LIVEWIRE INTERVIEW – PAUL MOORE, JANUARY 2020.

Patrick Poke (Interviewer):

00:01 Hi and welcome back. I'm Patrick Poke, and you're listening to The Rules of Investing. The Rules of Investing gets inside the minds of leading investors, economists, and industry experts, and it's brought to you by Livewire Markets.

Interviewer: 00:17 Today's guest is Paul Moore, founder and chief investment officer of PM Capital. Paul is one of the most experienced and successful investors in the country, and he's a guest that I've wanted to have on the show since the beginning.

Interviewer: 00:32 PM Capital was awarded the Lonsec Money Management Global Long/Short Equities Fund Manager of the Year Award in 2018, and in 2019 Zenith awarded the global company's fund their coveted highly recommended rating. One of only two funds in its category to achieve this rating. We discuss the most difficult investment he ever made, his take on why so many LICs are trading at a discount on the ASX, and why the next 20 years in investment markets will look so different to what today's investors are used to.

Interviewer: 01:07 As always, if you're loving The Rules of Investing, why not tell someone about it? Pick your favourite episode and send it to a friend. Just head on over to Apple Podcasts and hit subscribe. Either way, you're helping to increase the profile of the podcast, and therefore, the quality of the guests that I can bring to you. Well, that's it for now. I hope you enjoy the show.

Interviewer: 01:44 Paul, welcome to the show. It's great to have you on.

Paul Moore: 01:48 Thank you. A pleasure to be here.

Interviewer: 01:50 I'm actually really excited to do this interview. I've followed your fund for a long time. I really enjoy the way you think about investing and I'm really hoping that the audience can get a bit of a feel for that today and just understand why your strategy really stands out. But before we get into talking about your strategy, and your philosophy and your thinking, I always like to open the interview with a few questions just to get to know our guest.

Interviewer: 02:19 So to start with, could you tell me about when you were working at BT in the golden era back in the '80s? I know you worked with guys like Olev Rahn, Kerr Neilson and Chris Corrigan who are all kind of legends and famous for different reasons. How many of them were still there when you started working there? Did you have direct dealings with them and have you got any kind of interesting stories you can tell from that time?

Paul Moore: 02:48 Yes. I came straight from university, so it was a long time ago!. So the memory has faded a little bit, but Chris Corrigan headed up BT, Olev headed up the investment division, and Kerr headed up the equities division. So I was basically working for them, but as I say, I was a graduate. Pretty naïve, really just starting the journey.

Paul Moore: 03:18 In terms of memories, it's a long time ago. You've put me on the spot. But one thing that's always stuck with me that I remember the most, was really the day after the '87 crash. And as you can imagine, being new to the industry you wake up one morning and the market's down 20% or whatever it was. To be honest, I always remember being in the shower and listening to the radio and the guy came on and said Dow Jones was down 500 points and I was thinking, "You idiot, it was down 50 points." And then I got to the office and it was down 500 points.

Paul Moore: 03:58 But the memory that really sticks out with me was walking into the morning investment meeting and everyone was pretty shellshocked and asking what's going to happen, et cetera, et cetera. And then someone sparked up and said, you know what? In a relative sense we're going to look pretty good. And all of a sudden the mood changed and it really just hit home to me. Everyone speaks [about absolute returns] when they talk about investing, but most of the industry is actually relative and there's a big difference. And over the next 30 years of being in the industry, relative really dominates.

Interviewer: 04:41 Where do you fall on that scale? Are you more on the relative side or you more interested in the absolute?

Paul Moore: 04:48 We're absolute. My natural instincts was always to try and find something that you thought you were going to make money on. It doesn't mean you're not going to take losses or there's not going to be ups and downs, but the objective was to get a satisfactory return on your capital. So I've always had that absolute [investment] bent, and to be honest, I was a little bit of a fish out of water in that relative institutional world. And so, throughout my career it's been 100% absolute. But you're kind of fighting an industry that is... they talk in relative terms, they act in relative terms. We all understand why, but ultimately, true investing is about absolute [returns].

Interviewer: 05:33 Well, you alluded there to beginning your career just before the '87 stock market crash, and of course that's not the only stock market crash that you've been through in 30 plus years working in funds management. From what you've seen over that period, which of them kind of caught you the most off guard? And conversely, were there any that you saw coming from a mile away?

Paul Moore: 05:58 Well, '87 was too early for me. I was just really a couple of years into my career. So it was just a learning experience. 2000 wasn't so much a crash, but the disparity between the old economy and new economy stocks got so extended and the technology stocks were in mania territory. So they didn't crash overnight, but what they went through was a 10 year bear market. And that's one you really could see it coming. And fortunately we were positioned well, we're very much in the old economy stocks. But again, I remember going around London, we were raising some money for a fund and every office you'd walk into you'd take them through the thought process of why they should be focusing on these old economy stocks selling on single digit PEs, whereas a Cisco at 160 times was a bit ridiculous.

Paul Moore: 06:52 And the common response you got was, "Well, yes, you could be right, but this could go on for another six months." And then what happened over the next 10 years? I think Cisco went down 80, 85%. So it highlights how people always get fully invested right at the top of markets. So that was one that you really could see coming. You just had to be patient.

Paul Moore: 07:17 2009 caught us off guard. We were always expecting a correction. We didn't expect it to be as big as it was. And I think what really threw us was the fact that having been through banking crises in the U.S. it was pretty simple what you have to do. You basically have got to give the banking system emergency capital, calm things down and then you take it away and get back to business. And that's what the U.S. did, but what really caught us off guard were the Europeans. I guess it was their first real experience and rather than give them emergency capital, they started asking them to raise more capital and it created this vicious circle.

Paul Moore: 07:56 So it got away from us a bit. Then we had the issue of, OK, well, we don't want to be too cute about selling and trying to get back in because you'll always make the mistake right at the wrong time. And so you had to live through some pretty painful times during that period. Ultimately we were proven right by what we did, and [in the post-GFC period] we've been the number one performing fund in our peer group. But it certainly had us on the back foot for a while.

Paul Moore: 08:28 Now you come forward to today and I think today's a little bit like that old economy/ new economy situation where the valuation dispersion has got to extremes. Not as bad as back then, but I think over the next five plus years, it's going to be a very different set of opportunities, and again, it's just going to take patience. But very much reminds me of that sort of period.

Interviewer: 08:54 Yeah. I remember when I was looking through some of your documentation, you showed us that chart, which incidentally I'll put up in the wire for this chart. Oh, sorry. In the wire for this podcast I meant to say. That showed that value has actually never been as cheap as it is now when compared to momentum, and you can see even those extreme positionings that we associate with previous market crashes or highs have been exceeded, which is... It was certainly a surprise to me to see just how extreme that positioning has got. I wouldn't have thought that it would be as bad as 2009 or the early 2000s.

Paul Moore: 09:36 It's interesting. And that's typical for markets. It creeps up on people and they usually don't realize it until after you've had the reversal. But the thing about this cycle and the post GFC period that really distinguishes it is that move to negative interest rates. And in my view, we're at the end of an all-time low in interest rates. Once you get into negative territory, the reality is they can't go any lower because the whole system will break down, and that's what it was starting to do. But what that has created is a situation in markets, and go back to my earlier comments about everyone being relative, and as a result they tend to be momentum chasing. It's created probably the biggest crowding I've ever seen in an asset class. And that is the bond proxy, long duration, asset classes.

Paul Moore: 10:32 And so, I suspect that's where the real risk is today. That's kind of like where technology was back in 2000. Typically when that happens, there's got to be sources of funds and it's come from the cyclical areas of the market. So the funny thing about today's market is it's at an all-time high. You need to be more cautious, you need to have lower invested positions in whatever your normality is, but there's actually some really great-long term opportunities, and that's what it was like back in 2000. It was really a barbell type market in terms of opportunity set.

Interviewer: 11:09 I'll always remember the story of Julian Robertson's Tiger funds management.

Paul Moore: 11:16 Tiger funds. Yes.

Interviewer: 11:17 Yeah, who was famously short technology stocks and long long value stocks and unfortunately had to close up his fund and return the capital to investors. If I recall correctly, I think it was just a couple of months before the reversal actually happened. So it just goes to show just how hard that timing can be even for one of the world's best ever, really.

Paul Moore: 11:42 Well, I mean, it's impossible to get the short-term timing right. What you can get right is the valuation and then you just have to be patient. And if your thesis is correct it'll play out. Eventually it gets arbitraged. Markets can be irrational short-term, but longer term they're not irrational. But that also kind of highlights that if you're long and short at the same time, people often net them off against each other, and for example, 130 long, 60 short, they think they're 70% invested. Nah, they're 130 long and 60 short equals roughly 200% invested. So you're doubly wrong if you get it wrong. And therefore, timing is even more critical, so for most people they should stay away from that.

Paul Moore: 12:29 The bottom line with markets is you can always observe valuation distortions, but trying to pick when it finally reverses is almost impossible. You get lucky every now and then. But the reality is it's pretty tough game.

Interviewer: 12:47 Well, let's talk a little bit about some of your past investments. I'd be curious to hear about what's been a really difficult investment for you. Not difficult in terms of the outcome, but more in terms of an investment that was really hard for you to make at the time. Could you tell us about that investment? What was hard about it and how did it go for you?

Paul Moore: 13:11 Interesting. Because one of the quotes we often keep reminding people of is that all great investment ideas at the time of purchase are either questioned severely and, in some cases, ridiculed. And when I look back over 30 years, if I take the ones that have been the best investments for myself, right at the time of purchase, we were questioned pretty severely and sometimes people made a lot of fun of us.

Paul Moore: 13:45 One that will always stand out to me is Las Vegas post GFC. Our superficial research was showing these apartments on 15% gross rental yields, which sounds too good to be true. And to be honest, I thought it was too good to be true. But the process is, well, let's go and investigate this. And I was fully expecting to go to Las Vegas and go to the suburbs and come across these apartment buildings that are more like Detroit, run down derelict drug dens, guys walking down the streets with guns on their holsters and pit bulls et cetera. And the amazing thing is when we got there it was a five, 10 minute cab ride at most from the strip, eight-lane freeways. You come into this nice suburb, good schools, good hospitals, tree-lined, small apartment complex, fenced swimming pool, little gymnasium, one bedroom apartment, $52,000. It was one of the most amazing things I've ever seen.

Paul Moore: 14:55 But the funny thing is, at the time we told everyone we could find about this great opportunity, but I reckon 99 out of 100 people basically dismissed it, "Vegas will never recover. There's too much competition. There's new jurisdictions." And it just highlights that typically your best investment opportunities are the ones that are most difficult to sell to people short-term.

Paul Moore: 15:23 Now, that wasn't difficult to make to be honest because it was such a great running yield. And so we always had very, very high confidence in that. So I'm just trying to think of ones that were... Probably even if I go back to the '90s when I went through my first banking crisis in the U.S. It was a commercial banking crisis. Every state back then had a bank, so it's much more fragmented. The S&L crisis, banks were going under. And through the work there we came across a company called Wells Fargo, and at the time, not well known here, everyone knows it now, but what stood out was its great deposit franchise and its great credit underwriting. It was on the front page of Barron's as the short of the year.

Paul Moore: 16:21 So at that particular point, given the stress in the banking system and given it was my first really big investment in my career, it was pretty stressful, but we made the investment. We actually put more than 50% of our portfolio into a number of different financials. I'll always remember coming into work one day and the first month I think we're down five [%], the market was up seven [%] or something. It was looking pretty at odds short-term. Someone left a piece of paper on my desk with the relative performance short-term with a big circle around my fund, and only two years into my industry it had you kind of sweating a little bit.

Paul Moore: 17:07 Fortunately we stuck to our guns because over the next five years the fund was the best performing fund in the country on the back of Wells Fargo and other financial stocks. So that was one where it was difficult at the time, but you just had to stick to your conviction that that deposit franchise and credit underwriting would just support you in the end.

Interviewer: 17:27 It's a good demonstration. You often hear people talking about career risk and how it can affect people's decisions sometimes. It's easy to see how a situation like that could play on your mind.

Paul Moore: 17:40 Look, if you've got career risk in my back of your mind, which most people would do, you would never have made that investment. And I guess that's the importance of having that stability of your own capital at work because you're there to invest as opposed to create a career. And, I mean, other people might say I'm stubborn and pigheaded and whatever. But fortunately, I've always had that anchor. And I think you've also got to have the ability. I mean, the reality is if you want to be a good investor, you have to be able to stand on your own and kind of put up with the sort of jeering of the crowd at certain points in time because otherwise you'll end up just buying what's popular, and the reality is buying popular stocks and what makes people feel safe actually ultimately end in a poor return.

Interviewer: 18:28 Well, let's move on to talking a little bit about your investment philosophy and your processes. I know you have a bottom up approach to investing, but I've also seen you talk in the past about certain investment thematics. For example, the global brewing thematic. How did these two ideas kind of meld together for you? As a bottom up manager, how do you approach investment thematics and how do you think about them?

Paul Moore: 19:02 Look, our process is pretty simple. And if you go back over time over all our big investments that have paid off for us, they all started with a simple valuation observation. So you're pretty much sitting back here in Sydney looking at the world and just noticing businesses and what valuations they sell on. And when you see something that looks at odds, that's when you get interested. And so, brewing is a classic example. We had Budweiser in the U.S selling at 20 times and we had the European brewers selling at 10 times. And that was kind of little bit strange to me. You know, same type of business, why are they selling at different PEs?

Paul Moore: 19:44 So that started the research process, and now, when you then go and do the background work, you find out why they're selling at disparate valuations. Budweiser had a long history of consistent earnings growth, and therefore people became very comfortable with it as it consolidated the U.S. market. Whereas the Europeans, it was a very fragmented market, very price competitive. The only way they could compete or try to grow their profits they thought was by cutting price to try and increase volume. But in the end that's a mug's game because everyone cuts their prices and everyone loses profit.

Paul Moore: 20:21 So you could see why they were selling at those particular valuations at that point in time. But doing the work, what really stood out or a couple of things, one, in the U.S. the consolidation was coming to an end, so it was going to be tougher for Bud to grow their earnings. Two, we came across a Brazilian company that wanted to diversify out of Brazil, had a great market position there, 90% market share, really smart operators. They're the people that are now known as 3G. Everyone knows them. And they gave us a game plan of consolidating the global beer industry because they thought they could do a much better job, particularly starting off with the Europeans.

Paul Moore: 21:01 And the other issue was that we were just at the point of globalization where brands were going global, start to see global beers in your local pub. And guess who had the best global brands? The Europeans. So all of a sudden there was a theme there, both consolidation of the industry and globalization of the industry.

Paul Moore: 21:22 So over the next 15 years, we basically play that theme of 15 different companies. We peaked at about 15, 17% of our portfolio in brewing companies. We had a lot of takeovers. So it was the one consistent theme, but it all started out from a valuation observation.

Paul Moore: 21:40 So I think sometimes the reality is the thematic is more just a simplified way of trying to explain the investment proposition to people. The real important part is the valuation observation, because in the end, investment returns are dictated by valuation. You stay away from expensive valuation and you gravitate towards businesses that are selling in the lower quartile of their sort of valuation history.

Interviewer: 22:11 Well, obviously the global brewing thematic has pretty much come to a close now with the consolidation in that industry largely complete. What are the investment thematics that you're seeing out there today that have you excited about the next five, 10, 15 years?

Paul Moore: 22:33 Well, the dominating investment thematic at the moment, in my view, is the fact that we've come to the end of a cyclical sort of 10 year period in the market, which is the post GFC period where quantitative easing is coming to an end because it's not having any impact. In fact, it's having a negative impact. So that is coming to its rightful end. But more importantly, the end of a 30 year bull market, maybe a 35 year bull market in interest rates where they've gone from double digit, and as I mentioned, into negative territory, which has created this huge crowding in these bond proxies, long duration bond proxies.

Paul Moore: 23:23 At the same time, you're slowly seeing the conditions put in place for inflation to be underpinned, and every central bank wants to create inflation. Ultimately they'll get what they ask for. They might not want it when they finally get it, but they will get it. And you can see all the little signs starting to be put in place.

Paul Moore: 23:51 Now, this won't return in the next year, two years or whatever. It's going to take a period of time. It took 30 years for interest rates to go from double digit to negative. But from an investment opportunity point of view, you see that in the record dispersion evaluation, and so there's basically a big thematic for the next 10 plus years. Stay away from long duration bond proxies, they're overvalued, and investigate those that were most impacted by those negative rates and fear on the economy and that's the cyclical type areas. So a classic example would be a Freeport McMoRan copper company - the old economy type stocks that people used to talk about. So that's basically going to be the dominating theme that's influencing our investing over the next 10 plus years.

Interviewer: 24:40 Yeah, it's interesting. I was just trying to find it, but on the topic of inflation, I saw a chart on Twitter this morning. I think it was posted by one of the guys from the AFR that showed China's growth and CPI in China over the last kind of, I think it was about over the last eight or 10 years. And you can definitely see over the last year or two there's been quite a clear divergence in those two lines with inflation measured by CPI starting to tick up whilst growth continues to decline, and it's hard not to wonder if maybe it's the beginning of that trend that you talk about.

Paul Moore: 25:22 Yes, I think it is. The reality is people don't realize, but U.S. bonds troughed in terms of yield about two years ago - we've never been back to those lows. German bonds, I think troughed about three months ago at about -0.7%. They're now hitting back towards positive territory. But all the forces of disinflation like globalization, free trade, all those sorts of issues have come to an end because they've played out as far as they can play out.

Paul Moore: 25:54 At the same time you have record monetary stimulus, record fiscal stimulus. So all the classic engines of inflation are full steam ahead. But because of those powerful forces that we've been dealing with over the last 30 years, nothing has ignited. But as I say, I think the tide is turning and sometimes when the tide turns, it's very hard to realize that it is turning. It just takes a little while. But it's slowly falling into place. You're getting wage growth in the U.S.

Unemployment's at record lows everywhere, so labour markets are tight. So yeah, I think we'll come back in 10 years' time and look back on what was being talked about now and kind of scratch our heads as to how we missed it.

Interviewer: 26:42 I'm curious to talk a little bit closer to home for a bit. Although I know international or global equities is your speciality, you've also got a couple of listed vehicles on the ASX of closed ended funds. There's been a bit of a trend particularly last year. It was very noticeable with LICs on the ASX trading at an unusually large discount to their net tangible assets. It's a trend that appears to be unique to Australia. So if you look at comparable listed products in other developed nations, they're not seeing this same kind of level of discount. What do you think is behind this and what do you think might trigger the discount gap to normalize there?

Paul Moore: 27:34 It's interesting. Listed investment vehicles have actually been around for a long time. Ever since I first came into the industry they were there. I remember looking at discounts and premiums 30 years ago. So they've always oscillated between premiums and discounts depending on sentiment in the market. And the reality is when they go to a big discount, they're an opportunity. When they go to a big premium, you want to be selling these things because it makes no sense longer term. It's just like buying an overvalued business or an undervalued business. So pretty confident that they'll gravitate between premiums and discounts. In theory, managers that can't outperform the index should sell at a discount and those that consistently outperform should sell at a bit of a premium.

Paul Moore: 28:19 So if we look at the short-term, basically we had a situation - and we know a little bit about this because the market was closed for a while and we were one of the first to kind of come to the market and everyone told us we couldn't do it - but we thought it was a great opportunity to diversify from Australia to offshore, given where the banks were selling and other Australian stocks. There was a huge valuation gap between Australia and offshore.

Interviewer: 28:44 Is this when you listed the PGF fund [crosstalk 00:28:47]?

Paul Moore: 28:47 Exactly, exactly. And if you remember then, the Aussie dollar was above one as well. It was a bit of a no-brainer to go from Australia to offshore. But unfortunately what that triggered in my mind was that when fund managers saw that they could get away a listed vehicle it was like the eyes opened up - it's like this is a great way to lock in money, get management fees, et cetera. We were there for the investment opportunity. Obviously there's a business opportunity as well, but I think a lot of LICs then came to the market for the wrong reasons. If you remember at the time, also advisors could no longer get commission from unlisted product. This is one way of still earning commission. So there was a few issues going on there which resulted in a lot of supply. Whenever you get a lot of supply you tend to start going to a discount in any industry.

Paul Moore: 29:41 The other issue is that imputation fully played out in terms of the valuation of Australian stocks. And then we had the perfect storm come along because on top of that you had the market towards the end of '18 being very nervous, sold off, et cetera. So sentiment went very negative. And then you had the threat of franking going away, which is a lot of these LICs were bought for, for their apparent yield. So you had everything coming together causing people to sell into that discounted market back at towards Christmas of '18, and so everything blew out to a discount.

Paul Moore: 30:23 Now since then, markets have recovered. The franking fear has gone away because obviously the Liberals won the election and it's been taken off the table. Sentiment's a little bit more positive and they're still at a discount, but they're probably half the discount they were back then. So they're slowly starting to get back. And what the market will do now is they'll sort out the good ones from the bad ones, those that are going to give them a satisfactory return longer term versus those that won't.

Paul Moore: 30:54 And so, there will always be disparities within the industry, but I think basically they'll gravitate back towards a more neutral position. And to be honest, I disagree with you on the point about offshore not also selling at a discount because we've been looking at a number recently that are selling at big discounts. There's one offshore [fund], Pershing, selling at a 30% discount. If you look hard enough, there's always discounts. There's always premiums. It just so happens in Australia at the moment they tend to be on average more a discount because of that perfect storm that we saw last year.

Interviewer: 31:30 I actually I didn't realize Pershing was still at such a large discount.

Paul Moore: 31:36 It could have narrowed a bit. That was the last time I looked at it, but I think it's still a pretty decent discount.

Interviewer: 31:42 Yeah. Oh, that's interesting. I mean, obviously a very talented manager there with a very, very strong long-term track record. So it's interesting to note. Talking of the U.S. it's hard not to notice that despite the significant investments you do have in the U.S., you appear not to have several of the very popular, well-known large technology stocks in your portfolio.

Interviewer: 32:11 So I wonder does your lack of ownership of those companies, looking at Apple, Amazon, Tesla for example, does that come from thematic or macro views on the opportunities in the tech sector or is it more because of your discrete micro views on each of the stocks? Maybe just as a way to illustrate it, because I know you do like talking about individual stocks, maybe the easiest way would be just to pick one and explain why you don't own it.

Paul Moore: 32:46 Yeah. Look, it's pretty simple for all three of them. Ultimately when I go out there looking for investments, one, I'm looking for a return objective of roughly 10% per annum. Now, that could be 30% over three years and it all comes in the third year or it could be up 20, down 10, up whatever. But a gross return of 10% over a long period of time is actually a phenomenal rate of return. So that's why we've always used it as a rough benchmark.

Paul Moore: 33:18 Then it's a matter of, okay, do we think there might be the opportunity, and can we understand the company and can we get comfortable with the issues surrounding it? So in each one of those cases, it would have been a function of there were issues or valuation didn't quite get to where we want that has stopped us from buying it. Because I've actually looked at all three of those companies. We've looked at Apple a couple of times and you kind of kick yourself in hindsight, but I just could never get comfortable with a couple of the issues. And what I learned over time is that if you're 85% of the way there, it's not enough. You've got to be pretty much 100% there. Because if you're a little bit hazy and you get into difficult times, all of a sudden that uncertainty blows out and you'll make a bad decision. So yeah, I'd rather just find the ones that meet my criteria that I'm comfortable with, and I've found that's the best way to accumulate capital over the longer term. We've never actually gone out to beat indices or whatever. It's more finding an investment that meets our criteria.

Paul Moore: 34:29 So Apple got very close, and to be honest we have kicked ourselves because it was very, very cheap. Amazon, I've looked at so many times, but it was always that classic, very high valuation for very high growth, which is not our type of stock. So I wish I did own it. It's been a wonderful stock. I kick myself all the time, but it just never met my criteria. And you've got to stick to the game that you're good at. You can't be trying to play someone else's game. And then, Tesla, again, that's kind of pure thematic to be honest. I mean, it's a difficult one. You've either got to believe in it or not believe in it. It was the most popular short of all fund managers last year and look what's happened. So that's why you always avoid popular stuff, whether it's long or short.

Paul Moore: 35:20 But bottom line is, yeah, I have certain criteria that needs to be met and if it's not met, we pass. It doesn't mean it's not a good business, doesn't mean it's not a good investment, but I want to make sure I really know what I've got invested in my portfolio.

Interviewer: 35:39 Well, let's talk about some stocks that do meet those criteria then. What's the most recent investment that you made and could you tell us a bit about what attracted you to that opportunity?

Paul Moore: 35:52 I think in terms of the most recent one where we've got a decent position, it's probably Freeport Copper, and we've actually got three copper companies, Freeport's the biggest one. What attracted me in the first place was, one, I've got this view that inflation's probably troughed. Longer term you want to be in companies that probably [will be] beneficiaries from a bit of inflation - gold, copper. You think about Freeport, it's a copper company but with huge gold credits. It's got one of the great ore bodies in the world, so it's copper, but a bit of gold. It's off 80% from its highs, so it's a very different risk reward proposition from the market which is at a high and we're overall a bit cautious on.

Paul Moore: 36:50 Now, the reason it's off 80% is the copper price has come off. It peaked back in 2011 - China slowing down, trade war short-term, all those sort of issues. But also, these geniuses own one of the great ore bodies of the world which generates huge cashflow, what they decided to do is at the top of the oil market when oil was above a hundred bucks, was buy the high cost oil company in Canada. And you sit there and have a low-cost [producer] buying high-cost [assets], recipe for disaster. Sure enough, the oil price collapsed and basically blew up all their investment. But about two years ago they were kind of forced to give up on it by shareholders, back to copper. They're the sort of companies we like. Pure focus. All the cashflow is going to go back into either expanding the mines or back to shareholders. That's what we like. And when we did the numbers, on a pretty average copper price of say $3.50, the company could be on three, four, five times earnings. So extreme valuations.

Paul Moore: 37:56 So that's the most recent investment. We're also in Southern Peru Copper and Antofagasta as a sort of a group. I think over the next 10 years it's going to be pretty interesting. I guess the other thing that people forget about is that in this renewables push, which is really strong, copper is a key commodity in terms of connecting all these renewable sources of energy to the grid. And electric cars have a lot more copper in them, so the copper demand should be on a secular upswing.

Paul Moore: 38:37 And it was really interesting that after we've done our work, we made our investments, that Barrick Gold, run by a really smart operator, in its last earnings report out of the blue made a comment about how it might be interesting to tie up with Freeport Copper. And often you do get that when valuation is severely discounted because the owner-operator types actually realize it's better to buy the company than to actually go out there and kind of organically grow. So yes, I think copper's interesting.

Interviewer: 39:14 Yeah, it's interesting how the consolidation always seems to happen, either when prices are very, very high or very, very low and very rarely in the middle.

Paul Moore: 39:25 That's a good observation.

Interviewer: 39:27 Before we wrap it up, I have three favourite questions that I like to ask every one of my guests. We've got a few minutes left, so we should have time to dive into those now.

Interviewer: 39:40 Firstly, could you share with us something that you've read recently? It could be a book, an article, a piece of research or, you know what? We've even had people give us other podcasts and Netflix series. So if that's more your thing that's fine, but just something that you found really interesting or really impressed you or blew you away.

Paul Moore: 39:58 Yes, that's an interesting one because I'm not a reader of books. I spend all week researching, so the last thing I want to do when I've got some spare time is read a book. I do tend to read a lot of articles, newspaper articles, magazines, things that people forward through. Nothing really stands out recently, to be honest. The hard part is it all gets meshed into an overall view. So the most interesting thing to me at the moment is just this record valuation dispersion and how QE is going to play out. That's pretty much what I'm focused on in terms of the sort of top down thematic.

Interviewer: 40:46 The second question of our favourite questions is a little bit of a hypothetical for you. If you could go back in time to when you were finishing school or university and give yourself a single piece of investing advice, what would it be?

Paul Moore: 41:04 That's an easy one. Basically you've got to trust your instincts and back your convictions, and it all goes back to the comment I made that all great investments at the time of purchased are either questioned or, in some cases, ridiculed. The biggest mistakes I've made in investing is where I've let other people talk me out of an investment.

Paul Moore: 41:33 If you want to be a successful investor there's no safety in numbers. You've got to basically do the research and make your own decision. Never let the opinion of the crowd stop you from doing something that you know is right, and to be honest, it's the same advice I'd give to people in terms of life in general. Bottom line is you've got to think for yourself. You don't want to become part of the process.

Interviewer: 42:11 If you'll forgive me for quoting another investor here, it just seems very relevant to what you were saying. I recently wrote an article on Livewire and quoted Howard Marks who's absolutely one of my favourite thinkers and investors, and it had a quote in there which seemed relevant to what you were saying then. "Other investors may be smart, well-informed and highly computerized. You must find an edge that they don't have. You must think of something that they haven't thought of, see things that they miss or bring insight they don't possess. You have to react differently and behave differently. In short, being right may be a necessary condition for investment success but it won't be sufficient. You must be more right than others, which by definition means your thinking has to be different." It's just a favourite quote of mine and I thought it was relevant to what you were saying there.

Paul Moore: 43:08 It is. It's a good quote. Because people often ask you, what's your edge? And to be honest, in today's world with the free flowing information the internet's provided us with, information's not the IP. The real IP is patience, in other words, your time horizon, and the ability to control your emotions. Because everyone has access to the same information. You can put it down on the table and give it to everyone. And the amazing thing is that I suspect eight out of 10, maybe nine out of 10 [people] will act one way and someone will act a different way. And it's not because of different information or different observation or knowledge of the facts, it's because of a different time horizon and a different way of reacting. And I think that that was what was in the quote, it's like you have to react differently.

Paul Moore: 44:12 And so, to be honest, if I looked at the simple edge that's allowed us to survive over the last 30 years, that's not easy. I mean, investing is actually pretty tough. There was a recent study that showed that over a 10 year period, 50% of international fund managers actually don't survive. And over the longer term, 90% don't outperform the index. So it is a tough gig. But I think the thing that's really helped us is just that focus on the longer term because that's where the real anomalies are. So it's not as though we're smarter than anyone else. It's not as though we have any different insights. We don't have any different facts to consider. It's purely that we've been really disciplined in sticking to our long-term process.

Interviewer: 44:58 That seems like a great segue into my final question, but before I ask this question, I always like to insert a little bit of a disclaimer. Don't try this at home. We're not actually suggesting that anybody goes out there and puts all their money in a single stock and forgets about it for five years. This is supposed to be a bit of an exercise in long-term thinking and hopefully a little bit of fun.

Interviewer: 45:23 So with that being said, if the markets were going to close for five years starting from tomorrow, and you could only own shares in a single company, what would it be?

Paul Moore: 45:34 That's a tough question. You're right. Don't try this at home. On the other hand, it's actually really relevant at the moment because I've mentioned that we're at the end of a cyclical and a secular inflection point in market. So the next 10 to 30 years is going to be so different to the last 10 to 30 years. So the reality is there's going to be areas that you really want to stay away from and areas that you can take advantage of.

Paul Moore: 46:01 Now, the reason I say it's hard is over a defined five year period, I mean, if you look at business quality, Visa and MasterCard. I mean, they're the ones you'd lock away. Problem is they're selling on 30, 35 times earnings. So would I buy them today? No. They're probably closer to a sell at some point. But at some point in the next five years...I'll probably buy them back again.

Paul Moore: 46:26 If I look at Bank America, it still hasn't been re-rated properly by the market for the change in the nature of that business and the cashflow they're returning. Still only sells on 12 and a half, not even 12 and a half times earnings. So I've got a funny feeling that over a five year period, that's something I can just put away and keep holding. It's going to give me a really nice return.

Paul Moore: 46:52 In terms of most upside, I'm actually probably going to go with Freeport Copper. So if I generally had to go away and come back in five years' time, given where Freeport has been trading at recently and given what I see happening over the next 10 plus years, I suspect Freeport Copper. It's going to have more ups and downs than the others, but I suspect that would probably be the one that I'd have to say would be my number one pick if I had to close off today and come back in five years' time.

Interviewer: 47:28 Great. Well, Paul, thanks so much for sharing all of your insights today. It's been great to chat with you and get a bit of an inside line on how you think about markets.

Paul Moore: 47:42 Pleasure, pleasure. My final comment would be to everyone just don't underestimate how different the next 10 to 30 years is going to be from an investment point of view. So you really do have to think hard at the moment about where you've got your investment risk and where it really should be.