

## **“We aren’t finding much stock to invest in because the stock market is expensive”**

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**Stock market and Investment**

### **Vicente Varó**

MADRID. Last Thursday Bestinver held its annual investors’ conference just five days after Berkshire Hathaway’s, the company belonging to the North American investment guru Warren Buffett, one of the godfathers of the so-called *stock investment* (looking for undervalued companies in which to invest in the long-term) which has given such good results for Álvaro Guzman and Francisco García Paramés, managers of this investment group controlled by *Acciona* which has just launched an international mixed fund and which also launched its web page last Thursday.

**Q It is said that good years for small-caps are the best for Bestinver funds?**

**A** I disagree. Perhaps this is true for some years in particular. Between 1994 and 1997 there were quite good results and we invested more than 60% of the portfolio in Ibex 35 shares. Subsequently, the shares became expensive and we moved to other smaller companies. Now the opposite is happening. The latter are expensive and we are going towards larger companies: Mapfre, Acerinox and Altadis make up nearly 30% of our portfolio.

**Q But this year small companies are performing the best on the stock market.**

**A** At the moment it’s difficult for us to find cheap shares because we believe that the stock market is very expensive. This year we are not recording huge profits. And this is logical and can be expected from this funds: we want to do more or less the same in bullish cycles and better than the market during bearish cycles. For a person who believes that the Ibex will go to 16,000 points, Bestinver is not the best place to invest. However, for a person who believes that the Ibex will be between 13,000 and 7,000 points, then Bestinver is the fund for you.

**Q The key is to avoid falls in the market ...**

**A** This accounts for the differences in long-term profitability. This was seen in 2001 and 2002. Speaking in Formula 1 terms, these periods are similar to when we are leading by by 10 seconds and our rivals just can’t catch up with us. We’ll see when the stock market falls again. Now we still have a very high correlation with the market but when the tide goes back out, as Warren Buffett says, we shall see who was swimming in the nude.

**Q Your critics say that the share prices of some companies in which you enter are fiddled.**

**A** We have a trading rule by which the share price is never altered when we enter. The most die hard critics would say that as we always have money at this price or below and we don’t like to go lower, there will come a time when if I am wrong the price of the share will drop. Let us see what they say if our situation of a sudden fall in the stock market in two or three years occurs without our suffering from having invested in large company shares.

**Q Including Telefónica, the banks and Repsol? They appear among shares with a P/E (valuation ratio of a company's current share price compared to its per-share earnings) below the Ibex.**

**A** In critical shares such as banks, the P/E ratio depends on whether we are at a high or low point in the cycle. If you standardise the profit, you can go to a P/E of 30 from a P/E of 10. Then there won't be any cheap shares.

**Q And Telefónica?**

**A** We are looking at it. The share price is a third of what it was six years ago and it is earning double. It is neither cheap nor expensive. There are tremendous threats such as its Móviles subsidiary that represents a little less than half the group's business and has margins of 40% that are not sustainable in a free market economy. But it also has a growing broadband business. One we do think is cheap is Repsol.

**Q Despite the problems in Bolivia, what do you value the company at?**

**A** Apart from the reserves business, it has other activities such as refining, chemicals and gas. The latter three are very safe. We are analysis specialists and we believe that Repsol is worth more.

**Q What do you make of the increase in M&As in recent months?**

**A** There are various signs which indicate the end of a bullish cycle. The first is that margins are much higher than average margins from the previous 15 years in nearly all sectors, but mainly in banks and construction in Spain; second, where the rate of default on payments is zero percent in Spain; third, credit has suffered at all-time highs; fourth, when there is a bubble in a sector we will see IPOs as in the technological sector and now with real estate companies; and fifth, excess liquidity in the system and a boom in takeover bids although we would have to differentiate between different sectors.

**Q. But unlike what happened with the dotcom fever, Renta Corporación and Parquesol have had a disappointing beginning.**

**A** People have learnt from previous experiences. But it is a clear sign of a bullish cycle when all the real estate companies list on the stock exchange at the same time. However, there will be people who will tell us: you have been saying for some time that real estate companies are expensive and they have doubled. And I say: yes but I have not lost any money. And the most important thing is to sleep well.

**Q Warren Buffett says that he never invests in IPOs. Do you follow the same advice?**

**A** Philosophically it doesn't seem the most sensible thing to associate with someone who is selling shares. Although we cannot refuse to do this in principle. We look at each transaction and if the company is cheap we think about it. In Spain we haven't taken part in an IPO since the privatisations. We only thought about this with Inditex but didn't in the end. In Europe we did participate in one transaction, Debenhams in the UK.

**IPO fever:**

"The fact that real estate companies are all coming to the market at the same time is a clear sign of a bullish cycle"

**Changing size:**

"Small caps are expensive and therefore we are moving to larger companies"

**Little upside:**

"Bestinver is the best place to invest for those who believe that the Ibex will be between 13,000 and 7,000 points"

***BESTINVER FUND MANAGER  
ALVARO GUZMAN***