



# THE 4TH PILLAR

DECLARE YOUR ECONOMIC INDEPENDENCE

Dear Subscriber,

Last week my wife and I welcomed a second baby daughter, a little sister for our now nearly 4-year-old elder daughter.

They say that having children profoundly changes you. It certainly does. But this is an investment newsletter; so, I'll stick to talking about changes that have a relevance to investing.

For me, the main changes have been to make me more patient, more forgiving, as well as to think *much* longer-term, and look at the possibilities for intergenerational wealth.

The way I look at the world, **money is nothing more than a token you can exchange to free up time**... time to do whatever *you* want and not what *someone else* demands.

Most people's lives are governed by the need to exchange their valuable time for money to obtain the goods and services they need to survive. But **time is the most valuable asset we have**. Each of us has a finite amount of time on this earth.

Wouldn't it be wonderful to have a life where you can turn the time/money equation upside down? In other words, exchange money you already have, to free up valuable time.

This would allow you to do whatever you want. Hopefully that's something fulfilling, that is still productive, useful, and beneficial to the world. But you would not have the pressure of having to make money to survive.

I believe I have it within my power to turn the time/money equation around for my daughters. It's probably too late for me to become the next Warren Buffett, but my young daughters have something that I no longer have, which counts massively in their favour... an abundance of time.

They say that compound interest is the most powerful force in the universe. I concur. I know from experience it's very hard to pick investments that generate a high enough rate of annual return over 10 years to compete with the total return from a more modest rate of annual compounding over, say, 25 or 30 years.

So, to me, it has become a no-brainer; if I want to set my daughters free from the burden of having to exchange their time for money when they start out in their working lives 25 years or so from now, the best thing I can do is think long term. Even if that means investing at more modest rates of annual return, the goal will still be achievable.

This realization has profoundly changed my investment perspective. I am finding myself seeking to “**Invest for Keeps.**” I want to buy fewer, higher-quality businesses with really durable competitive advantages and just hold them – ideally for decades.

This ties into a question I’ve been getting a lot from subscribers lately. You may have asked it yourself, too.

## Why I am not investing in all the recommendations I make in the newsletter?

It’s a fair question.

No two investors have the same investment goals, needs, wants or desires. You must do what is right for you. What was right for me 8 years ago, when this publication began, or even 5 years ago, is different to what is right for me now.

*The 4<sup>th</sup> Pillar* has several well-defined and time tested investment strategies. In addition to deep value, takeover arbitrage, and safe, solid income-generating investments, one of them is to buy “wonderful businesses at fair prices.”

I’d like to do a lot more of that. Because it also takes out the destructive element of continual portfolio turnover and the frictional costs that come with it. (Brokerage commissions, spreads, and taxes to name but a few).

These ideas are nothing new. Indeed, it’s what Buffett acolytes have been saying and trying to do for decades.

I see **Société Bic (BB in Paris)** in this category and have been constantly urging you to take a meaningful position in that company’s stock, to sock away for the long-term, investing alongside the controlling Bich family.

But on today’s stock markets, unfortunately valuations are such that nearly all the wonderful businesses we’d all like to own are trading at ridiculously high prices. So, we can’t do as much of this sort of investing in this newsletter as I’d like to do.

But I had a second awakening over the past year.

It came when I returned last June to the place of my own birth: Dar es Salaam, Tanzania. I could suddenly see very clearly that there are still places in the world where simple, easy to understand businesses with durable competitive advantages, and decades of strong growth ahead of them, trade at bargain prices. Back in the 1960s and 1970s, this applied to the United States, too. Hence Buffett's Golden Era.

I realized there was actually no need for me try and find Buffett-style businesses in the crowded, overvalued and hyper-competitive stock markets of the developed world. In these markets, near-zero interest rates have driven returns on capital down to derisory rates. They have simultaneously driven equity valuations to sky-high levels. And no one is interested in simple, old businesses any more.

Maybe that's wise. In nearly all the developed investment markets, the demographics of ageing societies means that many once-promising growth businesses, in the sort of stable industries that long-term value investors, such as Buffett, have always favoured, have become much more pedestrian performers.

But as we're fond of saying at Sovereign Man, **don't let your geography define you**. It's a big world out there. There are many stock markets in the world that are totally off Wall Street, Bay Street, and The City of London's radars. And they're in economies where interest rates are still normal... where simple consumer staple businesses are still growth industries in their early stages, and where demographics provide a strong tailwind.

They're harder to research and get exposure to. It requires in-depth on the ground research. It means building new networks, opening brokerage accounts in some weird and wonderful corners of the planet that most Westerners never entertain the prospect of visiting. And above all being very patient and forgiving of the flaws that exist.

But when I can buy shares in the dominant cement business in Dar Es Salaam – a city of some 4 million today, which by the time my daughters are my age, is projected to be among the top dozen cities in the world by population – on **better than a 15% dividend yield, a price to earnings ratio of less than 6 times, and generating a percentage return on invested capital in the high 20s**, all of that effort becomes well worth it.

It also helps that by buying the publicly listed shares in **Tanzania Portland Cement Company (TPCC on the Dar es Salaam Stock Exchange)**, I am actually investing alongside Heidelberg Cement, the German cement giant that owns nearly 70% of the company and whose executives manage it using world-class German processes and technology. I have met with Mr. Alfonso Velez,

the CEO, twice. He's a straight shooter and a highly capable and seasoned executive with more than a decade of experience across Africa.

I have been back to Tanzania three times in the past year. I took my family for three weeks on one trip in late 2018. I went with a client on my most recent trip in February. All were surprised at what the country is actually like. And if you asked them, I think you'd find they came away with a very different, far more positive perspective.

The news headlines may be negative. But the reality on the ground is much more upbeat. Perception is not the same as reality.

As a result of my extensive boots on the ground research, I have invested in three other Tanzanian stocks as well. Two involve exposure to banking. The other to the world-leading mobile payments system, M-Pesa, which dominates financial transactions in both Kenya and Tanzania.

To return to the question of why I don't invest in each and every 4<sup>th</sup> Pillar recommendation, it's simple. My capital is not unlimited. Like we all do, I have to pick those spots where I think deploying it makes the most sense for *my situation*.

Your situation will always be different from mine. And I have more ideas than I have capital to invest. Should I refrain from publishing ideas I do not use myself? Of course not. Others can still use them and benefit. So please don't read too much into whether I am invested in something or not. Nothing will make these pages if I don't believe it's an excellent risk-reward opportunity for you to consider.

**This is not the "invest like Tim Staermose" letter.** I can afford to think very long term. I have an appetite for a much more concentrated, deeply researched portfolio. I can get comfortable with investing large sums of money *directly* in far-away exotic markets that most people would run a thousand miles from.

Later in the year, I am planning investment research trips to Lebanon, Egypt, Israel, and – time and family commitments permitting – Pakistan. I also plan on going back to Africa.

These might sound like stock markets you should steer well clear of. After all, aren't they all hotbeds of political crisis, conflict, and war?

To some extent yes. But if your sole source of information is what you read, see and hear in the Western media, you have a highly distorted view of what life is like on the ground in such countries.

As an aside, I highly recommend you read a book that an interview with Bill Gates brought to my

attention: [Factfulness by Hans Rosling](#). I promise; it will profoundly change your world view.

Rummaging through the bargain bin of high-quality, Buffett-style businesses in stock markets around the world where few mainstream investors bother to even look has become my new obsession.

This ties in with wanting to “Invest for Keeps,” for the long-term, in synch with how the world will look not now, not in 6 months or even 5 years’ time, but how it might look when my daughters are the same age I was when I first started my working life, in Seoul, South Korea, in 1996.

I will still invest and recommend takeover arbitrages, deep value opportunities, and solid, high-income investments ([including the one in the July 2019 issue](#), which accompanies this note). These types of investments are the other cornerstones of *The 4<sup>th</sup> Pillar*’s investment strategy. But personally, I have been, and will continue to gravitate toward more longer-term, buy-and-hold investments in wonderful companies at fair prices.

Where appropriate I hope to be bringing you more of these in upcoming issues of *The 4<sup>th</sup> Pillar*, as well.

As always, thank you for being a subscriber and sharing this journey with me. It’s been over 101 months now. I hope to be able to continue sharing my perspectives with you for at least 100 months more to come, and that we can all learn and profit along the way.

Until next time, thanks for subscribing, and...

Good investing!

*Tim Staermose.*

Tim Staermose