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LONG LIVE VALUE INVESTING

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Value investing is an investment model based on the ideas of Benjamin Graham and David Dodd. According to the model, businesses are selected based on the quality of the business itself. "Elements such as management quality and the presence of any competitive advantage over other businesses in the industry are considered, and stocks are only purchased when the value is high," explains **Luca Riboldi**, director of investments at Banor SIM. However, he warns, while at the methodological level not much has changed since 1928, today the relevant sectors are different and, most importantly, there is a new variable: sustainability.

How has value investing changed since 1928?

At the methodological level not much has changed since 1928, but the businesses involved now are very different to those we saw then. Back then, capital intensive businesses, such as those in the steel, car manufacturing and cement industries, had significant weight in financial indexes. Now, businesses have fewer physical assets and more virtual ones, and intangible worth is more important than tangible value. Simply consider Google, Facebook or Amazon. Today, light sectors relating to the Internet, software and e-commerce are much more important.

What are the advantages of value investing and why can it still be a successful investment technique?

The advantage of this approach is rationality: you look at the numbers, do the math, and the valuations are based on fact, not opinion. Share price is extremely important. The boom in Nifty Fifty shares - the fifty most popular stocks in the US that in the late '60s and early '70s had a much higher price to earnings ratio than the rest of the market because they were all high-quality but excessively expensive companies - is well documented. Over the next 10 years the shares would lose

THE TECHNIQUE CREATED IN 1928 IS STILL USEFUL AND BENEFICIAL.

BUT A MORE COMPLETE AND SUSTAINABLE APPROACH IS NEEDED TODAY.

60% of their value. The take-home lesson is that quality does not always equate to performance; there should also be a valuation that is discounted from the one held to be correct. If we consider the top fifty companies on the US stock market or growth shares (shares whose profits grow constantly over time), there seems to be some gross overvaluations. Compared to the market, the profit to earnings ratio of these stocks is valued at 60%, where historically this figure has hovered around 12%. Today, valuations should be regarded with caution. If the market were to enter a volatile, uncertain and bearish phase, having a portfolio of shares in undervalued companies with a certain margin of safety (shares worth at least 20-30% more than the purchase price) can considerably reduce the risk of losses.

What characterises Banor's value investing?

We aim to adopt the most comprehensive approach possible; our team of sector analysts is supported by a team of ESG analysts who assign a rating to the monitored companies. Compared to the parameters set by Graham and Dodd, we put greater emphasis on the discounting of the cash flows generated by businesses and make our selections based on criteria that also consider ESG factors. In our business valuations, when we discount the cash flows of the last ten years the discounting rate is reduced or increased depending on whether the company is more or less virtuous in terms of sustainability.



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