

LAUREN TEMPLETON



CAPITAL MANAGEMENT, LLC

Lessons Learned from Sir John Templeton

April 25, 2012

Ben Graham Centre's 2012 Value Investing Conference

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15 Personal Attributes

- **Self Reliance**
- **Reasonable Risk Taking**
- **Sense of Stewardship**
- **A Drive towards Diversity**
- **Bargain Hunting Mentality**
- **Broad Social and Political Awareness**
- **Flexibility**
- **Devote Large Amounts of Time to Study**
- **An Ability to Retreat from Daily Pressures**
- **Develop an Extensive Friendship Network**
- **Patience**
- **Thought Control**
- **Positive Thinking**
- **Simplicity**
- **Great Intuitive Powers**



“A MAJOR CAUSE OF HIGHER PRICES is higher prices; but when the trend is reversed, then lower prices lead to still lower prices. To buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the greatest ultimate rewards.”

Sir John Templeton



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“Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria. 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



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“If you want to have a better performance than the crowd, you must do things differently from the crowd.”

Sir John Templeton



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Where Were All of the Buyers?



- Everyone admires Buffett, Templeton, Lynch and other famous value investors, but few have ever come close to replicating their long-term results.

- Where were the buyers on March 9, 2009?

- The truth is that it is very hard to buy at the point of maximum pessimism. Humans are not wired to do so.



Homo Economicus



Behavioral Finance

- **Behavioral finance is a relatively new field that seeks to combine behavioral and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions.**

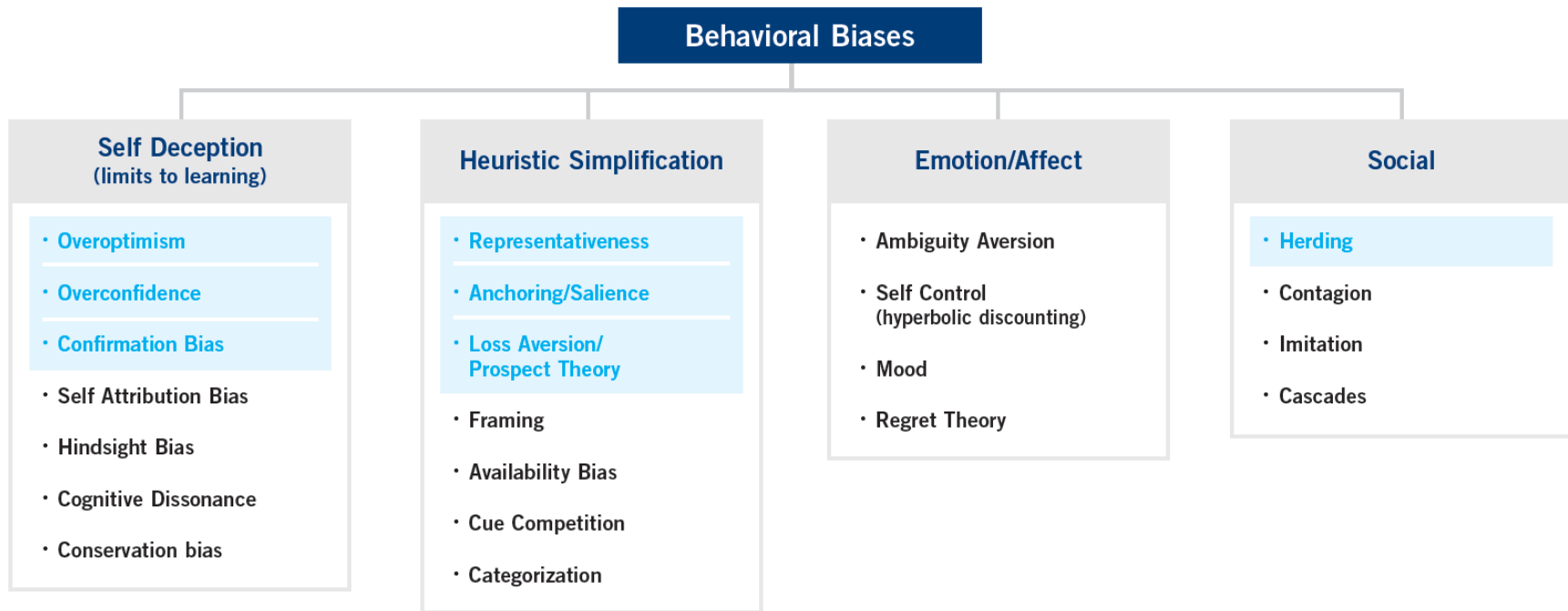


Heuristics and Biases

- Heuristics are mental short cuts or rules of thumb that enable us to form fairly good and quick decisions despite a lack of necessary information. These decisions are subject to a certain rate or error.



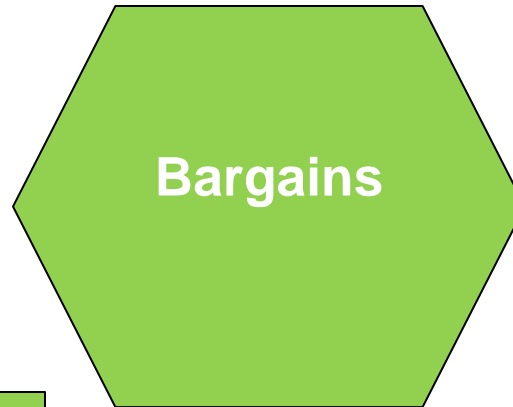
Chart 1: Overview of Behavioral Biases by Hirshleifer



Source: David Hirschleifer: "Investor Psychology and Asset Pricing", *Journal of Finance*, Vol. 56, No. 4, August 2001, pp. 1533–1597.



Bargain Stocks Often Fall into Two Categories



Neglect

- *Little Analyst Coverage*
- *Unrecognized Growth Potential*
- *Smaller Market Cap*

Maximum Pessimism

- *Crisis*
- *Panic*



Crisis Events...are a Market Staple

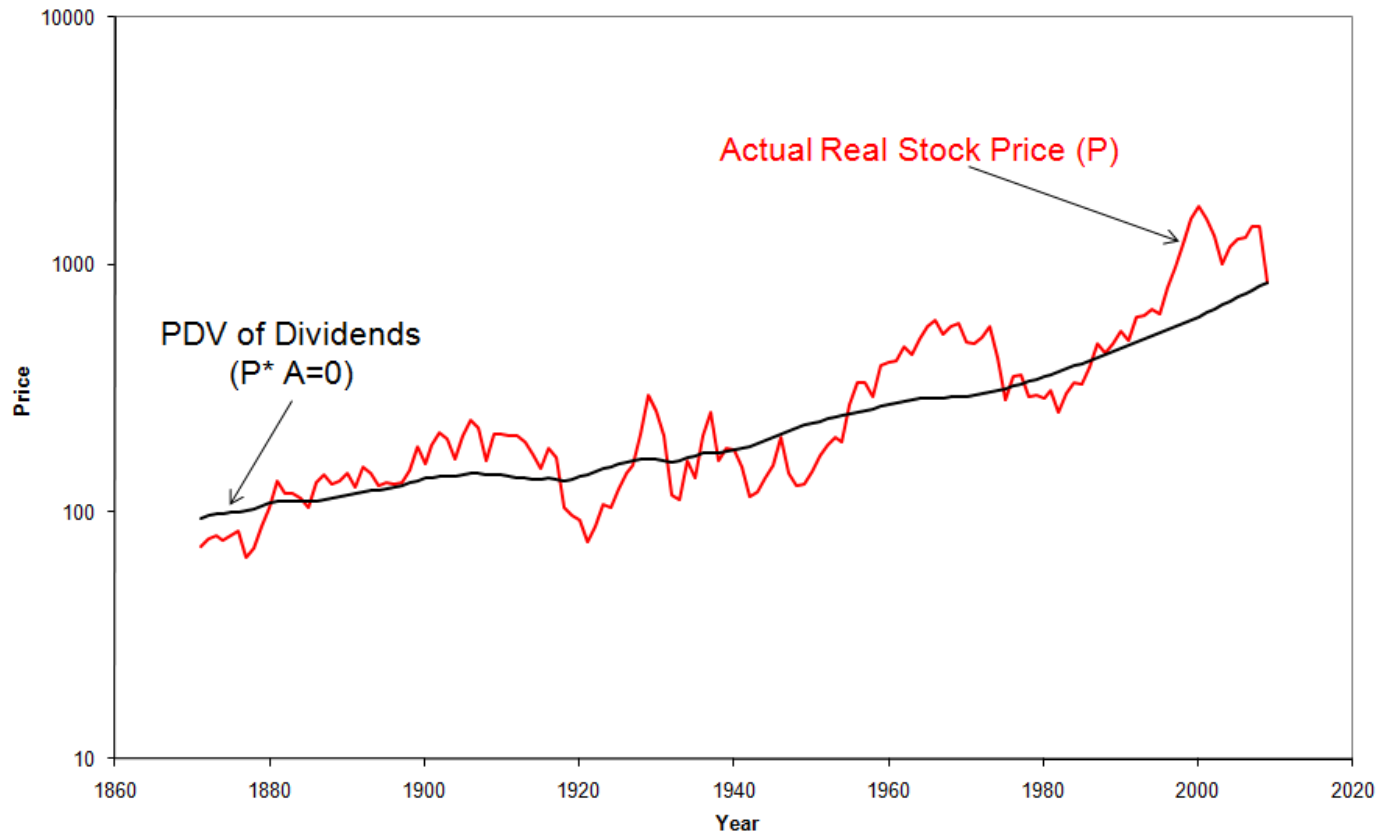
- **Attack on Pearl Harbor (1941)**
- **Korean War (1950)**
- **President Eisenhower's Heart Attack (1955)**
- **Blue Monday (1962)**
- **Cuban Missile Crisis (1962)**
- **President Kennedy Assassination (1963)**
- **Black Monday 1987 Crash**
- **United Airlines LBO Failure (1989)**
- **Persian Gulf War (1990)**
- **Tequila Crisis (1994)**
- **Asian Financial Crisis (1997-98)**
- **September 11**
- **Financial Crisis 2008-2009**
- **European Debt Crisis (2010 - ?)**



▪ **Stock Prices are 14x More Volatile than Actual Fundamentals – This Creates Opportunities for those who are Prepared**

▪ **Sir John's wish list of securities**

Comparing Actual Real Stock Price with Present Value of Dividends



Methods Sir John Used to Take Advantage of these Events

Preparation, Preparation, Preparation

- **Always stored some funds in reserves, one basis for his thrift...sought out crises**
- **Maintained a wish list, had already researched and prepared a list of companies he wanted to own at a bargain price**
- **Maintained good-to-cancel limit orders in the market 20% below the current price**
- **An optimist, held a fundamental belief in the continued innovation, ambitions and ingenuity of others**





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Fig. 1: Stock market development 1992–2007

Clever people make severe investment errors

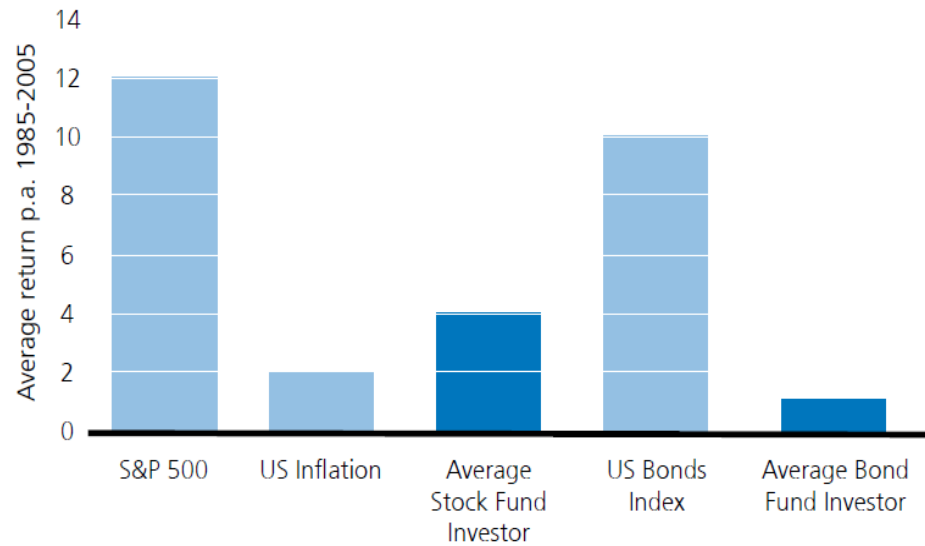


Source: UBS WMR, A. Hinder (2005) as of June 2008



Fig. 2: Investor returns do not match market returns

Returns p.a. 1985–2005



Source: Dalbar, Inc., "Quantitative Analysis of Investor Behavior", July 2005





1965-2011,
Annualized **19.8%**
vs. **9.4%** for S&P 500



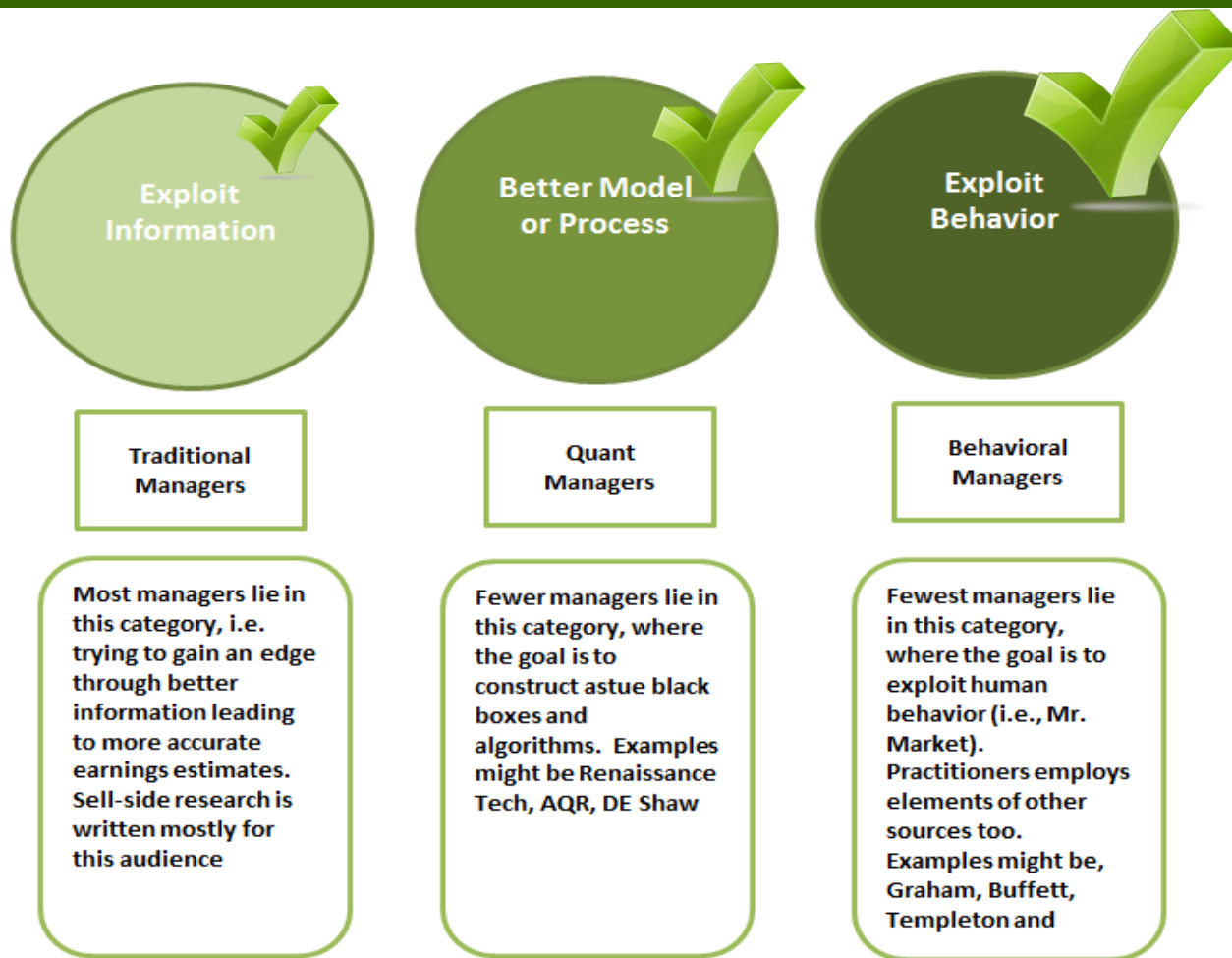
1977-1990,
Annualized **29%**
vs. **15.5%** for
S&P 500



1954-1992, Annualized
14.5% vs. **11.6%** for
S&P 500

During the Peter Lynch years, the average Magellan Investor realized an average return of less than **5%**, and many actually lost money!





Source: Behavioral Finance and Sources of Alpha, Russell J. Fuller



Financial Chaos

“Not yet have I found any better method to prosper during the future financial chaos, which is likely to last many years, than to keep your net worth in shares of corporations that have proven to have the widest profit margins and the most rapidly increasing profits. Earning power is likely to continue to be valuable, especially if diversified among many nations.”

– Sir John Templeton, June 15, 2005

Core Fundamental Beliefs:

Avoid Countries Trending Towards Socialism

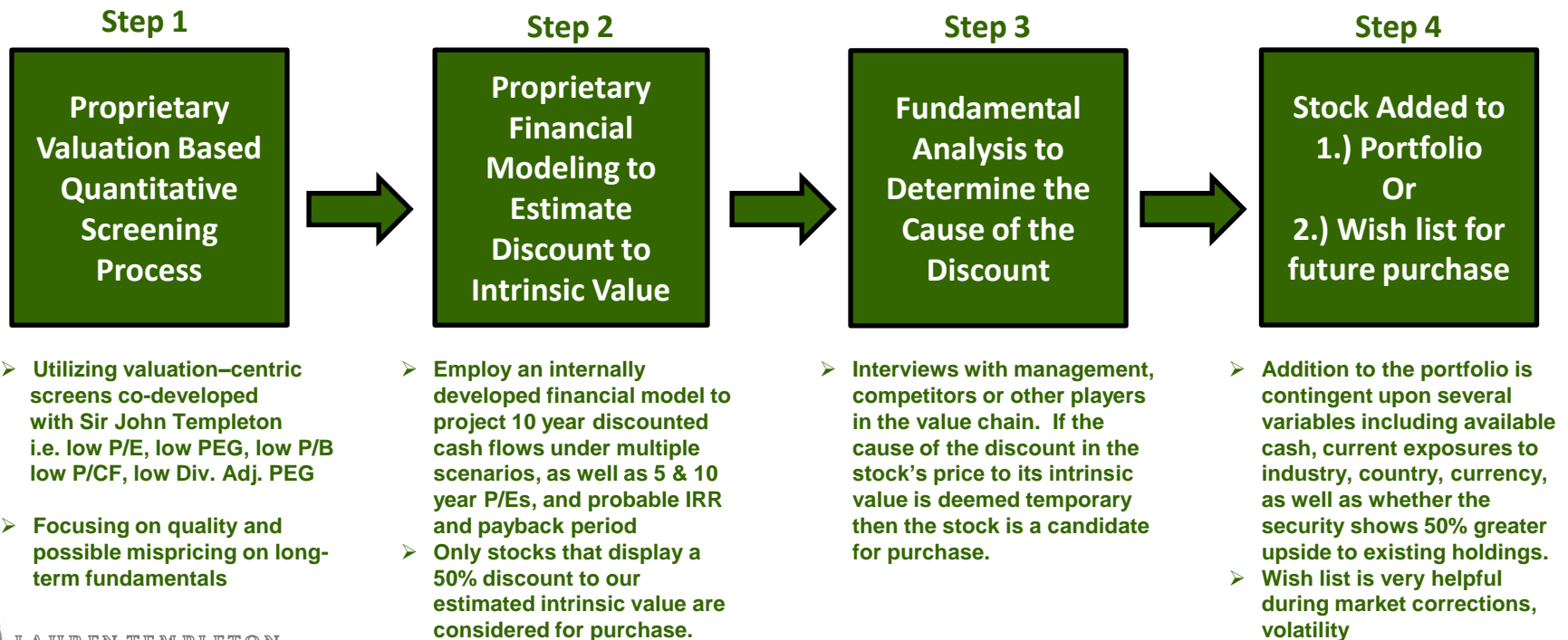
Favor Nations with Savers, Enterprising Citizens

Well Positioned Competitive Firms with Growth are Best Long-Term Holdings



INVESTMENT PROCESS

The firm adheres closely to an investment process that it learned and refined from its seed investor, Sir John Templeton. The process is employed in a methodical fashion but is also flexible in its implementation in order to be opportunistic and take advantage of market volatility resulting from panics, crises and negative events.



FIRM PROFESSIONALS



Lauren C. Templeton

Lauren C. Templeton is the founder and president of Lauren Templeton Capital Management, LLC; a value investing boutique located in Chattanooga, Tennessee. The company is the general partner to the Global Maximum Pessimism Fund.

Ms. Templeton received a B.A. in Economics from the University of the South. She is the president and founder of the Southeastern Hedge Fund Association, Inc. (www.sehfa.com) based in Atlanta, Georgia. Given the broad interest in this organization Ms. Templeton has also consulted on the establishment of sister organizations in various other cities: Nashville, Portland, Denver, Charlotte, Philadelphia, New York, Dallas, Houston, Austin, San Antonio, etc. In addition to these responsibilities Ms. Templeton also currently serves the following organizations: the Board of Trustees at the Baylor School, the Pre-business Advisory Council at the University of the South, Sewanee (Board Member), the Finance Advisory Board of the University of Tennessee Chattanooga, and the Director of the Finance for the Future Initiative at the University of Tennessee Chattanooga. In the past, Ms. Templeton has served as President of the Atlanta Hedge Fund Roundtable and as a member of the Board of Directors of the Memorial Hospital Foundation.

Ms. Templeton is also an active member of Rotary International. She serves on the investment committee of Chattanooga Rotary Club 103 and the investment committee of Rotary International.

Lauren is the great niece of Sir John M. Templeton and is a current member of the John M. Templeton Foundation. The John Templeton Foundation was established in 1987 by renowned international investor, Sir John Templeton.

Lauren Templeton began investing as a child under the heavy influence of her father as well as her late great-uncle, Sir John Templeton. Lauren began her professional career working with managed portfolios and investments in 1998, beginning as a junior associate at the financial advisor Homrich and Berg and later the hedge fund management company New Providence Advisors both of Atlanta. In 2001, Lauren founded Lauren Templeton Capital Management, LLC which dedicates its efforts to the practice of value investing across the global markets using the same methods learned from her great-uncle, Sir John Templeton. Ms. Templeton is also the co-author of, [Investing the Templeton Way: The Market Beating Strategies of Value Investing Legendary Bargain Hunter](#), 2007, McGraw Hill, which has been translated into nine languages.



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D. Scott Phillips, Jr.

Scott Phillips is portfolio manager and head of research at Lauren Templeton Capital Management, LLC. Prior to working with Lauren Templeton Capital Management, LLC, Scott Phillips founded Cumberland Capital Corp, located in Chattanooga, TN. Founded in June 2004, Cumberland Capital provided equity research services to Green Cay Asset Management, a hedge fund management company located in Nassau, Bahamas. In this capacity with Cumberland Capital, Scott was the lead research analyst on the Siebels Hard Asset Fund a long/short equity fund managed by Green Cay Asset Management. In addition to consulting on this fund Scott also provided equity recommendations for the Green Cay Emerging Markets Fund .

Prior to consulting Green Cay's funds Scott was employed as a research analyst with Green Cay beginning in January of 2004. Before joining Green Cay, Scott was an equity research associate analyst with SunTrust Robinson Humphrey (including its predecessor companies) in Atlanta GA from January of 1999 to December of 2003.

Scott co-authored with Lauren Templeton of the book "Investing the Templeton Way" released in 2008 by McGraw Hill. Scott is also the author of "Buying at the Point of Maximum Pessimism" a book on forward looking investment themes published by the FT Press in 2010. In addition to these books, Scott is authoring a partial revision of William Proctor's 1983 biography of Sir John Templeton titled "The Templeton Touch" which will be released by the Templeton Press in November of 2012.

Scott received his B.A. from the University of the South.



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Returns are presented net of investment advisory fees and include the reinvestment of all income. Net returns may be reduced by additional fees (outside of investment advisory fees) such as transaction costs.

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