OP

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Quarterly Insights by Richard Oldfield

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“Nothing will come of nothing,” King Lear tells Cordelia. Lear would have been puzzled by cryptocurrencies. He would have been especially puzzled that (according to the *Financial Times*) 79 companies are now holding cryptocurrencies in place of cash. This is called a bitcoin treasury reserve strategy. These companies include mining companies who have explained that cryptocurrencies also involve mining. In most cases when they announced that this would be their policy their share prices rose. The share price of the Japanese company Metaplanet, which used to develop hotels, soared by several hundred percent when it announced that it would raise $5.4 billion simply to add to its stockpile of bitcoin.

Lear, a real asset enthusiast, would also have found it difficult to understand that an installation featuring only a banana was sold by Sotheby’s for $6.2 million to a man who then ate the banana. We too are real asset people, hoping to come to a less sticky end than poor Lear. In the first half of this year, for the first time in quite a while, there has been some indication of redemption for value investors who focus on real assets, cash flow, and low valuations. That has made it an exciting half-year for all the OP strategies, all the more exciting for the sharp tariff-related dip in markets in early April which was a moment of opportunity for people with cash to invest – as presaged by that wonderful inverse indicator of the mood in markets, the Investors Intelligence Survey of Advisory Sentiment.

Nothing in markets ever moves in an entirely straight line, as King Lear might also have observed, and the US market has had a particularly strong rise since tariff Liberation Day; nonetheless, it looks as if the notion of US exceptionalism has been undermined by the volatility of US policy-making. Europe has woken up. Christine Lagarde and Ursula von der Leyen wrote an op-ed in the *Financial Times* early in the year headed “Europe has got the message on change”. Europe needs to do more than to write FT articles, but Germany in particular has had a notable policy volte-face in deciding, from a strong fiscal position, to embark on large-scale capital investment, stimulating growth. The US has a much weaker fiscal position, which has rendered both the currency and Treasury bond markets more fragile. Since 2011, the ratio of government debt to GDP has worsened by 25% in the US while remaining more or less stable in Europe. The spotlight has been moving to markets outside the US, and countries in the doldrums for many years – like Korea with an average price-earnings ratio of nine – are now getting more attention. Even the UK, with all its problems, has had more attention, helped by low valuation and a high savings rate – 12% in the UK, compared with less than 4% in the US.

One of the main precepts of Ben Graham, the father of value investing, was to invest with “a maximum multiple of 10 even when interest rates are under 5%”. We do not keep to this precept in every single investment we make, but it is a mark of the opportunity for investors now that all of our portfolios have average price-earnings ratios of about 10. Value investors owe a lot to Ben Graham. We are fortunate that his two plays, *Baby Pompadour* and *True to the Marines*, were flops, and that he took to writing *Security Analysis* instead. Another of Graham’s dicta was that “the main point is to have the right general principles and the character to stick to them.” We have principles, we hope and think they are right, and we stick to them.