



Bestinver's Parames, Pitching Tips to Buffett, Sours on Spain

By Charles Penty

June 5 (Bloomberg) -- Francisco Parames, Spain's best-performing fund manager for the last five years, got a hand-written note from Warren Buffett a few months ago seeking advice on investing in Spain. He was thrilled to be asked, even though he isn't enthusiastic about the country's economy.

Parames, who oversees 6 billion euros (\$8 billion) at Madrid-based Bestinver Asset Management, predicts a real-estate crash in his homeland will spread, dragging down companies dependent on the Spanish economy. Lending by banks and other credit institutions has almost tripled since 2000.

"A lot of people are going to be unemployed," said Parames, 43. "Our most important bet is the one you can't see: that we don't bet on the Spanish economy, which is going to go through some very rough times because of the credit bubble."

Parames is telling people to increase their investments in global shares at the expense of Spanish stocks. He's also loosening the restrictions that require him to keep mostly Spanish stocks in his main Iberian fund, buying more Portuguese shares and pseudo-local companies such as Arcelor Mittal, the world's biggest steelmaker. It is based in Rotterdam and lists shares in Madrid.

The strategy is paying off for Parames. Bestinver Bolsa, his 1.16 billion-euro Iberian stock fund, had annual average returns of 27 percent over the last five years, making it the best performer of any Spanish market fund, according to data compiled by Bloomberg.

Parames's returns have been "spectacular," said Fernando Luque, an analyst at Morningstar Inc. in Madrid. "He's been faithful to this value-investing-type strategy."

Plane Crash

The Bolsa fund gained 17 percent in the five months to May 31, almost twice the 10 percent return for Madrid's IBEX 35 index. The fund has outperformed Spain's main index and the Dow Jones Stoxx 50 Index of European stocks every year since 1999.

Parames's biggest fund, the 1.5 billion-euro Bestifond mixed fund, had about 18 percent in Spanish stocks at the end of March, down from 19 percent in December and about 50 percent as recently as 2005. The rest was in European equities or fixed income. It has returned an average of 25 percent over the last five years, beating the Dow Jones Stoxx 50.

A month ago, Parames started advising clients to cut Spanish holdings to 30 percent of investments from 35 percent previously and 50 percent in 2003.

Parames, who survived a March 2006 plane crash in northeastern Spain that killed the pilot and Bestinver's administration director, hasn't bought stocks of Spain's real-estate developers for the past five years.

Property Stocks

Metrovacesa SA, Spain's biggest real-estate company, climbed 150 percent in 2006. Astroc Mediterraneo SA, a real-estate company based in Valencia, sold shares in an initial public offering in May last year at 6.40 euros, and they finished the year up sixfold.

This year, Astroc Mediterraneo is down almost two thirds, while Metrovacesa is about a third lower. The

Bloomberg Europe Real Estate Index, which has five Spanish companies among its 15 most heavily weighted stocks, is down 1.8 percent this year after gaining 40 percent in 2006.

Carlo Digrandi, a banking analyst at HSBC Holdings Plc in London, says concern about a Spanish real-estate collapse is exaggerated. Spain will remain "buoyant," with the economy growing 3.1 percent this year and 2.5 percent in 2008, outperforming Europe as a whole, he said in a May 18 report.

"I expect the landing will be relatively soft," Carlos March, the billionaire co-chairman of financial Corporacion Financiera Alba SA, said at a May 30 news conference in Madrid. "It's evident there is a real-estate bubble." Alba is the biggest shareholder in Actividades de Construccion & Servicios SA, Spain's biggest builder.

Nowhere Else

Parames prefers to be cautious. Spanish building starts reached 664,924 in 2006, according to the housing ministry, almost three times the amount in the U.K.

"Credit has increased by 25 percent a year for six years," Parames said. "That's never happened anywhere else in the world, even China."

Pablo Fernandez, a corporate-finance professor at IESE, the Barcelona-based business school where Parames got his master's in business administration in 1989, says he may be taking risks by investing in stocks with low market values.

Smaller stocks are prone to fall more than larger stocks in volatile markets, he said. Of 31 stocks listed as being held in the Bolsa fund at the end of 2006, at least 12 had market valuations below 1 billion euros.

Revisiting Telefonica

Still, smaller stocks have accounted for a lot of Parames's gains. Viscofan SA, a Pamplona, Spain-based maker of sausage casings with a market value of 834 million euros, made up 3.6 percent of the Bolsa fund at the end of last year. The shares are up 24 percent in 2007. Campofrio Alimentacion SA, a Madrid-based meat processor with a market value of 780 million euros, had a 2 percent weighting. Its stock is up 6.5 percent this year.

Parames sold shares this year in Altadis SA, a Madrid-based tobacco company that comprised 7.2 percent of the Iberian fund's assets last year to move funds into Portugal. His Portuguese holdings include Galp Energia SGPS SA, a Lisbon-based oil company, and EDP-Energias de Portugal SA, also based in the capital.

Parames started buying shares last year in Madrid-based Telefonica SA, Spain's biggest company, after avoiding it for eight years. Investors aren't pricing in the full potential of the telecom company's broadband services, he says. The shares are up 5.3 percent this year.

His stake in Arcelor Mittal dates from last year. The Spanish-traded shares of the steel company are up 48 percent this year. He also owns Madrid-based Mapfre SA, Spain's biggest insurer, whose shares are up 12 percent this year.

Beginning With Buffett

Parames honed his investment strategy by studying Buffett and Peter Lynch, the former manager of the Fidelity Magellan Fund. Parames read Lynch's book, "One Up on Wall Street," shortly after starting at Bestinver. He won permission from the Entrecanales family, which controls the construction and logistics company Acciona SA and owns Bestinver, to follow their investing styles.

"I got to Warren Buffett's ideas and all the value-investing at the very beginning," he said. "I wasn't biased by any other kind of investment."

While Parames's 34 Spanish holdings trade at an average of 11.5 times their 2007 estimated earnings, his 98 non-Spanish holdings tend to trade for less than 10 times earnings. His largest international holdings include Zug, Switzerland-based Metall Zug AG, Mannheim, Germany-based Fuchs Petrolub AG, Munich-based Escada AG, and Munich-based Bayerische Motoren Werke AG.

Haunted

Parames wrote Buffett three months ago to offer him a stock tip on a company outside Spain. Parames declined to disclose his reply, saying that Buffett may still act on it. In any event, Buffett, chairman of Berkshire Hathaway Inc., responded to the letter. Buffett confirmed through an assistant that he has corresponded with Parames.

“He actually answered me in a hand-written letter,” says Parames. “He thanked me for the idea and also asked me a favor, if I could find very good private companies in Spain big enough for him to buy. So that’s what I’m doing now.”

One of Parames’s private investments didn’t pan out. He put money into a friend’s antique shop in Madrid that later closed, and to this day, Parames swears the shop, called the “Monk’s Chest,” was haunted. He witnessed “paranormal” events, such as a glass spontaneously flying off a table, he said.

“Something that I didn’t understand really affected me,” said Parames, who is married with three children. “I couldn’t understand it, and I couldn’t analyze it at all.”

Parames can’t say when he’ll be able to recommend a Spanish company to Buffett, and he won’t expect much in return from his hero. “We won’t need a fee, only a dinner with him,” Parames said.

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