Cuffelinks
Connecting investors with ideas

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The Keith Ambachtsheer Interview

Graham Hand

Keith Ambachtsheer provides strategic advice to a global list of major pension funds, including many large Australian superannuation trusts. He publishes the well-known monthly, *The Ambachtsheer Letter,* and is Editor of the Rotman International Journal of Pension Management. He was recently voted by Asset International Magazine as one of the Top 10 most influential academics in the institutional investing world.

He especially focusses on whose interest pension assets should be managed for, and how do we design pension arrangements that are sustainable. He runs a week-long, international education programme for pension fund trustees which many Australians have attended. "Trustees are usually appointed because they represent a group — a union or an employer for example. The challenge is figuring out how to get higher level oversight skills into pension fund boardrooms without giving up on the legitimacy that representativeness brings," Ambachtsheer says.

I met with Keith Ambachtsheer at the Research Affiliates' Advisory Panel meeting in San Diego on 28 April 2013.

Graham Hand: Keith, how does your advisory service work?

KA: I write four pages a month in *The Ambachtsheer Letter.* It's a simple retainer system, I've got a bunch of clients in Australia, they have a call option to speak to me. And I work on specific projects for various clients.

GH: They call you to chat about issues they're working on?

KA: I might get involved in a board meeting, strategic planning, a second opinion. I cut it off a half a day a year per client, but then something bigger comes up. The Future Fund asked me to do an assessment of compensation practices of major pension funds around the world, and I thought, that's a big piece of business. Turned out to be very interesting. In another assignment, Finland asked me and Nick Barr from the London School of Economics for an assessment of the Finnish pension system. Nick did the macro design side, I did more the institutional structure side, and we did a formal launch of the study in Helsinki. It was a major media result.

GH: I was interested in your comments on the fiduciary responsibilities of trustees of pensions funds, and I've never heard said before if a trustee believes a certain form of managing money is not the best or most efficient, they have a responsibility not to use it. Such as if they have a view on active versus passive management.

KA: Right. Well, the other thing I do is I'm the academic director for a board of ethics programme at the Rotman School of Management where we take trustees, bring them into the programme on a Monday morning and send them out transformed by Friday afternoon. We discuss the evolution of fiduciary duty going back to Harvard College v Amory in 1860. Fiduciaries have a legal obligation to be up to date, and to know the best thinking, and this has significant consequences for how you should select trustees of pension funds. Not everyone is capable.

GH: This must be an issue for some of your clients in Australia, they often appoint trustees who have no finance or wealth industry background.

KA: We've run a Board Effectiveness Programme three times now, we've had half the SunSuper Board go through the programme, and half the QSuper Board, and some of the APRA regulators. It's an ongoing debate. We have leading scholars who basically say here's what I think if I were giving expert testimony in a court case tomorrow, this is what I would say. And a lot of that is how to spend your beneficiaries' money on investments; you have a fiduciary duty. Not to do it directly, you don't want boards micro managing, you want them to bring in a skilled executive group who can implement a strategic plan, but you have to be capable of looking at the strategic plan.

GH: Given what we do know about active management, as Burt Malkiel has said, that it adds costs to the system and the average active manager does not outperform, does the fiduciary duty create issues if you feel strongly about that?

KA: Here's the Ontario Teacher's story. We set the whole thing up according to Drucker's five principles, and the Board hired a really good executive team, highly experienced CEO and CIO, and they had a view about what investing meant, and it was quite different from what Keynes called 'beauty contest investing', where managers are just trading against each other. That's a loser's game, and we don't play a loser's game. Right away, that was never part of the equation, that traditional view of active management because frankly it's dumb. So what do you do instead? Well, for much lower cost than outsourcing, you have to hire people who are capable of understanding and creating deals. But then you have expensive people on your staff, and the way a lot of funds are structured, they are not allowed to do that. But it's like tying an arm behind your back.

Active management in the public space means taking major positions in corporations and being proactive in how well they are being managed. One classic Ontario Teacher's story is they bought Maple Leaf Sports Enterprises in 1998 for $150 million, and sold it earlier this year for $1.2 billion. And so they were involved in adding value as owners, not as managers.

In 1995, they were heavily invested in non-marketable government debentures, but they decided they had to be in real estate. Again, they didn't want to go into third-party funds paying fees, so they ended up taking the largest publicly-traded real estate company on the exchange private.

GH: They just bought it?

KA: See, it's a completely different way of thinking about creating value.

GH: You also encourage trustees, where they own publicly-listed companies, to be active in an owner's right to influence management.

KA: That's what active management means. It means being concerned and engaged owners that do what it takes, either on their own or collectively with other funds.

GH: Including meeting personally with the CEO and expressing disquiet about the way a company is run?

KA: It definitely means that. Another important dimension of running a balance sheet is risk, so they reviewed the notion of tracking error, and decided it was useless. What matters is your asset exposure in relation to your liabilities, it's entirely possible to have an asset portfolio with significant tracking error against some index, but against your liabilities, there is less risk.

GH: And not much comfort that you have a low tracking error when the market is down 20%?

KA: It's doing smart things by understanding the business you are running. The way to get people's attention is to bring a law suit against people who do things to protect their own agency risk. You need to wake people up to their responsibilities.

GH: How are regulators affecting global pension funds at the moment?

KA: In Europe especially, the notion of a standard approach to balance sheet management of financial intermediaries is rising. How do you create a set of rules so that the balance sheets support their liabilities, what do we need to do with the capital adequacy rules to ensure we don't have another financial crisis? But there's a big push back because most pension funds don't have surpluses. Pension funds can do some guaranteeing of specific products, but guaranteeing all their liabilities means they must have adequate assets to make the payments, which they don't. And based on demographics, many will have to stop doing guarantees. In Australia, you're coming at it the other way, where most of the super funds don't have guarantees, but there should be an ability to buy longevity risk products.

GH: But whose balance sheet will that be on?

KA: The reality is anyone with a DB arrangement is taking that risk, so it's not like it doesn't exist. There needs to be a sensible discussion about should we leave investors on their own or should we create some type of organised accumulation facility which offers longevity protection. People need it. That's where the leading super funds will go, they will create this facility.

GH: How do you feel about lifecycle funds and alternative financial planning models?

KA: A lifecycle is reality, people have three phases in their financial lives: pre work, work and post work. Part of your work phase is to accumulate enough savings to finance your post work, and designing the system on an age-related basis helps people on that journey. People want a return-seeking and income-seeking (or payment-certainty) component, and they need both.

GH: But what do you do if there is a switch to bonds when they are yielding less than 1%, people don't have the income they need?

KA: Right, it's a very high cost to pay for payment certainty. For me, this is one of the value adds of a well-designed super fund. You have a standard default model which in normal times, whatever they are, you have this defined flight path, but then the organisation, given what it sees in its investment options, has to find better returns. There are assets with current yields over 4% instead of 2%, such as Johnson & Johnson, Proctor & Gamble, AT&T. The fund has not only the opportunity but the obligation to adjust the flight path to say, "These are not normal times, we're not doing our people any favours buying annuities at 2% when we think somewhere down the road it's going to be 4%." Now you're into judgements, which you need to document very carefully, since there's the exposure risk that you deviated from your flight path and your expectations may not work out.

GH: You're headed into Tactical Asset Allocation, because you've said these returns are not acceptable and we have to find something that is. You might have not wanted to do it.

KA: If tactical means trying to pick off things week to week, I'm not there. Going back to around 2000, government bonds offered real returns of 4% and the stock market was at 1%, but now, the balance is so much in favour of the series of equity cash flows. So there are times when you need to adjust the process, but these are more decade to decade.

GH: And the dilemma for a trustee is you're putting a 60-year-old into more equities and you prefer not to.

KA: Well, people need to be able to buy the basics and you're faced with a situation where people still need income to keep body and soul together. So that's why we have social security as well. The question is, on top of that, how much more do you want to be really sure, and how much are you willing to take some flexibility that may not be for sure but the odds favour a return-seeking option.

You still need income when you're 85. The idea of buying an annuity at 2% for 25 years is a problem, that's the arithmetic. To what extent can you put yourself into the position of deciding what your clients would do, because you're deciding that each one of your 50,000 clients has exposure to this return-seeking model. It's better to have an organisation looking after an 85-year-old than having people look after themselves.

The utmost importance of real returns – but is the industry paying lip service?

David Bell

Without a doubt real returns are the most crucial measure of investment outcomes for an individual saving for retirement. I believe any industry professional who understands the purpose of superannuation would concur. Real returns, which are simply the return relative to inflation, measure the growth in purchasing power of a portfolio of assets. It does not matter if we generate 10% nominal returns (that is, without adjusting for inflation) if inflation over the same period is also 10% - our portfolios can only purchase the same amount of goods and services in retirement. And so if real returns are the most crucial measure of investment return then it follows that the crucial measure of risk is the volatility of real returns. Yet in terms of reporting, objectives and risk management, we find that 'real returns' plays second fiddle to 'nominal returns', to the point where by default we all think of 'returns' as nominal returns. There are few institutional superannuation funds or managed funds that explicitly target or actively manage real return risk (though real return or target return funds are an interesting emerging segment of the market, particularly offshore).

Why is the need to focus on real outcomes so important? Three reasons:

The first is retirement adequacy. Inflation has been positive over the long term and this means that real returns are lower than nominal returns. The real value of a portfolio compounds at a slower rate. As an example let's assume 7% nominal returns and 4% real returns (ie inflation of 3%). Then applying the 'rule of 72' (discussed in *Cuffelinks* on 26 April 2013), it takes approximately 10 years for the nominal value of a portfolio to double but about 18 years for the purchasing power of the portfolio to double. And this leads to the second reason. As an industry, by not focusing on the most important return outcome, we are failing to effectively educate individuals. Finally, it is difficult to manage risk if we are not focusing on the most important risk, that being real returns, the risk which most directly affects retirement outcomes.

It seems that nominal returns are an entrenched concept, and mention of real returns appears the exception rather than the rule. I illustrate using two examples:

- Superannuation fund returns, whether quoted by superannuation funds themselves or by ratings groups, are nearly always referred to on a nominal basis. While accounting standards require a nominal return statement to allow reconciliation, surely the real return outcome can be calculated and communicated. Recently I looked at a major super fund's annual report. The commentary on returns was as follows (with fund name removed, numbers slightly changed):

  "With the Australian stock market returning negative 7% for the year, the Fund option generated 1%. Though above the return of the median balanced fund of 0.5%, it's a disappointing result."

  Where is the mention of real returns? It would be better written like this:

  "*With inflation at 2.3% during the financial year, we delivered a -1.3% real return for the year. Even accounting for contributions, the purchasing power of your superannuation balance may be less than a year ago. This is an important consideration if you are approaching retirement.*"

  What is bewildering is that this fund has a stated real return target (CPI + 4% pa over the medium to long term) but does not report on their performance relative to their stated objective!

- In October 2012 it was reported in mainstream media that superannuation funds had recovered their GFC-related performance drawdown. However this is the nominal drawdown. The quote from a senior super fund ratings group executive was:

  "It may have taken a while, but despite difficult market conditions, it is great news for members to see the median fund back in line with the pre-GFC high."

  However the real value of those assets would still be about 15% below GFC levels (ignoring contributions etc) due to the effects of inflation, quite a haircut to take on one's retirement lifestyle. A subsequent quote was "*The trouble is the focus on super has been on short-term returns.*" In my view, the quote is only half correct – we need to focus on medium-to-long term real returns.

So why the focus on nominal and not real returns? I suggest three possible explanations:

- Legacy of where the industry has come from. Nominal returns have to be reported as they are the accounting returns and the basis on which taxes and account balances are calculated. So this is a logical starting point for communications.

- Confidence in the ability of the RBA to control inflation. Bernie Fraser first announced that the RBA would target inflation in a speech made in 1993. From this time to today, inflation outcomes have been relatively low and consistent. Chart 1 shows what a good job the RBA has done in meeting its stated objectives over the medium term. This period has largely coincided with the experience of institutional superannuation funds (Superannuation Guarantee was created in 1992). This could be used as the basis of an argument that risks to real return outcomes are largely explained by the variability in nominal outcomes. In making this argument one is taking the view that the RBA can manage inflation risk with a single lever (monetary policy), that external risks to inflation are not significant (eg. imported inflation and supply effects are non-issues) and that the RBA is guaranteed to remain 100% free of political input in designing and implementing its mandate. Stranger things have happened and there is a risk that inflation can break out again at some point in the future.

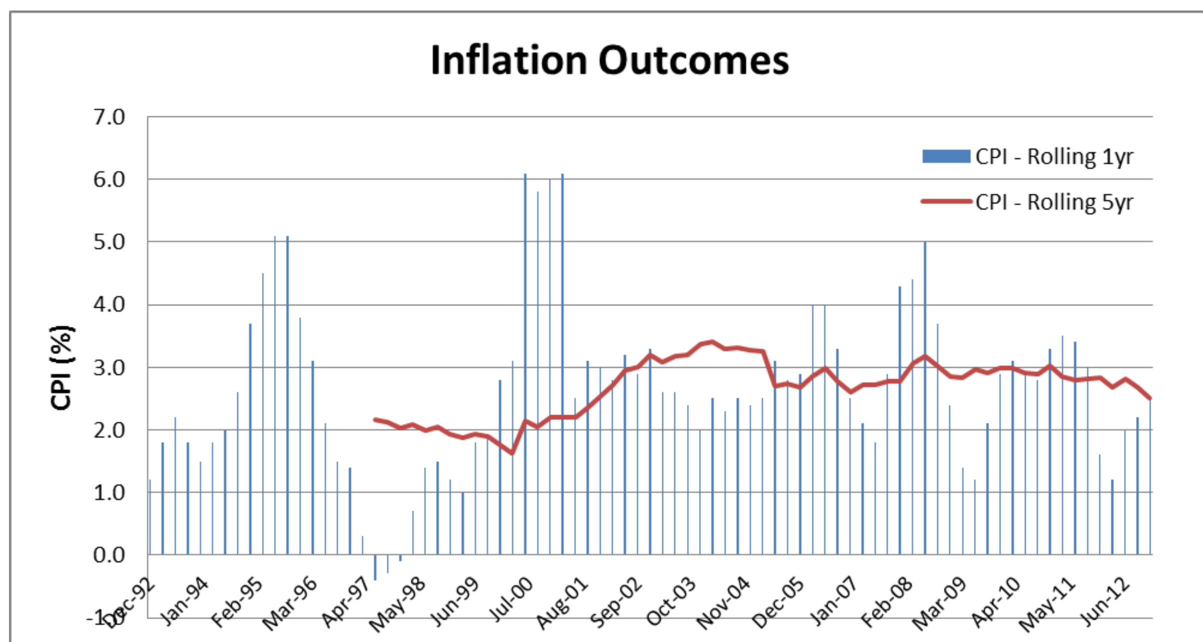

Chart 1: Inflation outcomes since RBA announced inflation rate targeting policy. Source: RBA.

- Education issues, at a member level, but also possibly at a trustee level. It is understandable that if members receive a collection of returns framed in different ways they may find this confusing. Of course there may be trustees of super funds that may also find this confusing!

Unfortunately, APRA provides little guidance regarding a focus on real returns. Prudential Standard SPS 530 Investment Governance, which will come into effect on July 1, 2013, simply states that an RSE (Registrable Superannuation Entity) licensee must "*formulate specific and measurable investment objectives for each investment option, including return and risk objectives."* APRA provide no direction as to the specifics of the return and risk objectives. Cooper's Super System Review makes general reference to consideration of inflation but makes no specific recommendations, *"trustees would have a duty to address longevity, inflation and investment risks for retirement phase members in developing their strategies."*

Defining the investment outcome to be managed by super funds is crucially important. Real outcomes are the most important outcomes for the retirement lifestyle of Australians. Leadership from the trustees of super funds is required on this issue, particularly in the absence of compulsion from regulators and system reviews.

Taxing as revenue or capital gains – does it matter?

Ray Cummings

Investors are often confused about the difference between a revenue profit and a capital gain. People are even more confused by whether a loss is a revenue loss or a capital loss and are frequently bamboozled as to which type of loss can be applied against which gain.

Does it matter?

By way of illustration, assume an investor, in addition to their salary, has gross gains from sale of shares of $10,000, an equivalent loss from sale of shares and also a $10,000 loss from a negatively geared rental property. All equities have been held for longer than 12 months and the investor is not a share trader.

There are three fundamental questions to answer:

- is the gain a revenue profit or a capital gain?
- are the losses revenue losses or capital losses?
- are there any restrictions in applying the losses against income or gains?

Characterisation of a gain or loss as revenue or capital is a matter of fact and circumstance having regard to many matters such as whether the investor is an individual or other legal entity, the investor's intention and the nature of the activity undertaken.

In forming a view, the ATO will have regard to various factors including the dollar value of the portfolio, the type of securities, the frequency and dollar value of turnover, the average holding period and whether or not the investor has what the ATO would regard as a sophisticated trading strategy or methodology. Weighing these up, the ATO may reach a conclusion that the securities are held as revenue assets.

In contrast, a passive holding where equities are bought and sold infrequently is more likely to be regarded as capital. Unfortunately, there are no hard and fast rules as to what constitutes frequent activity.

Just to confuse matters, it is possible for an investor to designate one parcel of shares as a trading (revenue) portfolio and another as capital. Provided this is carefully documented and shares do not 'drift' from one parcel to another, the distinction can be made. Experience shows that the loss-making investments tend to drift towards the trading portfolio and the gains towards the capital portfolio – all too often after the event. This approach seldom survives close scrutiny by the ATO.

Given all of this, are there any rules of thumb? Whilst there are many exceptions the following could be adopted as guidelines:

- where a person holds an investment for longer than 12 months, any gain should be regarded as capital (but not always)
- likewise, any loss on sale of such an asset would be regarded as a capital loss
- a loss where expenses exceed income (such as a negatively geared rental property) is a revenue loss
- regular, high volume trading will be viewed as revenue gains and losses.

Moving to the loss rules, the following matters should be noted:

- revenue losses can be applied against either income or capital gains

- capital losses can only be applied against capital gains, not against income
- one dollar of capital loss offsets one dollar of gross capital gain
- one dollar of revenue loss offsets two dollars of gross long-term capital gain. That is, if the gain relates to an asset which a person has held for longer than 12 months, the 50% CGT discount applies to reduce the taxable amount to half of the gross gain. The revenue loss is then applied against this reduced amount.

Where do these rules take us in the above example? The investor would offset the capital loss on shares dollar for dollar against the capital gain. The rental loss could be offset against salary.

If we change the example and assume the investor had no capital losses, they could apply the rental loss, either in full against their salary or part against the 'after 50% discount' gain of $5,000 and the remaining $5,000 against salary. The tax outcome would be the same in either case.

As an alternative, they might consider crystallising capital losses by selling shares with otherwise unrealised losses. Care would need to be taken with such a strategy as it may be viewed unfavourably by the ATO, particularly if the investor sold the investments prior to 30 June and bought back the same investments shortly after year-end.

As 30 June approaches, investors should take the time to review their portfolios and also the position they are taking in respect of tax treatment.

Ray Cummings is Principal of Greenoak Advisory Pty Ltd, and for 15 years was a Tax Partner at Pitcher Partners.

Michael Porter plans to take aim at investors

Phil Preston

Professor Michael Porter is a committed capitalist, and about as hardline as you can get. So why has he seemingly dive-bombed out of the clouds to champion the role and obligations of business in society? Why does he get excited about Nestle's support of rural development, Cisco's partnering with public institutions to provide online curricula, teacher training and professional development for instructors and Wal-Mart's supply chain re-invention, cutting energy costs, emissions and engaging with local suppliers?

The answer lies in business model innovation: it's the way companies will get ahead and create real business value in the future and, at the same time, address society's pressing needs. This type of innovation is called 'Shared Value' and it is increasingly being applied to improve competitive positioning and financial performance. This may come across as idle curiosity that hardly warrants keeping a fund trustee awake at night. However, be warned, it is likely to spawn new conversations about the effectiveness of trustee boards.

I've just returned from Boston and four days of intensive work discussing Shared Value implementation with companies and practitioners from all around the world, including Colombia, India, Philippines, Canada, Czech Republic, Brazil, Australia, Italy, Hong Kong, Singapore, US, UK, Costa Rica, Mexico, Korea, Japan and Chile. We rubbed shoulders with Professor Michael Porter, Mark Kramer of FSG and the Chairman of Nestle, Peter Brabeck-Letmathe, at the Global Shared Value Summit. It marked a pivotal moment in the development of the Shared Value field (refer sharedvalue.org or an article of mine if the topic is completely new to you).

Where corporate social responsibility is mostly about licence-to-operate or meeting basic community standards, Shared Value is about creating value for both business (financial) and society (impact). It's proactive, not reactive. For example, pharmaceutical company Novo Nordisk embarked on physician training and patient education on diabetes in China many years ago. It estimates that it has improved patient life years of those who use its products and services by 80%, while increasing its market share from below 40% to 63% in the second largest insulin market in the world.

This highlights that it's not 'touchy-feely' stuff: it can lead to market dominance. In fact, you might say this is just good business, where long-term plans are executed well. It is, but we all know that the investment chain is deeply flawed, and analysts struggle to understand and attribute value to these strategies before the earnings are proven, which means that capital is allocated inefficiently.

Nestle Chairman Peter Brabeck-Letmathe noted that he refuses to publish quarterly earnings because next quarter has little bearing on the likelihood of his company living up to its market Price/Earnings ratio. He went further, and cited investment analysts as the root of the short-termist problem. Michael Porter and Mark Kramer, who wrote their seminal paper entitled *Creating Shared Value* in 2011, agree that vast improvements in the capital supply chain are required. At the Global Summit, Michael Porter explained that he and Kramer intend to challenge investment managers in a paper due out in early 2014.

In Australia, APRA statistics show that 74% of superannuation fund members have more than 15 years to retirement, and the majority of this group have more than 30 years to go. In theory, this is the average investment horizon that fund trustees should be adopting. But we all know, even if we don't say it in public, that trustees become quite preoccupied with this year's earnings rate, and fund comparisons are typically done on 3, 5 or sometimes 7-year timeframes. Have you ever heard vigorous debate about 20-year earnings? And then, to make matters worse, by the time the money gets in the hands of investment managers, annual bonus potential is flashing so brightly that the investment horizon for liquid, traded investments is more like 1-3 years at best. I know, because I've worked in the system and was partly complicit with it.

I have sympathy for companies that get hauled into a short-term earnings mindset, because flaws in the structure of our investment chain push them in this direction. Mike Hirst, managing director of Bendigo and Adelaide Bank, bravely took a stand against analysts in 2011, citing the same issue as Brabeck-Lemathe of Nestle. At the time, it was a mere blip in the investment conversation and then everyone merrily resumed business as usual.

Here's the crux of the issue. For all of the back-patting that goes on in the world of Environmental, Social and Governance (ESG) issues, have fund trustees really addressed the core problem of misaligned interests between their members' investment requirements and the incentives of investment managers? There is a lot of puffery, but little substance. When is a manager going to be fired for having a short-term incentive system and replaced with one that has a longer-term system? A handful of investment managers have addressed this, with seven year bonus assessment periods as an example, but they are the exception. It should be priority number one.

In relation to Shared Value, we are seeing a groundswell of interest and application of the concept from innovative companies and this trend is set to continue. It will be a process of internal challenge and discovery for many of them. As yet, there is no prescriptive set of rules, but there are principles and methods that they can use to evaluate their core assets, needs and challenges. They will find where the key social intersection points exist and create strategies that drive financial results in concert with a positive societal impact.

From a financial performance perspective, expect to see companies who get this right markedly outperform their peers. And because it takes time to get it right – Nestle is in its seventh year of implementation – the advantages created will be sustained for longer periods of time. It's hard to

copy overnight. My main prediction is that, in the next 10 years, we will see the dispersion of company returns increase significantly and there will be many fast and slow declines.

We will have to wait and see how deeply Porter and Kramer sink their teeth into the investment community. I suspect they will soon realise that the best way to influence investment managers is through their major clients, being superannuation and pension fund trustees. It is likely to start a new and exciting level of dialogue that will bring institutional shareholders closer to leaders in business innovation. However, it will also be confronting to those who are comfortable with the status quo.

Phil Preston is a speaker, facilitator and innovation practitioner, and is a former global credit research head at Colonial First State Global Asset Management.

Value investing and valuing a business

Michael Kodari

Originating from the economist and investor Benjamin Graham, the philosophy of value investing has been a strategy employed by some of the most successful investors in history including Warren Buffet and David Dodd. This approach revolves around investing in stocks trading at a discount to their intrinsic value but there is always one critical question inherent in this investment philosophy; what valuation multiples do you use to identify the intrinsic value of a company?

Unfortunately there is no single method of valuation and it is subjective whether an investor places more importance on current assets and earnings or on future cash flows and growth prospects. Over the years there have been opposing thoughts. Modern Portfolio Theory argues that due to the Efficient Market Hypothesis, all stocks trade at their fair value and it is impossible to identify undervalued shares. Yet it is widely agreed that value stocks have consistently outperformed growth stocks in the long term and some of the most successful investors have continued to outperform the market by identifying companies that are trading at a significant discount to their intrinsic value.

Keeping in mind that there are a range of multiples and valuation models that can be employed in value investing, there are some key factors that are often considered in valuing a business.

When we qualitatively analyse the quality of a business, the fundamental drivers of value include the company's management team and their experience in the respective sector, the company's strategy and plans in place for the company's expansion. Translating this to quantitative drivers, return on equity and capital, debt to equity ratios and cost of capital come into play. A value investor should also take into consideration accounting policy differences which can skew profit multiples, and can lead to misleading valuations of companies in comparison to its sector. Depreciation, goodwill, provisions and deferred tax should be considered. As a result, a company's cash flow is a good metric for valuation as it is free from accounting distortions and its EBITDA is a suitable measure to assess profitability.

The Price to Earnings (PE) Ratio is one of the most common multiples used by the retail investor to indicate if a share is over or undervalued but this can be misleading for a few reasons:

- earnings are subject to different accounting policies
- different capital structures will lead to a gearing effect on the earnings which will skew results for different companies

- a low PE could be a sign of negative market sentiment towards the stock rather than a reflection of the stock being undervalued.

The Price to Book Value, which represents a company's share price over its book value, is often used to value a business where value is generated through its tangible assets. This is where Return on Equity comes into play. Financial stocks, especially banks, are often valued using the Return on Equity ratio due to their high levels of leverage from deposits coupled with significant assets through loans. Return on Equity can reflect how efficiently a company utilises shareholders' equity to produce profit, as well as how effective the company manages its debt and asset turnover. A company with a consistently increasing Return on Equity and a decreasing debt level is often a sign of an effectively-managed business.

After analysing these key valuation multiples, investors should gain an in-depth understanding of the company's business model and its sector to make a more informed investment decision.

My golden rules for investing are:

1. Make informed and educated investment decisions
2. Know why you are buying shares in the company
3. Do not speculate
4. Invest only when there is an opportunity
5. Invest in quality companies with great future prospects
6. Understand the business before investing
7. Have an exit strategy
8. Have patience and discipline.

Value investing is a strategy used by some of the most renowned investors in history and is a proven approach that can help the medium to long term investor identify undervalued businesses. The market is dynamic and volatile and investors should have a clear strategy and direction before making any investment decision. An individual should invest in quality stocks that are trading below their intrinsic value with a target in mind.

Michael Kodari is Managing Director of Kodari Securities (KOSEC).

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