



# Investment Insight

Friday, 20 March 2015

**Long term investing:** A recent obituary in the *New York Times* announced the passing, in his 110<sup>th</sup> year, of renowned contrarian investor Irving Kahn. Remarkably, right up to the age of 108 Kahn was still working three days a week, plying a trade he started honing before the 1929 stock market crash (through which he profited). By any standards Kahn's career, and life, was remarkable. In this week's **Inside Track** we look back at a few of the many highlights.

**Series Seven.** When Bobby Ewing dramatically reappeared in *Series eight* of "Dallas", *series seven* was cast in its entirety as a dream. There was no trauma, no grieving, no drama: Bobby hadn't died after all. Everything was back to normal, as if nothing had ever happened.

And so it is, with increasing frequency, in financial markets. With the increasing dominance of "machines" (complex trading algorithms executed by the fastest computing power hedge fund money can buy), markets are experiencing unexplained spikes in volatility that end almost as quickly as they began. It didn't receive that much coverage, but there was one such spike this week. Curiously, or worryingly, it occurred in the most liquid trade in the most liquid financial market that exists. In **Pic of the Week** we take a look.

## The Inside Track

Irving Kahn was a successful proponent of long-term value investing, right up to his death in February at the age of 109. The following are some highlights from his fascinating career.

### Behavioural analysis

Long before academics defined "behavioural analysis" in an investing context, Irving Kahn used it to make his first notable mark on the investment landscape. In June 1929, with markets riding high Kahn short-sold \$300 worth of Magma Copper shares, betting that the price would fall. Shortly afterwards the market crashed and his investment tripled in value. So what made him bet against the herd? In his own words: "I wasn't smart, but even a dumb young kid could see these guys were gambling. They were all borrowing money and having a good time and being right for a few months, and after that, you know what happened."

### Investment research

Around the same time, Kahn befriended the legendary investor Ben Graham. Graham introduced him to the notion of studying companies' financial statements to find companies that were "a dollar selling for 50 cents" (a concept which Graham called the "margin of safety"). Thereafter Kahn studiously followed Graham's teachings and ended up assisting him and co-author David Dodd on their seminal text "Security Analysis". He developed his own reputation for detailed research and was known to pore over technical magazines and scientific journals in search of investment ideas.

### Contrarian

Like Ben Graham and Warren Buffett, Kahn saw the value in being a contrarian investor. Harking back to his Magma Copper success, he liked to go against the tide and buy shares that were out of favour with the masses (or, indeed, short-sell overvalued shares that were in great demand). That meant buying shares that, again in his own words, "are out of favour and in the dumps for some reason."

### Long term

Kahn was known for his long-term approach, not unlike Warren Buffett. He preferred to be "slow and steady". In an interview in 2014 he explained: "I study companies and think about what they might return over, say, four or five years. If a stock goes down, I have time to weather the storm, maybe buy more at the lower price. If my arguments for the investment haven't changed, then I should like the stock even more when it goes down."

## Pic of the Week

During the space of a few hours on Wednesday night the most liquid pair (USD/EUR) in the world's most liquid asset class (currency) moved by over 4%. The largely unexplained spike came without warning and vanished just as quickly, as if it had never happened. Was this another "flash crash" or something more sinister? There's no clear answer to that question, but it serves as a reminder of just how complex financial markets have become in the era of computer-driven algorithmic trading.

### USD/EUR



## Week ahead: Key events

- 20/03: Ireland February inflation
- 23/03: US existing home sales
- 23/03: EU consumer confidence
- 24/03: European Purchasing Managers Indices
- 25/03: Ireland February property prices
- 26/03: France GDP release
- 26/03: UK February retail sales

## Market View

	Last 7 days	YTD	5Y Ann.
Global equities	+1.4%	+5.3%	+8.6%
US equities	+1.1%	+1.5%	+12.5%
European equities	+1.5%	+16.9%	+8.6%
Emerging market equities	+2.7%	+0.9%	-0.7%
Irish equities	-1.6%	+16.3%	+14.2%
Commodities	+0.5%	-6.0%	-5.8%
Hedge funds	+0.6%	+2.1%	+1.2%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.8%	-0.5%	+4.1%
Germany	+0.2%	+0.1%	+1.4%
USA	+2.0%	-0.1%	+2.4%
China	+3.5%	+1.4%	+7.3%
Currencies	Current	YTD Δ	
EUR:USD	1.07	-11.7%	
EUR:GBP	0.72	-6.8%	
EUR:CNY	6.61	-12.4%	
GBP:USD	1.48	-5.3%	
Bitcoin	263.11	-17.1%	
Commodities	Current	YTD Δ	
Gold	1,171.60	-1.1%	
Copper	5,879.25	-7.7%	
Oil	54.38	-9.7%	
Wheat	515.75	-13.2%	
Central Bank rates	Current		
Eurozone	0.05%		
USA	0.25%		
UK	0.50%		

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