



Recently I was most fortunate to spend some time with a doctor of theology in Cambridge, England. While strolling through the corridors and gardens of the breathtaking colleges, it was enormously helpful to have the opportunity to discuss and reflect on the processes and systematic thinking that goes into the investment process. Even better, was the opportunity to bounce ideas off someone schooled in theology rather than a fellow investor. I do believe that there is immense value in a multi-disciplinary approach to investment as advocated by people like Charlie Munger.

For example, I was asked how does global warming and America's twin deficit, figure in my investment process? Later, we spent some time with another doctor of theology discussing the process of writing and structuring arguments to deliver ideas in an effective manner. Now, all of this served to highlight how difficult and important it is to distill ideas, with the required integrity, to make a rational investment decision. Global warming is a difficult one and I am hard pressed to get comfortable to distill it so that I can rationally draw a conclusion about the quantitative and qualitative effect it can have on almost all of the companies in my circle of competence. Berkshire Hathaway and Fairfax Financial Holdings are the only two companies directly affected by this, and I know that at least Berkshire Hathaway has built it into its pricing for reinsurance. Other than that I do not have a clue how to make any rational inference.

The twin deficits are a bit easier and you might recall that I covered this topic three years ago. The results were investment in gold and diversification away from the dollar. With regards to the dollar, it is important to note that with diversification I mean diversification of the company's earning stream. I always use Natuzzi as an example: It is an Italian company listed only in the US. Is it a dollar investment? The answer lies in its earning stream of which the split in turnover is usually a rough proxy. In the case of Natuzzi, 40% of its sales are in the US and, therefore, I believe it would be proper to count 40% of my holding as a USD investment. Some will correctly argue that it is not as simple as that, but I hold that it is effective despite the simple approach. As Einstein said, "Things should be made as simple as possible, but not any simpler".

What the above illustrates, is that there are different degrees to which you can distill information in order to come to a rational investment decision. Partly, this is because there are things that are knowable, and then there are things that are unknowable. Partly, because there are things you can control and things you cannot. What is critical is that you make this distinction, and are acutely aware of your personal limitations with regards to the process, in order to make rational decisions. The Buddha said, "The secret of health for both mind and body [and your wealth I will add] is not to mourn for the past, worry about the future, or anticipate troubles but to live in the present moment wisely and earnestly."

Further, around the same time, I had the privilege to sit down with a legend in the UK investment scene in London. I am not disclosing his name out of respect for the individual. He started his first fund in 1969 and compounded this fund by over 15%, since then. I was only borne in 1970! Anyway, he achieved this track record without leverage, and by simply applying common sense for more than 35 years. One particularly funny story involves one of his investors, a very colorful UK corporate raider, that phoned him with regards to a US Company he had been looking to take over; this was more than a decade ago and is quite a famous case. The raider said something along the lines of, "Jimmy (not his real name of course)...you know...you know I have been looking at that company we have been talking about. And you know I have been looking at that poison pill again...and you know what I think...you know I think that thing is not a poison pill...I think it is a vitamin pill!" I was not surprised to learn that this US Company was coughing up substantial money for green mail in no time at all.

With that I will leave you, and until next time I trust everything you are up to will be both ethical and profitable.

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