



Holland Macro Views

A life's work

Below are few reflections on some of the work we have shared with readers in the last 18 months. These cover both market views and those on individual companies. We also reflect a little on how we go about the task of finding and researching investment ideas and consider what we need to improve upon. For those that might not make it to the end of this piece we thank you for your interest and support of Holland Advisors during 2023.

[Folly Forecasts vs Real Reflections](#)

We have always found any sort of year end investing reflection or New Year forecasts an oddity. Clearly nothing changes when the calendar does. Good or bad businesses in November are still the same quality when looked at again in February and headwinds rarely become tailwinds on January 1st! One thing did cause us to reflect in the last week or so this year, that being the sad passing of dear Charlie Munger. As someone who has tried hard to learn from the likes of Charlie it caused me to look back at some of our work and consider how I'd spent my time.

As a man with two jobs, I have been mindful for some time of their occasional contradiction. One role (that of the fund manager) requires occasional decisive action, but otherwise much calm reflection and thinking. The other role, as sell side analyst/writer (for those that have never done it) in truth is a far more active one. There is constant search for new ideas and need for output (i.e. published research). I have known for some time that the activity required in the latter role can at times be counterproductive against the need of finding a small number of high quality ideas.

For this reason, over the last few years I have become more and more focused on the quality of my thinking and writing rather than its quantity. I have either been more selfish with my time or more relaxed about my research outputs depending on your perspective. I love the researching job and so now trust myself more that ideas will come. John Cleese's talk on creativity (see our [website](#)) and the frame of mind required to foster it comes to mind.

[Eating my own cooking](#)

Maybe five years ago, I felt a need to produce some form of regular output (i.e. published research). Now I do not. The 2022-2023 period is an interesting test of this changed approach to reflect upon. A higher number of published reports might help an institutions research voting machine justify better payments to a research provider. That has never and will never be my approach to analysis (and in truth it shouldn't be anyone else's either). In the same way that Charles Schwab Corp talks of: "*looking through client's eyes*", our approach to analysis and investing has always been to "*look through investors eyes.*" After all I am one. I am both a consumer of my own research (as many published ideas make it into the fund) and the largest beneficial owner of my funds' units.

Those professional investors who have subscribed to our research for a long period I hope can see this subtle change. *I hope they think it an improvement...?* In short, I want my hit rate to be very good. I want the ideas I do bring forward to research clients (and new fund investments) to be great quality. I want them to have the tangible and intangible traits needed for long term intrinsic value compounding. I want them to have the drive and innovation present when investing alongside an owner manager. Finally, I want them to have a good level of mispricing when we take our first shot.

Progress..?

Judged on that basis I am pleased with the both the research work Holland has distributed in the last 18 months and the new fund ideas we have found. As long-term investors we cannot get too excited about short term movements in share prices. That said post a long period when us bargain hunters struggled to keep up with markets it is pleasing to have had such strong performance in 2023 from many of our chosen stocks (NB: the fund NAV is up c.35% YTD as I write. Let's just hope that putting that in print doesn't curse us!).

There has always been a strong desire in my/Holland's approach to undertake research that was either timeless, or at very least had a long shelf life. Whilst I can't help but look back with regret at some ideas I 'thought' were good (that really weren't) it is pleasing to now see some long standing work pay off (**Ryanair/Frasers**). Also, to see some of the bigger companies we have worked on more recently appreciate in price also. Whether some of these share price recoveries are skill or luck we accept it is maybe too early to judge. (**Netflix, Amazon/WR Berkley/EastWest Bancorp**).

Resharing ideas we hope are still insightful today

Like dear Charlie this is my pretty much my life's work. Yes, it's my job, but it's also my hobby too. What follows are links or attached PDF's to pieces we have written in the last 18 months. The first section are pieces on markets and the cycles they go through. We give a few short extracts and quotes just to tempt you to look at each one.

We then follow up with several individual stock reports we encourage you to reconsider. A couple of these were pieces that help explain our investment process. Mostly however they are either the pieces we think have the longest shelf life (original **Amazon and Netflix** work) or they are pieces we still think are actionable for investors to look at today. (If you are not a research subscriber you may be able to see some of these pieces, but not all. Sorry).

A life's work – Room for improvement

If asked which two people influenced my thinking most five or ten years ago I would clearly have said Warren. In the last year or two that answer might be different. I would list Charlie Munger and maybe Nick Sleep. For all of Warren's brilliance what will help me do a great job for my research and fund clients in the years to come will be a highly selective approach to investing in a small number of new investment ideas. To find such companies there are a few required tangible-like factors that are going to be needed, but after >30 years into the job I can almost select those in my sleep.

However, what will make the real difference will be the intangible factors. Company culture, trust of customers, the unseen value of a network or under-appreciated allocation skill of a brilliant owner manager. These are the sorts of areas I am now spending more and more time on. Despite doing this job for many decades, I have learnt a great deal over even the last 24 months. Much of that I try to share in my writings. There is always more to do/learn however.

When sifting through the work below to decide what to bring to readers attention I made a few reflections on our/my investing approach:

- The extensive work we have done on market cycles and how they evolve and mature will never be of the standard of Howard Marks. That said it is pretty good when looked at over long and volatile periods (such as the Credit Crunch and Covid). This has enabled me to have, and I hope give, conviction at points when others were worried or nervous to invest.
- The type of companies we have chosen to focus on are better in quality that might have been the case say 6/7 years ago. There is a greater focus on proven track records and the possession of Sustainable Competitive Advantages. This selection of the *type* of business and models Holland seek out could be summarised as: **Who are you?** I.e. what type of company are you? Do you have the compounding potential and other numerous factors that we seek? Whilst there is always room for improvement here our work is moving in the right direction. We still want value at the point of purchase but are holding out for more quality compounders when they are mispriced.
- The area I want to try and improve on could be best described as **Where are you?** I.e. where is the company we are considering in its own cycle? Be that that a self-inflicted investment cycle, an industry capital cycle or maybe a regulatory cycle. Improving our work in this area would not only improve potential IRRs to our investors, it could also hugely improve our return on time.
 - I am minded by the time spent over a great many years on companies such as Ryanair and Frasers. Whilst this looks to be ultimately paying off, all that is arguably unfolding is the arrival of the original conclusion we came to circa five years ago. What is/was the right amount of time to spend on such ideas in the meantime? When should we bet heavily in such business or less heavily on their recovery?
 - Underestimating how long these companies down cycles would last for suggested to us recoveries would come much sooner that was actually the case. By contrast the work we did on Netflix this Spring has some urgency to it. This urgency came from the fact that we could see the streaming industries capital cycle was by then a good way past its peak. Thus, positive operational gearing for Netflix might soon arrive. Clearly these are inexact comparisons between different circumstances and timeframes. However, we still think them instructive.
- In the same way as I/Holland have our Economic, Political and Market cycle thinking to help navigate market sentiment swings, I think there is scope to develop ideas around companies own cycles. This will focus on our types of companies and especially the types of cycles owner manager, scale economy businesses might go through. Its usefulness only time will tell, but at least it will give me a good project to work on while all others are distributing their 'nap' picks for 2024!

I hope you enjoy the summary below. Please do use the links and prompts to delve into some of the pieces.

[Your view on us](#)

As I reflect on pieces written and improvements I can make in my process, I would love your thoughts. In what areas do you think my/Holland's investment approach is lacking? Alternatively, are there businesses you as readers know well that you think (knowing our love for owner managers and compounding) you are surprised we are not looking at?

Holland Views: Highlights 2022/2023 – Macro views

Below are links to recent pieces with the odd extract or quote used in them given.

[Holland Views: Market Cycles, Feedback loops and echo chambers, \(March 2022\)](#)

Three different cycles – As investors we are forced to think about cycles and in the past I have written that I think there are three distinct ones. These being the **political** cycle, the **economic** cycle and the stock (and credit) **market** cycle. The first one often dominates our news wires with political infighting seemingly never ending, the second is one many hours are spent fruitlessly trying to predict. The final cycle we observe is the stock (and credit) market one. It receives less attention, but often we think over time it affects investors far more than the other two combined.

We are mindful that for most people career/reputational risk trumps all other risks including that posed to other people capital they might be custodians of.

“Research is formalised curiosity. It is poke and prying with a purpose” Zora Neale Hurston

“Forecasting interest rates has never been our game, and Charlie and I have no idea what rates will average over the next year, or ten or thirty years. Our perhaps jaundiced view is that the pundits who opine on these subjects reveal, by that very behaviour, far more about themselves than they reveal about the future.

That rosy prediction comes with warning: Anything can happen to stock prices tomorrow. Occasionally, there will be major drops in the market, perhaps a 50% magnitude or even greater. Equities are much better long-term choice for the individual who does not use borrowed money and who can control his or her emotions. Others? Beware!” Warren Buffett

[Holland Views: Market Cycles, Owner Managers and Road Trips \(May 2022\)](#)

CEO’s and those that work for them watch the news, they watch their share prices and they have Bloomberg terminals. They are linked to the same cycle of greed and fear as investors, and that cycle of information spins a little quicker today than it did say 40 years ago. In this way stock and credit market cycles *can* create economic ones as happened in 2008 or they can just blow off their excesses without a lasting impact on the economy.

[Holland Views: Mr Market’s broken machine \(August 2019\)](#)

The invisible hand that drives momentum. Let us introduce three investors: Mr Genius, Mr Smart-but-wrong and Mr Sheep.

- Mr Genius: A successful franchise investor when given another £10bn to invest, buys stocks with characteristics he favours (his marketing department telling clients he never buys anything else) but at higher and higher PE’s. The rising resulting PE giving him (and those like him) both improved performance and a re-enforcement bias that he is right to be paying up.
- Mr Smart-but-wrong: Meanwhile is a good but more value-centric investor, but one who has not ridden this wave and thus struggles to catch up.
- Mr Sheep: Passive and ETF investors are just jumping aboard which ever bandwagon is working and that is now proven for 10 years to be quality compounders/and or the ‘Market’ for index funds.

What started as a trickle of money flowing away from the Mr Smart-but-wrong to Mr Genius and Mr Sheep is now a flood. This further pulls money out of ‘value’ reinvesting it in ‘momentum.’ Mr Market we all know does not exist, he is the pseudonym of all the actions of all the players added together. He is partly the successful franchise PM with £10bn of inflows, he is partly the struggling value manager who is now moving up the quality curve in search of the performance he so desperately needs, and he is partly the ETF manager chasing whatever is working. So, in short Mr Market is only really buying one type of stock. There is of course a small problem with all of this, paying higher and higher multiples requires greater and greater confidence in the future using that ever reliable tool – the crystal ball.

“There’s a saying in the markets; he who lives by the crystal ball is destined to eat ground glass”
Ray Dalio, July 2019

[Holland Views: Owner Managers, Road Trips and Modern Moats \(June 2022\)](#)

For the companies we seek longer term ownership of we want more win-win outcomes. E.g.:

- Lower costs that mean lower customer prices – **Ryan, JDW, Costco, TSMC**
- A better network resulting in a better service offer to all users – **Uber**
- Greater customer trust giving an ability to sell other services – **Amazon, Schwab**

[Holland Views: Damn you Buffett! \(July 2020\)](#)

For c.12 years now, we have been saying loud and clear what we think matters to investors. Namely:

- Compounding
- Growth of intrinsic value per share
- Allocation of capital
- Moats and flywheels
- Businesses that use deferred gratification
- Owner managers
- Reasonable starting prices
- Searching in places that others are not (hated sectors like hotels and leisure, or seen to be cyclical sectors like Plant Hire, Housebuilding or Financials)

“Another thing I think should be avoided is extremely intense ideology because it cabbages up one’s mind. ...When you’re young it’s easy to drift into loyalties and when you announce that you’re a loyal member and you start shouting the orthodox ideology out, what you’re doing is pounding it in, pounding it in, and you’re gradually ruining your mind.” **Charlie Munger 2007**

Holland Views: Highlights 2022/2023 – Stock views

Below are introductions to a few individual company pieces we have written in the last 12-18 months. We have focused on pieces that we either consider actionable today in quality business, or ones that help better explain our investment process.

Links to these pieces (or attached PDFs) are provided.

- **Ashtead.** Our [2020](#) and 2022 pieces explain why Ashtead’s past and we think future compounding is exceptional. We see it as a far better business than is often portrayed.
- **Frasers.** Our 2019 (at 270p!) piece explained how the company’s extensive provisioning depressed headline profits for many years.

- **Netflix** (April 2023) and **Amazon** (May 2022). We are proud of both of our original pieces for these companies. Each saw us use a wide variety of mental models and a search for the owner mentality and scale economy models we so admire.
- **CarMax and Ryman Healthcare**. Our work on these companies is yet to reward either investors or our efforts since publication. Both companies we think have excellent longer term compounding projects.

Thank you for your support and interest in our work in 2023.

Andrew + Claire

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The Directors and employees of Holland Advisors may have a beneficial interest in some of the companies mentioned in this report via holdings in a fund that they also act as managers to.

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