

INDEX

- AB InBev, 37–8
- Acciona, 148–50, 150n2
- agency business models, 63, 70
- Ahold, management, 76–9
- AIG, 54, 103, 104
- airline industry, 4, 27, 41, 50, 50–1n17
- Amazon.com, 54, 61, 62n7, 92, 95, 160
- Analog Devices, 66–8, 68n9, 74
- analysts
 - advantage of generalist, 19, 77
 - captured by management, 77
 - information overload, 77–8
 - taking inside view, 78
- Anglo Irish Bank
 - boastfulness, 113
 - description of business, 109–10, 118–20
 - exposure to rising rates, 119
 - insider sales, 111–12, 115, 120
 - Marathon meetings with, 109–17
 - promotional management, 110
 - rapid loan growth, 114
- Anheuser–Busch, 37, 102
- Apollo, 127, 146
- Applegarth, Adam, 139
- ArcelorMittal, 146, 157
- Ambev, 37, 101
- Assa Abloy, 54, 55, 55n2, 64n8, 70, 87
- asset growth
 - anomaly, 9, 10
 - driver of mean reversion, 10
 - inversely related to investment returns, 8, 10
 - as a new investment factor, 9
- asset price bubbles
 - bursting bubble indicators, 146–8
 - Chinese equities, 167, 181–3
 - commodities, 6, 127
 - construction bubble, Spain, 148–50
 - Federal Reserve, responsible for, 27
 - involvement of retail investors, 129, 147
 - IPOs as bubble indicator, 128
 - leads to greater investment, 10, 19
 - private equity bubble, 122–7
 - technology bubble, 4, 97
- Atlas Copco, 85–6
- auto industry, 26, 156, 172
- Axelrod, Robert, 25, 27
- Baidu, Internet search engine, 69–70
- Bank of America, 163, 180
- Bank of Ireland, 113, 151–4
- banking
 - cleansing process, 154–6
 - Germany, 135–8
 - seven deadly sins, 141–4
- banking crisis
 - asset-liability mismatches, 141–2
 - exposure to asset-backed paper, 135–8
 - off-balance sheet activities, 143
 - reaching for growth, 142
 - short-term funding, 139–40
- Banuelos, Enrique, 133, 135, 135n12
- base-rate neglect, 12
- beer, see brewing industry
- Beijing Baofeng Technology, 182, 183n5
- Berkshire Hathaway, 58, 103
- Bezos, Jeff, 92, 95
- Blackstone, 124n8, 127–8, 146, 194
- BOSI (Bank of Scotland Ireland), 163
- brewing industry, capital cycle of, 37–40
- bubble indicators, 146
- Buffett, Warren, 19, 52, 54, 76, 81, 82, 103
- Capital Account (Marathon), 4, 8
- capital allocation, management, 19–20, 46, 56, 76, 78, 80, 82–4, 99, 126, 167, 174
- capital cycle, 1, 4
 - analysis
 - avoiding investment bankers, 18, Chapter 7
 - passim
 - focus on supply, not demand, 17
 - generalists make better analysts, 19
 - importance of capital allocation skills, 19
 - industry competitive conditions, 18
 - long-term approach, 19
 - behavioural finance
 - competition neglect, 11
 - extrapolation, 13
 - inside view, 12–13
 - myopia, 15
 - overconfidence, 11, 14

- capital cycle – *continued*
- favourable conditions
 - competitive moats, 60–1
 - cooperative behaviour, 26
 - cutting capital expenditure, 48
 - industry consolidation, 37–9
 - pricing discipline, 26
 - pricing power, 67, 70–1
 - product differentiation, 66–7
 - fundamentals of, 17
 - industry capital cycles
 - airline industry, 50, 50n12
 - banking, 107, 151–4, 155, 161
 - brewing industry, 37–40
 - cod fishing industry, 28–31
 - commodity ‘supercycle’, 6–9, 31–6
 - homebuilders, 5–6, 81, 158
 - oil industry, 40–3
 - semiconductor industry, 65–8
 - shipping industry, 3, 33
 - wind turbine industry, 47
 - stylized capital cycle, 2–3
 - tenets of analysis, 20–1
 - unfavourable conditions
 - airline industry, 27
 - bankruptcy protection, 27
 - capital raising and M&A, 35, 42n8
 - career risk, 16
 - failures of capital cycle approach, 20, 159–60n5
 - impact of low interest rates, 27
 - political involvement, 26, 30, 159
 - poor supply side, 50
 - prisoner’s dilemma, 16, 25–7
 - skewed incentives, 15
 - substitution, 41
 - technological change, 30, 41
 - value investors ignore, 6
 - see also creative destruction
- capital expenditure
- capex to depreciation ratio, 43, 47
 - capex to sales ratio, 66
 - creates value traps, 54
 - mining companies, 32, 34–5
 - oil companies, 41, 43–5
 - pro-cyclicality of capital spending, 50
 - strengthening competitive position, 61
- career risk, 16
- Carlsberg, 37–8, 40n6
- Carswell, Simon, 151
- CDOs (collateralized debt obligations), 131, 139, 142
- Chaoda, 172, 173n2
- Charlemagne Capital, 128, 146
- China – Chapter 6 *passim*
- Baidu, 69–70
 - bubble created by government, 181–3
 - Chinese banks, 179–81
 - Chinese IPOs, 169–73, 176–9
 - commodity supercycle, 6–8
 - corporate over-investment, 175
 - demand for commodities, 32–3, 36
 - earnings manipulation, 168–70
 - high level of fixed asset investment, 36, 167
 - poor investment returns, 51, 167–8
 - state-owned enterprises, 174
- China Telecom, 169, 170n1
- Cinda Asset Management, prospectus of, 176–9
- Citigroup, 54, 127
- CLOs (collateralized loan obligations), 131, 165
- cobweb effect, 3
- cod fishing industry, 28–31
- cognitive dissonance, 11, 12, 81
- Colgate Palmolive, 56–7, 70
- Comba Telecom, 173, 173n2
- commodity bubbles, 127
- commodity prices, 31–3, 34
- commodity supercycle, 6–8
- competition neglect, 11–12
- corporate culture
 - danger of poor culture, 103–4
 - as an intangible asset, 104
 - link between culture and equity returns, 102
- corporate governance, 94, 98, 117, 188
- creative destruction
 - impeded by monetary policy, 145, 158, 162
 - politicians obstruct, 145, 157
 - Schumpeter’s theory of, 1, 145
- Credit Suisse, 35, 45, 46, 48, 92, 161, 169
- Danske Bank, 84, 152
- Denmark, 5, 74, 83, 85, 87
- Deutsche Telekom, 127, 146
- Dodd, David, 10
- dotcom bust, 5, 6, 19, 52, 61
- Drucker, Peter, 89
- Drumm, David, 111n1, 113
- Dunlap, Al, 97, 104
- earnings per share (EPS), 15, 43, 49, 56, 69, 79, 89, 100, 118–19, 164n8, 187
- Goodhart’s Law, 79
 - poor management metric, 79, 89
- EBITDA (earnings before interest, tax, depreciation and amortization), 36, 39, 123–5, 189
- economists, flawed paradigm, 108
- EETC (Enhanced Equipment Trust Certificates), 121
- Electrolux, 86
- Ellis, Charles, 28

- energy companies, capital spending, 43–5
- energy markets, oil prices, 40–3
- equity investment
- agency models, 58–60
 - corporate culture, 102
 - dilution from new share issuance, 49
 - evidence of speculation, 126–30
 - niche businesses, 73–5
 - quality companies, 62–4
 - US earnings growth lags GDP, 48–9
- European banking sector, cleansing process, 154–6
- European banks, failure of capital cycle, 155
- evolution of cooperation, 25–7
- Experian, 64, 65n8
- fade rate
- Holt's market-implied fade rate, 45–6
 - market misjudges mean reversion, 46
- Fama, Eugene, 9
- family control
- problems with family control, 93–5
 - solution to principal-agent problem, 91
 - succession planning, 94
- Fannie Mae, 121
- Fastenal, 103
- FCC (Fomento de Construcciones y Contratas), 148–9
- Ferrovial, 129, 147–50, 151n2
- Fiat, 46, 47n11, 81, 98
- FitzPatrick, Sean, 108, 110–14, 117, 119–20
- Fortescue Metals Group, 7, 8n15
- Freddie Mac, 121, 143
- French, Ken, 9
- Fresenius Medical Care (FMC), 64, 65n8
- fund managers, labelling, 53–5
- game theory, 16
- Gates, Bill, 103
- Geberit, 58–60, 60n6, 64n8, 70, 100
- German banks, 135–8
- afflicted by moral hazard, 137
 - excessive fragmentation, 136
 - serial incompetence, 136
- global brewing industry, 37–40
- global financial crisis, 5, 10, 83–4, 108, 117n3, 122n4, 141, 145, 149, 167
- Goldman Sachs, 81, 122n4, 127, 181
- Goodhart's Law, 79
- Goodwin, Fred, 83
- Graham, Benjamin, 10, 18, 53, 54, 147
- Greenberg, Hank, 103
- GreenPoint Financial, 121, 122n6
- Greenwood, Robin, 12
- Handelsbanken, 22, 104, 131, 141–4
- Hanson, Samuel, 12
- HBOS, 132, 152
- hearing aid market, 59–60
- Heineken, 37–9
- Heskett, James, 102
- Hicks Muse, 124
- homebuilding industry, capital cycle, 5–6, 81, 158
- Hong Kong Stock Exchange, 169, 170, 171, 183
- Hornby, Andy, 132, 132n9
- ICBC (Industrial and Commercial Bank of China), 180
- ICG (Irish Continental Group), 153–4
- IKB Deutsche Industriebank, 135–8
- Ikea, 85, 87
- inside view, 12–13
- insider ownership, 88–91
- interest rates
- creative destruction, 156–8
 - ultra-low, 174–7
- Internet companies, profitability, 61–2
- Intertek, 60, 60n6, 73, 74
- investment, China's share of GDP, 175
- investment banker – Chapter 7 *passim*
- capital cycle analysis, 18–19
 - skewed incentives, 15
- investment industry
- focus on earnings and not cash flow, 72
 - focus on operating margins, 61
 - poor forecasting ability, 69
 - preference for large cap stocks, 53
 - preference for simple valuation measures, 69
 - short-term horizon, 55–7, 72
 - value and growth as false categories, 53–4
- IPOs (initial public offerings), 3, 15, 125, 127, 182
- capital cycle, 34–5
 - Chinese manipulation of, 22, 168–70
 - frenzy, 128
 - insurance sector, 172
 - private equity, 146
 - red flag, 18, 49
 - Spanish property, 133
- Ireland
- post-crisis investment opportunities, 151–4
 - property bubble, 109, 117
 - see Anglo Irish Bank
- JP Morgan, 165
- Kahneman, Daniel, 12–13, 81
- Kamrad, Ingvar, 87
- KKR, 127, 146
- Kotter, John, 102
- Kroner, Niels, 141
- Kurlansky, Mark, 28

- Lafarge, 81
 Lagarde, Christine, 155
 Landesbanken, 135–7, 155
 Laphorne, Andrew, 8
 Legrand, 64n8, 70
 Lehman Brothers crisis, 7, 22, 80–1, 84, 91, 91n7, 180, 184
 Li, Robin, 73
 limits to arbitrage, 16n31, 16–17
 Linear Technology, 66–8, 68n9, 74, 77
 London Stock Exchange, 7, 60, 128
- M&A (mergers and acquisitions) activity
 brewers, 37, 39
 Johann Rupert's view on, 95–9
 mania, 128–9
 metals and mining, 35
 pro-cyclicality, 49, 80–2, 129, 147
- management
 Ahold, 76–9
 analysts too close to, 77
 capital allocation, 19–20, 46, 56, 76, 78, 80, 82–4, 99, 126, 167, 174
 corporate culture, 102–4
 cyclical missteps, 80–2
 escalation of corporate pay, 88
 family control, 91–5
 frugality, 101–3
 importance of capital allocation skills, 76, 82
 incentives, 78–9, 91
 insider sales, 130, 147
 learning from failure, 76–9
 management meetings, 99–102, 109
 Nordic management, 85–8
 performance metrics, 79
 principal-agent problem, 88–91
 pro-cyclical buybacks and M&A activity, 49, 80–2, 129, 147
 qualities of a good corporate manager, 84
 quality of, and stock performance, 85–8
 understanding capital cycle, 82–4
- managers, selecting, 19
- Marathon
 analysing management incentives, 87, 88–91
 analysing management quality, 84, 95–6, 102–4
 concern over private equity, 123–6
 concern over securitization, 120–2
 generalist vs specialist approach, 19, 78, 79
 holding period, 19, 55–7
 identifying bubbles, 127
 investing in “under-the-radar” companies, 73–5
 investing in family owned businesses, 86, 91–5
 investing in Internet businesses, 60–2, 68–70, 160
 investing in quality companies, 63–4, 70–3
 IPO indicator, 128
- lack of exposure to Chinese equities, 171, 173, 183
 meeting with management, 19, 99–102, 109–17
 perils of investing in low return companies, 47
 private ownership, 16
 purchase candidates, 46
 rejection of “value” and “growth” dichotomy, 17, 20, 45, 53–5, 69
 rejection of detailed forecasting, 69, 77
 underweight European financials, 138, 154
 unsuccessful investments, 76, 158, 159
 wariness of investment bankers, 18, 101, 184
- Marchionne, Sergio, 46, 47n11
 Mauboussin, Michael, 12
 McAteer, William, 110, 115, 116
 mean reversion, 10–11
 Merrill Lynch, 34, 143
 metals and mining industry, 34–5
 Miller, Bill, 54
 mining companies
 commodity prices, 31–3
 supercycle, 6–8
 metals and, 34–5
- Minsky, Hyman, 26, 119
 Molin, Johan, 87
 Molson Coors, 37–8
 monetary policy
 creates corporate zombies, 156
 encourages search for yield, 163–6
 inflating bubbles, 27
 investor implications, 160–3
- Montebourg, Arnaud, 157
 Montier, James, 109
 Munger, Charles T., 58, 60, 120
- Nokia, 51, 83, 85–6
 Northern Rock, 138–40
- off-balance sheet lending, 137, 143, 196, 198
 oil prices, energy markets, 40–3
 overconfidence, 11
- Partners Group, 128, 146
 payroll processing, 71, 74
 performance
 earnings per share (EPS), 15, 43, 49, 56, 69, 79, 89, 100, 118–19, 164n8, 187
 quality of management, 85–8
 total shareholder return (TSR), 89, 90, 91
- Persson, Stefan, 87
 PICC, 171–2, 173n2
 Piëch, Ferdinand, 93
 Piketty, Thomas, 163–4, 164n8, 166
 politicians, protecting industries, 158–60
 Ponzi finance, 108, 111, 114, 119, 143

- Porter, Michael, 1
- Priceline.com, 61, 62, 62n7, 70, 160
- pricing power, 21, 26, 37, 66–7, 70–1, 98, 153
- principal-agent problem, 88–91
- prisoner's dilemma, 16, 25n1, 25–7, 30, 159
- private equity
- firms, 122–6, 130, 142, 205
 - potential conflicts of interest, 125–6
 - private equity mania, 122–7, 130–2
 - use of securitization, 131
- quality companies
- portfolios shifting to higher, 63–5
 - stock performance, 85–8
- Rausing family, 86, 87
- recency bias, 13, 72
- Reckitt Benckiser, 91, 104
- Reed Elsevier, 64, 64n8
- rent-seeking, family control, 94–5
- Richemont, 95–6, 99n12
- Rightmove, 63, 64, 101, 160
- Rinehart, Gina, 93
- Rollen, Ola, 87
- Rowan, John, 112, 113, 115, 117
- Royal Bank of Scotland (RBS), 83, 116, 152
- Rupert, Johann, 95–9
- on China, 99
 - on investment bankers, 98
 - on the luxury business, 98
 - successful stewardship of Richemont, 96
 - views on management, 96–7
- Sachsen LB, 135–7
- Sampo, 22, 76, 81, 83–4, 87
- Scandinavia
- management, 82–8
 - superior investment returns, 85
- Schumpeter, J.A, creative destruction, 1, 145
- securitization, 120–2
- fuels buyout boom, 130–2
 - oversupplying firms with cheap capital, 121–2
 - snares German banks, 135–8
- self-dealing, family control, 94
- semiconductor business, escaping capital cycle, 65–8
- skewed incentives, 15
- Slim, Carlos, 95, 95n11
- Smith, Adam, 91
- Soames, Rupert, 47
- Sorrell, Sir Martin, 89
- Spain
- collapse of property bubble, 148–50
 - demographic changes, 133n10
 - folly of Spanish construction companies, 149
 - loss of competitiveness, 135
 - real estate bubble, 132–5
- state capitalism, 20, 159, 174
- steel industry, European, 157
- Stenbeck, Jan, 93
- Stora Enso, 55, 55n2
- structured investment vehicles (SIVs), 137, 143
- style labelling, fund managers, 53–5
- succession planning, family control, 94
- supercycle, commodity, 6–8, 31–6
- supply focus, capital cycle, 17
- supply side response, commodity prices, 31–3
- Svanberg, Carl Henric, 87
- Svenska Handelsbanken, 22, 104, 131, 140–1
- Swensen, David, 124
- Taleb, Nassim, 68, 68n11
- Tetra Pak, 86, 87
- “tit for tat” policy, 25–7
- total shareholder return (TSR), 89, 90, 91
- Tversky, Amos, 13
- Unilever, 63, 64n8, 160
- value investor, 2, 6, 10, 15, 19, 21, 52, 54, 69
- Vestas Wind Systems, 47–8
- Volkswagen, 26, 93, 156
- Wahlroos, Björn, 21, 76, 83–4, 87
- Wal-Mart, 62, 92, 168
- Welch, Jack, 100
- wind turbine maker, capital cycle, 45–8
- Wolters Kluwer, 64, 65n8, 85
- WorldCom, 4, 54
- Yellen, Janet, 166
- ZIRP (zero interest rate policy), 162
- zombie capitalism, 22, 145, 156, 162