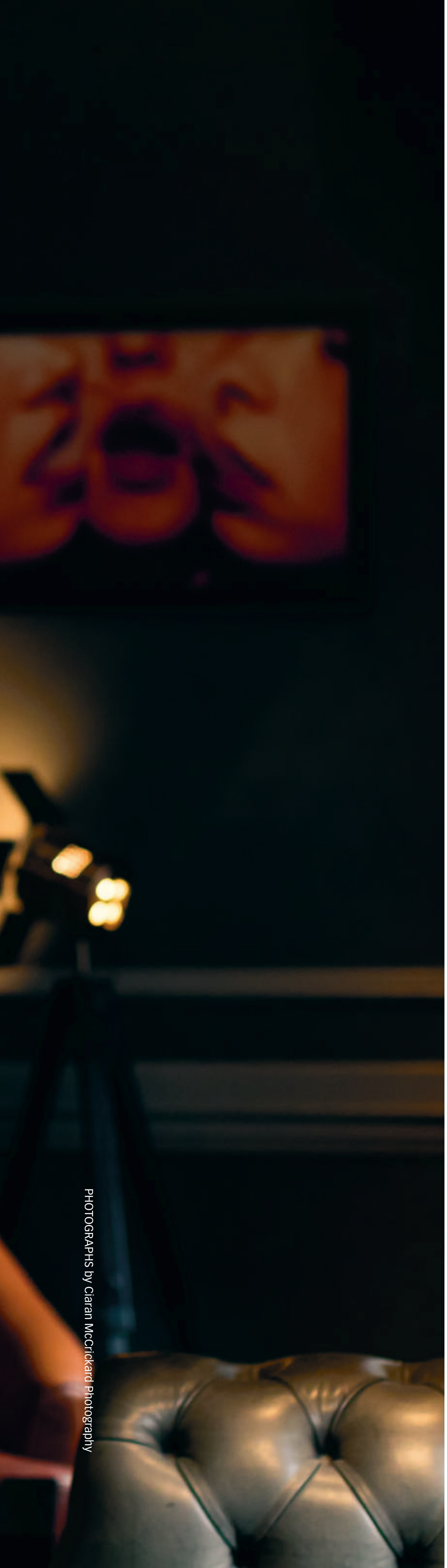
The Death of Value Investing

For Jim Osman, CEO of The Edge, seeing beyond traditional investment practices is now the key to making money for clients. The South London-born businessman tells SIOBHAN MCFADYEN why he who dares wins



PHOTOGRAPHS by Ciaran McCrickard Photography

IN AN INTERVIEW in 1963, legendary BBC documentarian Alan Whicker asked the richest man in the world, J Paul Getty, what the key to his success was. His answer? Having an independent view.

Mr Getty added that he was not influenced by what everybody else says. In fact, investing in the stock market, during the 1930s, was his greatest lesson.

Getty said if he'd listened to everybody else, he would have sold his stocks at $6 following the crash of 1929, which almost obliterated the New York Stock Exchange and led to the failure of 9,000 US banks, during the Great Depression.

Instead, the solitary billionaire, as he was portrayed, was sitting pretty with his investments at $300 a share, and his vast fortune, made up from his array of wise investments, netting him $34,000 a day.

Mr Getty admitted he was a big fan of personality types and went on to discuss the secret to success; adding it can only be two traits out of 37 that can make the difference between a great success and a moderate one.

Fast forward to 2019, and Jim Osman of The Edge Consulting Group, a New Jersey-based firm set up by the cogent Englishman ten years ago, has exactly the same view.

Osman's raison d'être is to make his client partners money though his subscription-based business that holds regular conferences attracting hedge fund stars to give their unique views.

But forget the rock'n'roll lifestyle rendered by *The Wolf of Wall Street*, because alcohol, art, high-rolling and yachting is just not this Londoner's style.

Rather his commitment and drive, including a 4am start every day to train for his Ironman Triathlon, and to hit the ground running his company is his modus operandi.

In fact, when **HEDGE** caught up with him in the private members' club Home House, in Portman Square, the staunch teetotaler was content with a cup of tea and a caramel shortcake – a treat he admitted was a vice, as well as some old-fashioned British fish and chips which he insists the Americans haven't mastered yet.

Osman is one of those straight arrows you rarely meet, with an accent right out of Bermondsey. Growing up with a tough yet "incredible" Glaswegian mother, Patricia, who fought hard to literally put bread on the table, he says he owes everything to her and he's unashamed to admit it.

"I grew up in South London, in the 1980s; it was just me and my Mum. She was an amazing inspiration. When we didn't have any money, she went out and worked to put food on the table.

"I had the door key to get in when I was seven years old. She used to leave a note on how to cook my dinner. I learnt a lot from her. Mum worked so hard and she would never accept anything less. If her skills could be in a book, it would be a bestseller.

"Her intuition was great and that's where I got it from. She was the greatest."

Osman has a very pragmatic approach to business, but it's clear from the outset that his approach is unique and he's an open book. "I'm a simple guy and quite old school. I can't live without my hand-written diary and my cell phone.

"I always have my goals in mind with timeframes, I am constantly on the go collecting intelligence to keep the ideas flowing. Together with my team, we provide around 60 ideas per year which are designed to be actionable and give information that makes us stand out.

"I love to see our client partners win. My sole focus is providing a return on their investment. I am determined to deliver that. Nothing makes me happier when they win."

Osman started out his career in the back office but his determination to "win" landed him in his own boardroom, as CEO of The Edge regularly talking to some of the biggest hedgies in the business.

Following a career first in investment banking at the multi-national Société Générale, and later to hedge funds, he created the company to provide actionable investments in public markets, not normally seen by the mainstream. ▸

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▸ He made a bigger leap at the height of the economic downturn to pursue the American dream and to work with some of the biggest players in the industry. His mantra? Providing fundamental numbers and target pricing to a captive audience determined to see value from the lucrative, yet niche, area of special situations and spinoffs.

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“The market has a remarkable way of keeping stocks high or low to tempt you into a trap”, adds Osman, savouring his tea, the only way a Brit living in the USA can know how. “The market was set up to fool you. Valuation alone is obsolete as a sole measure of evaluating stocks, there needs to be an identifiable catalyst to move price to value.

“What we do at The Edge is evaluate catalysts and predictions, using our experience to quantify if it could happen. Sometimes that catalyst is obvious like a spinoff or other times it needs evaluation in the case of something like change of management or a restructuring plan.

“Either way, we help the end investor spot something which the market hasn’t and that could be particularly valuable.”

Osman has seen a lot in the 20 years he’s worked in financial services; and while he’s a big believer in trends and cycles, he has fully bought into the idea that “value investing is dead”. While that very statement would have had left Benjamin Graham scratching his head, in today’s market Osman may have a point. Though not one that’s likely to get Graham’s former student Warren Buffett or Seth Klarman to give up the ghost entirely.

Buffett once famously avoided tech stocks because he said that he didn’t understand them. But Berkshire Hathaway eventually got with the program in 2017 and took a stake in Apple at around $129 and over time increased its appetite to around 21% of its total portfolio.

Since late last year, Berkshire has lost a sizeable chunk of its investment in the California-based tech firm, but Buffet is holding tight as he’s in for the long haul.

Osman added: “Value investing has long

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been a solid way of analysis. I believe it just doesn't work on its own anymore.

"Nowadays, technology and machines do so much work and they do it faster. The numbers game, based on cheap valuation, is a thing of the past. What we have been trying to do at The Edge is recognise the value beyond the numbers. Nowadays that must come in the form of a catalyst. The point being, cheap or expensive names without a catalyst are value traps. Seeing beyond the numbers and down the line of the catalyst is where hidden value lies, and it takes a lot of work to figure it out."

For example, on 26 December 2018, markets surged after the worst Christmas Eve trading session in Wall Street history. Despite there being no obvious reason to spark the sharp turn of events, the S&P 500 was up 5%, the Dow Jones Industrial Average was up the same amount and the Nasdaq Composite gained 5.2%.

Osman uses this to back up his claim that value investing is dead. "Computers were following the algorithms and were buying things up, so you had stocks like Apple overvalued, as far back as October, and Christmas Eve happened because they all got out at once. The ETFs got out because computers recognise when things are overvalued and consequently that old-style market investing of real analysts, recognising companies, is no longer.

"If you look from 26 December and to the start of 2019, things bounced about 10% and that's crazy because the computers are getting back in again; that's beating traditional analysts. But what was different this time was more like 2008. Although we had different dynamics, there was mass selling and things rushed down very quickly then came back. So there's no real human logic to it and, in my opinion, you can tell.

"Last year, the fact that 93% of the strategies were down across the board means that no one benefitted.

"Historically, you would have short funds say they made money but in 2018 no one really made money. It's a big problem and one that needs a rethink."

Osman is very much inspired by ideas. He is unapologetic about his admiration for Elon Musk despite the Tesla boss's bizarre antics that ended up with a SEC probe and the removal of his chairmanship, as well as the 2018 fourth-quarter earnings falling short of analysts' expectations.

"I'm a big contrarian," adds Osman. "Not not just in investing, but in everything else", in a nod to Getty who would never let his emotion drive him. "I tend not to go with the mainstream. I sort of gravitated to Musk as he is different and a man of our times. How many other people talk about creating a hyperloop? He has a different vision to everyone else, but it comes with drive and ambition. He really cares.

"You see this trait in all the great entrepreneurs from the past. They have a reason for why they are doing things. He pushes the boundaries of the world. This is extremely unique, and people rarely lose long term. I've been a Tesla holder for a while. It's strictly not an investment by fundamentals. Tesla has got profit, its revenue was higher than predicted, if you look at Amazon in 2000, it's the same and even Netflix now. According to analysts, Elon is not going to win, but he's proving them wrong; his vision is second to none and you can tell from that he's all in."

While Osman is not driven by any sort of emotion, in terms of how he looks at stocks and business in general, like Mr Getty, he is a huge fan of personality type theory and to illustrate asked me to take the test.

I discovered I was an ENFP, which belongs to the diplomat type group unveiling my extraverted, intuitive, feeling and prospecting personality.

Osman went on: "You've probably met people that you like and dislike because maybe something just doesn't click. It's probably their personality type. Their values and ideals just don't quite fit with yours. The world is made up of people with diverse personalities, 16 types to be precise. This means there are lots of different ▸

JIM'S PICKS

FERRARI (RACE)

"Mention Fiat and you may think of inferior cars. What most people don't know is they have many named brands under their umbrella and the stock is an investment in itself.

Alfa Romeo, Chrysler, Dodge, Jeep, RAM and Maserati are all owned by Fiat. One of the jewels that was spun off on 3 January 2016 was Ferrari (RACE). Just having the spinoff alone would have returned more than 145%. With the recent pullback in the market, we look for these types of spinoffs to purchase.

Ferrari is a luxury brand with a number of electric vehicles in its pipeline, some solid directors buying their own shares, and a brand that continues to gain.

Brand Finance Global 500 2019 report, launched at the World Economic Forum in Davos, showed that the Italian firm – which also sells teddy bears, and occasionally supercars – overtook McDonald's, Coca-Cola, Lego, and Disney, with its Brand Strength Index (BSI) score increasing by three points from 91.5 to 94.8 out of 100 in the last 12 months. It is one of just 14 brands in the report to be given the top AAA+ rating. It's a name that will rise."

AT&T

AT&T Inc, the American multinational conglomerate, is on his list – and they're heading for a break-up of big proportions, if Osman is on the money.

The firm could go the way of General Electric, if they're not careful. Osman says AT&T is "overburdened with huge debt" owing to the acquisition of Time Warner Inc. in June 2018. This acquisition stressed the balance sheet of AT&T further, with an increase in the total debt levels from $163bn prior to the acquisition to $183bn.

This resulted in a rating downgrade by Moody's, and could result in a higher borrowing cost for the company over the years. Currently, AT&T has a leverage which is higher than most of its large peers, Osman says: "I believe that a potential divestment of businesses either through a spinoff or a sale would help the company to deleverage. They could in essence split into three but if nothing changes it could go the way of Sears, GE or Deutsche Bank."

See more of Osman's stock picks overleaf.

▸ types of thinking, which in the case of investing makes a market.

"People think they may have a good investment strategy, but their personality type can hamper them from executing it effectively. Understanding your personality type can help with spotting the right opportunity, because knowing you have strengths and weaknesses is key. It's helped me when making investment decisions and gives me insight into how I really perceive the world. I'd recommend it to anyone."

Being in tune with his personality is just one thing that helps Osman get up in the morning. But giving back is also something he does with pride. A year ago, following the death of his mother from Alzheimer's disease, following the full term of ten years, Osman was inspired to "give something back".

"It was horrible, but the idea of the conferences was inspired by her. We hold them quarterly at The Penn Club in NYC. Attendees make a donation to charity and all the proceeds go to the Alzheimer's Association." As the conferences gather pace and he continues to educate investors with a few of his hedge fund friends, he's determined to pick up pace.

"I come in everyday thinking my ass is on the line. It stemmed from the early days when it was just me and my mum. I saw her work to make sure I had the food to eat and clothes on my back. To win at investing or anything else for that matter, you need to work hard on outcomes. Doing your homework and continually learning as well as making continued small educated bets will result in success in the long run.

"Placing large bets and 'hoping' for the outcome will result in failure. Staying positive means making small wins and cutting your losses when you are wrong." **H**

JIM'S PICKS (CONT'D)

AUSTRALIS CAPITAL (AUSA)

"Australis is a little known small cap name, but one of the ones I like in the cannabis space that everyone isn't all over. It was spun off from Aurora Cannabis – recently the subject of speculation by Coca-Cola.

Although Aurora won't be the biggest producer of the drug, it will invest in lots of companies that do.

Now, it is not only dollar cheap, but the kicker from investing in other names will come from its strong ties with Aurora, known as the Amazon of the Cannabis world. I like it and personally hold it. I'm expecting great things after speaking with the management."

L BRANDS (LB)

"L Brands owns Victoria's Secret and another US brand Bath & Body Works. An activist we recently had at one of our conferences presented the case after taking a position. Barington Capital Group led by James A. Mitarotonda is pushing for a split of the two brands. L Brands has underperformed in total shareholder return against its peers over the last one, three, and five-year periods. Barington's Capital holds the view that the underperforming VS brand and the strong performing BBW brand can essentially realise more value as standalone entities. If Barington can get what they want, there is some real value creation on the cards, but don't expect it to happen overnight.

HONEYWELL

"Honeywell is one of the big conglomerates that we were going after a few years ago. After the Activist Third Point, led by Dan Loeb, entered the stock and didn't get the breakup they wanted, they dumped their holding.

Consequently, it was enough for the company to go ahead and break up another way instead. It ended up splitting three ways. The other names are a different investment story – Resideo Technologies (REZI) is a great name to own. But with Honeywell (HON), the spinoff has unleashed a debt-free high cashflow company that will concentrate on the warehouse automation systems (robots) where it caters to clients like Amazon. HON's market leadership in this segment will unlock the next growth phase at the company in coming years."

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