Allan’s Legacy - Investment Thinking

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Our founder Allan Gray developed the distinctive investment philosophy that has been in place at Orbis since 1989 and at our sister company in South Africa since 1973. He also had an immeasurable impact on several generations of investment professionals at both firms. Below is a small selection of the investment insights that have resonated most with those who worked with Allan over the years.

Ben Preston

Allan loved to be contrarian. He deliberately forced himself to consider the opposite perspective. When a stock was on its knees, he’d encourage me to explore how well things could turn out: “Let your bullish juices flow!” At those times, he’d say, the onus is on the bears to justify the very low price by showing why the company or sector or country will never recover. And when things were going really well, that’s when he’d be completely focused on the downside.

Working closely with Allan in the 2000s, he was very excited about Japan, in part because it had been in a bear market for over a decade and all hope had been lost. Allan was a big believer in cycles. All companies and industries go through good and bad times, which follow each other “as night follows day”. He taught me that part of the benefit of leaning against the cycle is that not only are you getting a discount because of poor sentiment, you’re also putting fundamentals on your side. Ideally you can find an above-average company at a weak point in its cycle, when sentiment and earnings are near a low ebb and likely to improve. That’s something I’ve worked hard to instil in my team. Of course, you can always be wrong, but Allan was never afraid of that. He knew that the decisions you get right can do really well, more than making up for the smaller losses on the ones you get wrong. That’s the magic of being contrarian.

Graeme Forster

Allan was so incredibly immersed in the art of investing. When I first arrived in Bermuda, he used to give me a lift to work, and his mind would be on the portfolio while mine was still on breakfast! He told me he rarely yawned at work because it was all so fascinating. He was also a huge believer in the importance of individual decision making and independent thought.

This hit home to me during a critical point for one of our holdings. The shares were down substantially on negative news and a group of us got together to discuss it. As views were expressed, the uncertainty of the situation felt contagious, spreading around the room just as it had spread around the wider market. A few hours later I asked Allan his view given the concerns raised in the meeting— "It's a helluva buy," he said. He saw opportunity where everyone else saw risk and was proven correct (as he so often was) as time passed and the clouds lifted. I suspect the ability and mental fortitude to tune out the emotion of the crowd and capitalise upon fleeting moments of extreme opportunity is what separates the great from the good. It is the reason we prize individual decision making so dearly. Few investors possess Allan's calm contrarian conviction and independence of thought, so when you find someone who has those traits, you have to give them the freedom to act.

Adam Karr

Allan was remarkable for his ability to be incredibly granular and to do so in a way that uncovered hidden insight. He would bring a company's annual report to the investment meeting and grill you about the goodwill valuation in footnote 13 on page 154. He would use management's seemingly ancillary accounting decisions to draw inferences about their transparency and integrity.

But he also had an uncanny ability to zoom out and see the big picture. He loved to find "blue sky" that Mr. Market wasn't pricing. While Allan always invested on a firm foundation of business value, he got incredibly jazzed when he saw undervalued potential, and his enthusiasm was infectious. One example was in 2002 or 2003 when Allan asked me to look at a Japanese company. They had a solid yet mature core business, but were launching a new initiative of which many were sceptical. Allan handed me some reports and circled back just two hours later full of enthusiasm to press for my view. I responded: "Allan, I think it's interesting but likely rather niche." What was the initiative? Digital cameras embedded in mobile phones! Situations with unpriced potential can be amazing asymmetric investments. Allan often had the vision to see them, and as he liked to say, "You have to go for the jugular" when you see them. And he did.

Alec Cutler

What struck me most about Allan— and not just from an investment perspective— was his ability to be passionate about his views, but hold them very lightly. Even when Allan had high conviction in a particular idea he would continue to poke and prod, and then he'd come in a few days or weeks later espousing a 180-degree different view. That's what truly separated Allan from the average investor. So often investors convince themselves about something and tell everyone about it and end up being stuck with an entrenched stance. Allan never had that problem. He sought out evidence that went against his views. I think he was able to do that because he was both confident and humble— self-assured, but also comfortable enough in his own skin to happily admit being wrong. That's a very rare commodity these days.

As an investor, I'd describe Allan as an "omnivore"— it was impossible to put him in any investment style or philosophy bucket. I saw him do deep value and I saw him get excited about pure growth. But he was most excited with stocks that were value-oriented yet also had an exciting growth story that could emerge. That was the sweet spot for Allan.

Stefan Magnusson

Allan was, by way of example, an extraordinary teacher. Having had the good fortune of working closely with him, what are some of my lessons?

Allan was focused on the future rather than the past, and was excited by technological progress. He liked to listen to the ideas of young people— always with curiosity and an eagerness to learn. Allan would bring the best out of people, no matter their background. During my years in Bermuda I remember with fondness the beautifully-arranged dinners at his home where he would, in his gentle style, thoroughly put me and the analyst team (and often our spouses) through the wringer on various topics. Perhaps contrary to perception, he would focus on understanding "the best" rather than "the cheapest" company in a given sector. Whilst valuations certainly played an essential role, he would be on the lookout for outstanding businesses and entrepreneurs— people who, like him, believed that if something is worth doing, it is worth doing it very (very) well.

Henry Allen

It's easy for investors to be constrained by short-term thinking and to anchor on the present. Allan was particularly skilled at thinking about how the world could look different in the future — at thinking about a much wider range of possible outcomes. He loved the idea of a "free option" in an investment thesis— the blue-sky upside that you didn't pay anything for. He was also sceptical of companies that had grown without adding much value for customers or society. Nowadays such a focus on sustainability would fall under the "ESG" banner, and Allan was ahead of his time in that sense. He also knew instinctively that great businesses with great management teams can be "compounders" that you can own for a very long time.

Brett Moshal

Allan was very aware of his own confirmation biases, and he would always encourage me to question where I could be wrong. So if I spoke to an analyst, Allan would say, don't speak to someone who shares your view— rather speak to someone who has a contrary view. Speak to those that are "sells". And when you speak to them, don't try to challenge them, but rather hear and listen to their view and see if there's something to it.

Allan was also very big on the concept of having flexibility of mind. He saw absolutely no shame in doing a 180-degree turn if you learnt some information you didn't like. I recall him once being super fired up about Mabuchi Motor and getting me to work the whole weekend on it. On Sunday, I was driving somewhere with my baby daughter in the back seat and had to stop the car on the side of the road so I could speak to Allan about my report. Although I had recommended we buy, he had changed his mind!

That's just how he was. *No sooner had Allan bought a stock*, he'd be phoning you as though we should be selling it. Eventually you learned that he was testing your conviction, and his own conviction. He wanted to be sure that we had explored every possible angle on the stock.

Edward Blain

I joined Orbis in 2010, so Allan and I didn't overlap a huge amount. But when I'm working on a new investment idea, it's often his voice that I hear in the back of my mind. That's how deeply Allan's thinking is embedded in the Orbis DNA. And I think if you asked the people in our team who never worked with him directly at all, they would say similar things. We do all pass it down.

One thing that stands out is Allan's frequent advice to "dream a little"— don't just buy cheap stocks and expect them to go back to normal, look for those that can do extraordinary things in the future if their situation improves. Those were some of his biggest winners— and some of my best ideas have shared that characteristic. Allan also used to say that you can basically ignore half the market because there's not much point focusing on the areas that are doing well. Instead your focus should be on the most compelling opportunities. He used to say, "If you're not excited about an idea, you are wasting your time." While I never heard him use the term "capital cycle", he would often say that "the prosperity of good times by definition produces the tough times." That's something I've seen time and again. It's better to invest during the tough times and have the wind at your back.

Nick Purser

Allan's starting assumption about other people was always that they are clever and hard-working. That happens to be a positive way of looking at the world, but it also has important investment implications. It explains why Allan was so adamant about the perishability of ideas. If you are trying to outperform the market, you will be up against very smart people who are also working very hard. That drove Allan to ensure that he was doing everything as well as possible and focusing on the things that really matter. For example, it explains why we track analyst performance in such great detail and have incentives that reward them for long-term thinking. The logic there is that it's not enough to have smart people who work hard— you also need to have an organisational structure that allows you to capture what your people are capable of achieving. If you build a firm that is focused on short-term performance, that will only incentivise them to focus on the best ideas for the next quarter or year. Instead Allan created an environment where people can genuinely focus on long-term investing and get on with that job with as little burden as possible.

Jonathan Brodie

One of the first companies Allan asked me to analyse after I started working at Allan Gray Investment Counsel in 1980 was Tiger Oats. One Monday he asked me to “take a look” at the company. Over the course of the next few days I looked at a few annual reports and began outlining the business units. Allan came into my office that Friday and asked me what I thought. I told him that I had a basic framework ready and was going to start filling in some additional information and financial analysis over the coming couple of weeks. He thanked me and got up to leave. As he left the office he paused and said, “This week we invested half-a-percent of our client funds in Tiger Oats. Can you let me know if we should sell it or make it a 5% position?” I called my fiancée and explained that I would not be home much that weekend. I had a full report and recommendation on Allan’s desk by Monday morning. He had not said so explicitly, but he had communicated a clear lesson: There is nothing as perishable as a good investment idea.