

Intelligent Cloning

The Spring 2018 Edition

“Most everything I’ve done I’ve copied from somebody else”. This quote is from Sam Walton, best known for founding the retailers Walmart and Sam's Club, from his book “Made in America”. Mohnish Pabrai calls Sam Walton the “King of Cloning” or in more modern language the “Uber Cloner”. And cloning, copying the best ideas of super investors, is what I am fanatical about. I tend to believe that if you just copy successful investors, and do that intelligently, in the long run you will do fine.

Looking back

In the winter 2018 edition on Intelligent Cloning I described the more conservative version of the 2018 Mohnish Pabrai free lunch portfolio. Let’s just have a first look at one of the exciting companies in this conservative free lunch portfolio.

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Actually all of the companies in the 2018 edition of the conservative free lunch portfolio are worth a more closer look.

In the winter 2018 edition on Intelligent Cloning I also identified three companies of interest to me, namely **Express Scripts** (a Seth Klarman stock), **Allison Transmission** (a Lou Simpson stock) and **Centene** (a David Tepper stock). What I would like to do next, is to have a look at the stock picks of Meryl Witmer, Bill Miller and Leon Cooperman to see if that leads to some new ideas and then, in the end, make my final choices for the companies to add to my Intelligent Cloning Portfolio.

Cloning Witmer, Miller & Cooperman

So let’s have a look @ some of the stock picks from Meryl Witmer (Barron’s Round Table) and the portfolios of Bill Miller and Leon Cooperman.

If I look @ the 3 to 12B USD market cap companies and sort them according to a Joel Greenblatt type of ranking system, I end up with this list of investment ideas:

1. Gamestop (Bill Miller)
2. Foot Locker (Bill Miller)
3. AMC Networks (Leon Cooperman)
4. Sinclair Broadcast (Leon Cooperman)
5. Spectrum Brands (Meryl Witmer)
6. GNC Holdings (Bill Miller)
7. Fossil Group (Bill Miller)
8. Linamar Corp (Meryl Witmer)
9. Trinity Industries (Leon Cooperman)
10. Supervalu (Bill Miller)

And if I look at the companies with a market cap below 3B USD, same ranking methodology, I end up with these investment opportunities:

1. Altisource Portfolio (Leon Cooperman)
2. Endurance International (Bill Miller)
3. Greenhill (Bill Miller)
4. MDC Partners (Leon Cooperman)
5. National Cinemedia (Bill Miller)
6. Express, Inc (Bill Miller)
7. Orion Engineered Carbons (Meryl Witmer)
8. Esterline Technologies (Meryl Witmer)
9. Dart Group PLC (Meryl Witmer)

The companies I like most from both the winter edition on Intelligent Cloning and this spring edition are Sinclair Broadcast (Leon Cooperman) and Esterline Technologies (Meryl Witmer). Keep in mind that this is a 2014 Barron’s Roundtable stock pick, and still very compelling.

Sinclair Broadcast Group is one of the largest and most diversified television broadcasting companies in the United States. Sinclair owns and operates, programs or provides sales services to more television stations than

anyone and has affiliations with all the major networks. In addition, Sinclair is the leading local news provider in the United States, as well as a producer of sports content.

Esterline Technologies is a specialized manufacturing company serving principally aerospace and defense markets. Approximately 70% of total revenues are generated from aerospace & defense markets. The remaining 30% is from the application of these technologies in adjacent markets. The three business segments are Avionics & Controls, Sensors & Systems, and Advanced Materials.

The Intelligent Cloning Portfolio

I started this approach in 2016. In 2017 I introduced the approach during The Zürich Project and I will continue using this approach probably for many, many years and I will optimize it, if necessary, as I move forward.

My guess is that this approach will end up as a very compelling methodology for those that want to avoid too much risk, like pension funds, endowments and family offices looking for a risk averse approach.

So here are the stock picks of the Intelligent Cloning Portfolio thus far.

2H '16	Deere & Co (Berkshire) @ 87 USD Allison Transmission (Simpson) @ 29 USD
1H '17	Davita Inc. (Berkshire) @ 65 USD Verisign (Berkshire) @ 83 USD
2H '17	Tegna (Einhorn) @ 13 USD Monro (Akre, Mecham) @ 47 USD
1H '18	Sinclair Broadcast (Cooperman) @ 30 USD Esterline Corporation (Witmer) @ 72 USD

These stocks are selected with the idea to hold on to these companies for many, many years. Preferably decades, as long as the company remains a good company. And to sleep well let's agree we start looking at the results only after a 3 year holding period. And if that doesn't help, you might want to add some powerful SleepIQ® technology of the Sleep Number Corporation.

Cloning Exor?

Have you read the latest Exor Letter to Shareholders? Thomas Russo talks a lot about the advantages of investing in family owned businesses, and now we have John Elkann, CEO of EXOR, talking about the advantages of investing in family owned businesses. Here are his thoughts:

There are a number of characteristics of family-owned businesses which give them enduring strength:

- They tend to be prudent in how they are run, particularly in relation to financial matters, which means they remain robust when they face downturns, crises and unexpected events;
- They have the patience not to act when action is unnecessary and resist the pressure to do so. As Charlie Munger says, "Success means being very patient, but aggressive when it's time";
- They are aware of changes in the world and are able to adapt when those changes require it;
- They have strong cultures, clearly defined purposes and a sense of responsibility. Their cultures, rather than pay, help them to retain talent and to grow leaders internally.

And also very interesting to read is that Matteo Scolari is going to lead EXOR and PartnerRe's financial investments. Matteo already started investing in a concentrated portfolio of high conviction stocks based on deep fundamental research. His two largest positions are **RWE** and **Ocado**. The latter one, a UK-based technology company focused on food e-commerce, has been on my "to do list" for quite some time now and this might be the trigger to start my in depth due diligence on this company.

When the birds are chirping...

There are many great value investors out there that believe that stocks are expensive. So you have to decide if you want to buy stock right now at all. And if you still believe it's prudent to buy stocks, this idea on when to sell the stock might be of help.

There is this old Dutch saying that you should sell your stock when the birds are chirping. Well...to be honest,

that's just not so. Actually it's Seth Klarman who once said that the intelligent investor has to sell when the birds are chirping. Klarman would sell just before a stock reached fair value to make sure he could lock in the gains.

My approach to selling a stock in markets that look expensive is to sell 50% of the position when the stock price is up 50%. By doing so, you just take 75% of the initial investment of the table. So nobody, and that includes our good old friend Mr. Market, can take that profit away from you anymore.

That's it for this edition on Intelligent Cloning. In the summer, I will write my annual letter to investors and I will be back with another edition on Intelligent Cloning in the autumn of 2018.

*"Most everything I've done
I've copied from somebody else..."*

Sam Walton

Cordially,

Peter

Peter Coenen
Founder & CEO of The Value Firm®
15 April 2018

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