago, they were a differentiator, today they are not. They are the table stakes required for anyone to be a serious investor. All of your competitors have these skills mastered, and those coming out of school are often better at them than those of us who have been practicing the craft of investing for years.

The second dimension of the challenges of investing comes from the need to begin to take that quantitative data and discern meaning about the future. Too often, people will jump to conclusions based on their skilled analysis of historical data. It is always a mistake to assume that the future will be just like the past, and that conclusions can be reached from careful study and analysis of history. That work is important, and it is helpful, but it is by no means enough to make investment decisions.

To paraphrase the late noted economist Paul Samuelson, "the sample size of all of recorded history is one." I'll assume some basic knowledge of statistics along with finance and accounting and as such, I think we can all agree that a sample size of one doesn't constitute a statistically significant population. Samuelson was exaggerating to make a point, but he was directionally correct. His statement contrasts completely though with John Templeton's taking the absolutely opposite point of view said, "The four most expensive words in investing are THIS TIME IS DIFFERENT." These *wildly opposite* but *equally correct* warnings illustrate the sort of paradox we must all reconcile constantly to be successful and thoughtful investors.

Records and historical data are now too easily quantifiable and analyzable to be of sufficient value these days. Once upon a time, computing and thought power was rare and expensive, and as a consequence, quite valuable. These days, computing and thought power are relatively cheap, and abundantly available. Consequently, the value of them has gone down.

This is where human judgment starts to be necessary and begins to get to another dimension of the challenge of investing. Things that are not completely quantifiable and scientifically demonstrable require judgment and interpretation. That process is inherently fallible, and difficult to understand yourself, let alone communicate to others. It is also always subject to second guessing. Judgment and subjectivity are both important *and* hard, which leads us to what I would call the third dimension of the challenges of investing.

For purposes of this discussion, I'll call the third dimension the battle pitting you against you. Once you have done as much work as you know how to do in every way that you know how to do it, you make a decision. However, several factors still keep me up at night and I suspect this

afflicts many of you in this room as well. First, I often find that I'm haunted by questions like, "did I really do the right work to come to this decision? Did I make mistakes in my analysis or logic? Is there something going on that I failed to take into account?" These questions, where in essence I'm second guessing myself, are endless and constantly gnawing at the sense of conviction that I need to make an investment decision. Also, the answers to these sorts of questions are never static. They change over time and with the developments of each day.

This leads to a sense of unease and discomfort with investment decisions that should never go away completely, but does need to be managed. Otherwise it will lead to a paralysis which prevents decisions from ever being made. If you felt the need for definitive answers before acting, you will never act at all.

I don't have an answer for you other than to acknowledge that this battle within the self is real, and I think you should acknowledge it in order to have some ability to moderate and balance out the need for decisions, versus the need for definitive answers to legitimate questions.

Finally, although it is presumptuous to say the word final, I'll use that word in the interest of time and my desire to get to your questions. But the final challenge is that of dealing with your clients and the agency problem of dealing with someone else's money.

Sadly, clients are often their own worst enemies. It seems like they are most willing to give you money after you've had a good run and are probably about to revert to the mean and underperform a bit. Additionally, they will want to take money away from you when things are tough either with your own sound discipline or in the overall markets. Usually, that is the worst time to withdraw and retreat and it is a real battle just to keep clients invested as they should be.

One glaring example of this phenomenon is the difference between the reported results and the actual investor returns from the CGM Focus Fund. During the first decade of the 2000's, the fund produced a result of 17.9% annually, which placed it first on the list. Its average investor though experienced a loss of (10.8%) per year. This gap of almost 30% per year came from investor behavior, not management produced returns.

Making undocumentable decisions and using sound judgment doesn't make the battle to improve investor behavior any easier. You can only point to so much data, and so much in the way of documentation and process, to justify your decisions and actions. After that, you are using your professional judgment and that is precisely the easiest thing for your clients to second guess.

I don't really have an answer for that other than to suggest trying to find clients who truly understand what you are trying to do and communicating with them regularly and frequently to explain why you are doing what you do.

Even with all of that some will grow frustrated and behave in counterproductive ways. It is an irreducible reality to the business of investing. The only good news is that those very behaviors create investment opportunities for those who can withstand the tides and temptations created by the *inevitable time lag which exists between good decisions and actual results.*

Sometimes, that time lag is so long it is easily confused with being wrong! Kenny Rogers said, “You need to know when to hold’em and know when to fold’em.” While he was right about the need to know, he didn’t offer any help as to how!

I think the how comes from accepting all of the challenges involved in investing and working like a fiend to accomplish the best possible outcome. I don’t know any other answer other than using all of the disciplines available and seeking to learn and improve every day. Fortunately, all of us face the same challenges and no one has an inside track to investment Nirvana. As such, we are all able to find a path to get as close as possible.

With that I’d like to stop and begin to answer your questions. At this point, I would appreciate the opportunity to learn something myself today by answering your questions.

Thank you

Register today for the [9<sup>th</sup> Annual Value Investor Conference](#) on May 3 and 4, 2012, Omaha.