Fund guru's strategies for successful investing

Insight

Mark Draper

Billionaire Kerr Neilson, the retiring co-founder and managing director of Platinum Asset Management, says investors must try to stay alert to the big issues and talent driving growth.

Neilson, whose personal wealth was valued at $1.44 billion by the Financial Review Rich List 2017, says this involves remaining agile and alert to new possibilities, ideas and technologies.

Platinum, which has about $27 billion under management, became a trailblazer in the Australian market about 25 years ago when it began offering local investors exposure to global equities.

Neilson offers seven insights into active investment, the limitations of new technologies and being aware of your strengths – and weaknesses.

1. Think about how the world is likely to be: Investors should spend time "conjuring up an image of the world as it is will be, rather than what is now" to develop investment themes, says Neilson.

For example, telecommunication giant Telstra's current travails or fintech companies such as Apple and Google's possible future in banking can provide valuable insights into growth strategies and trends for the broader market.

2. It is the competitor's response that matters most: Neilson recommends monitoring both the behaviour of the company you are investing in and "how its competitors respond".

For example, investment analysis of retailing is incomplete without considering how Amazon might respond.

3. Learn to deal with media overload: Neilson says the biggest problem investors face is "media overload", which distracts by focusing too much on irrelevant issues.

For example, China's debt problems have not stopped Platinum from finding companies annually growing at 15-25 per cent and paying 12-times earnings.

"It is not as if all these companies are going to be forced to do things by their government," says Neilson. "To the extent that this is a threat, we adjust the price we are willing to pay."

4. Anchor decisions on fact, not momentum: Investors need to devise a strategy and have realistic expectations.

He believes investors should question investing in index funds and ETFs by asking "what are the circumstances that have created this and why should they persist?"

"Many investors are buying momentum in the belief that it has worked so well since the crash, why should we not invest in it."

5. Be aware of limitations of financial modelling: "Financial modelling of companies has its limitations," Neilson says. "It's easy to observe winners in retrospect. Recognising real talent, such as Bill Gates, before it is priced to perfection is where the real investment opportunities exist."

This will become more of an issue as new technologies provide more sophisticated analysis of numbers and trends.

6. Great investors continually build their knowledge: "I agree with Warren Buffett that it's all about reading extensively and broadly," says Neilson.

Buffett claims to read about 500 pages every day.

He recommends investors visit the website of companies they are investigating and listen to (or read the transcript) from the quarterly/half-yearly investor calls.

The question and answer segments test management and provide insights.

7. Humility: "We all make mistakes so we should be careful not to point the bone too eagerly," says Neilson. "At Platinum we spend a lot of time thinking about mistakes we have made and how to reduce them.

"Pride comes before a fall, we don't spend a lot of time on pride."

The best investors are humble and aware of their strengths and weaknesses, he says.

Mark Draper is an adviser with GEM Capital.

Kerr Neilson reflects on his career as an active fund manager.

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