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OVERNIGHT 23/2/18

(Bloomberg) --

U.S. stocks eked out a gain to halt a two-day slide, but not before erasing an advance that topped 1 percent as investors grappled with the threat from higher interest rates. Treasuries edged higher and the dollar slumped.

The S&P 500 Index barely held above 2,700 after dipping below that round number in the final 15 minutes of trading. It's faded from session highs in afternoon trading for a fourth straight day. ended in the green after briefly turning lower in last trading as the index coughed up its biggest advances for a fourth straight day. Energy producers led advances as crude jumped more than 1.5 percent. The 10-year Treasury yield interrupted its march toward 3 percent. The dollar snapped a four-day rally.

Rate-hike jitters returned to the market after the Fed's January meeting minutes showed a central bank confident the economy is poised to take off. Subsequent data confirmed that view, but also brought signs of rising inflation that central bank had warned might fall short of its targets.

"Investors are just nervous about interest rates," said Paul Nolte, a portfolio manager at Kingsview Asset Management in Chicago. "Everybody is waiting for more economic data to confirm or deny whatever the Fed position is. It's a big case of the nerves."

With recent data underpinning the view that inflation is no longer lagging, the OIS space shows traders pricing in just shy of three U.S. rate hikes over the next 12 months. The S&P 500 remains more than 5 percent from its all-time high, as February shapes up as one of the worst months for global equities in more than a year. The Cboe Volatility Index slipped below 20, well above its average for the past year, when unprecedented calm gripped markets.

"We're in the clear from that initial correction," Peter Jankovskis, co-chief investment officer at Oakbrook Investments, said by phone. "Right now the trend is going to be to continue a recovery from that absent some other upset in the marketplace. Whether we're totally clear of volatility, I would come down on the opposite side of that."

In Europe the Stoxx 600 Index slid as almost all the major national equity gauges in the region fell. It was a similar picture across Asia, though China's market bucked the trend as it reopened after a holiday.

Elsewhere, gold erased a drop to trade little changed as most commodities retreated. The pound was weaker as data showed the U.K. economy expanded less than previously estimated in the fourth quarter, and the euro edged up as minutes from the European Central
Bank showed officials continue to lay the ground for a shift in policy language in the first half of the year.

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Here are some key events scheduled for this week:

- U.K. PM Theresa May is locking down her ministers in a bid to agree what kind of post-Brexit trade deal they want from the EU.
- Companies announcing earnings include Woolworths and Royal Bank of Scotland.

These are the main moves in markets:

Stocks

- The S&P 500 rose 0.1 percent at 4 p.m. in New York, paring a gain that reached 1.1 percent.
- The Nasdaq Composite Index ended lower, while the Dow Jones Industrial Average rose 165 points.
- The Stoxx Europe 600 Index decreased 0.2 percent.
- The MSCI Asia Pacific Index dipped 0.6 percent to the lowest in a week.
- The MSCI Emerging Market Index sank 0.7 percent, the largest decrease in almost two weeks.

Currencies

- The Bloomberg Dollar Spot Index dipped 0.4 percent, the first retreat in a week.
- The euro gained 0.3 percent to $1.2325, the largest advance in a week.
- The Japanese yen jumped 1 percent to 106.701 per dollar, the first advance in a week and the largest climb in more than two weeks.
- The MSCI Emerging Markets Currency Index rose 0.2 percent.

Bonds

- The yield on 10-year Treasuries fell three basis points to 2.92 percent.
- The two-year yield fell one basis point to 2.25 percent.
- Germany’s 10-year yield decreased two basis points to 0.706 percent.

Commodities

- West Texas Intermediate crude rose to the highest in two weeks as American supplies unexpectedly shrank. Futures rose 1.8 percent to settle at $62.77 a barrel.
- Gold futures climbed 0.1 percent to $1,333.60 an ounce, the first advance in a week.

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WHAT DOES POPULATION AGING MEAN FOR GROWTH AND INVESTMENTS?

Henry McVey, KKR's Head of Global Macro & Asset Allocation

Global populations are aging – on this there is little debate. However, what that means for growth, investment and social cohesion has been less often discussed.

Profound demographic and technological changes are transforming the societies where we live and work globally. On the one hand, the large post-World War II generation is retiring and working age populations are shrinking in many countries. This demographic shift alone will likely translate into **slower growth, lower interest rates, increased urbanization as well as shifts in consumption and housing patterns and subpar financial returns** unless nations increase the size of their labour forces and/or improve productivity.

At the same time, the Fourth Industrial Revolution is redefining key industries and the meaning of work. While nations can leverage the productivity enhancing advances of this digital revolution or increase immigration to stimulate growth, both tactics can be controversial and disruptive. Indeed, unless there are reforms to the social contract between governments, employers and employees, immigration, technological innovation and other factors can reinforce social, economic and industrial disorder, fuel populist backlash, and build opposition to pro-growth solutions to these demographic headwinds.

- Seek investment products that offer **income or yield** in a lower return environment. Henry McVey expects slowing working age population growth, lower rates, and full valuations to lead to lower expected nominal returns in the future. Given this view, he believes that this backdrop will continue to fuel demand for yield-oriented investments such as infrastructure and asset-based lending as well as for certain global private equity investments.

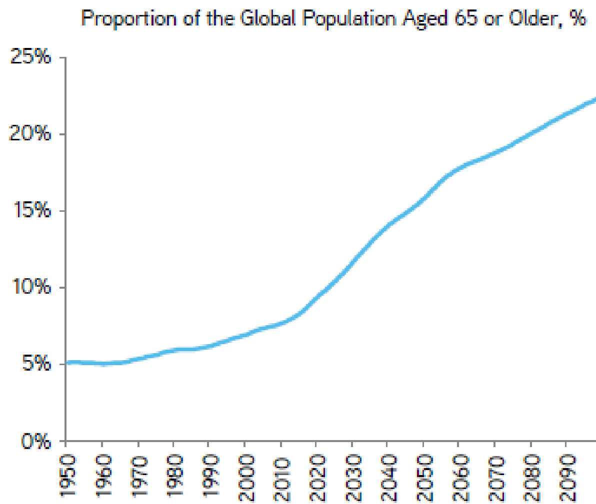
- Lean in globally to long-term themes consistent with these demographic changes like health and wellness, urban rentership, travel and leisure, digital content and media, productivity enhancing technology and the search for income yielding financial products. The aging of the population, rise of millennials and the sharing economy driven by an increasingly mobile youth cohort support these trends.

- Monitor and heed political attitudes and geopolitical risks, particularly focused on possible reactions to high levels of social,economic and technological disruption, high inequality and economic stagnation. Public distrust in key business and political institutions is high. The Fourth Industrial Revolution, radical transparency of the Internet and social media, combined with high inequality and rising immigration are producing political volatility and populism in many nations. Investors must pay attention to these factors as they may impact how well nations can develop policies to counteract the demographic economic headwind.

Between 2015 and 2030, the global population aged 65 and older is projected to grow by more than 60% compared to working age population growth of 14%.

EXHIBIT 1

The Global Population Continues to Grow Older...

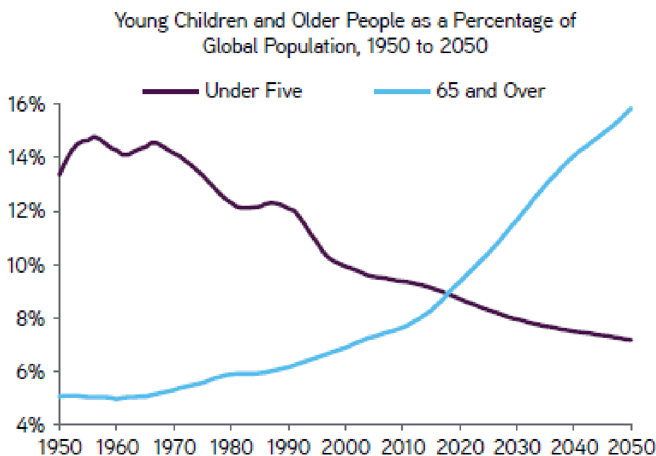


Data as at June 23, 2017. Source: United Nations, Haver Analytics.

By 2020, for the first time in human history, people aged 65 and over will outnumber children under age five.

EXHIBIT 2

...As Fertility Rates Decline and Longevity Increases



Data as at June 23, 2017. Source: United Nations, Haver Analytics.

While Europe has historically been the oldest region as measured by the over 65 proportion of the population, Asia and Latin America are rapidly progressing through this demographic transition.

Indeed while less than eight percent of Asians were aged 65 and over in 2015, that number is expected to increase to 12.1% in 2030.

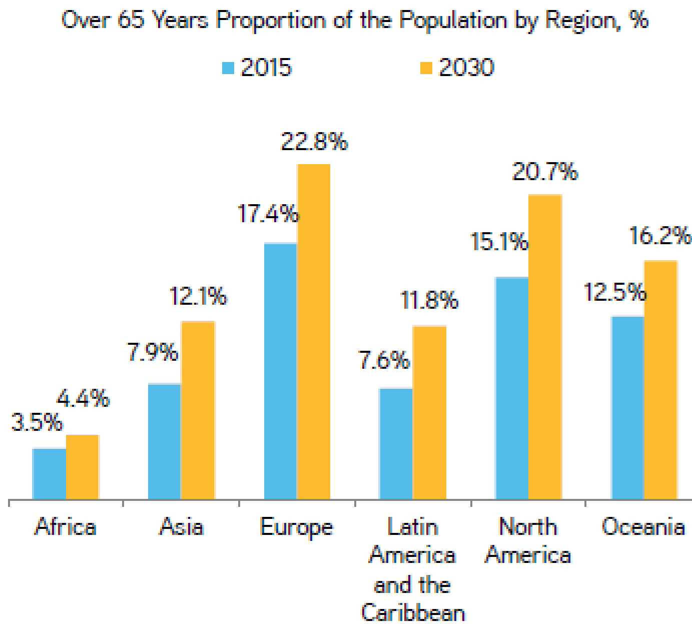
Europe will remain the oldest region for the next 15 years and North America will rank second oldest, with their over 65 population shares rising to 22.8% and 20.7%, respectively.

By country, China's prior one-child policy had accelerated the aging demographic. We expect China's elderly share to rise to 17.1% in 2030, from 10.1% in 2015.

And Japan is and will remain home to the world's most aged population with 30.3% of the population aged over 65 by 2030.

EXHIBIT 3

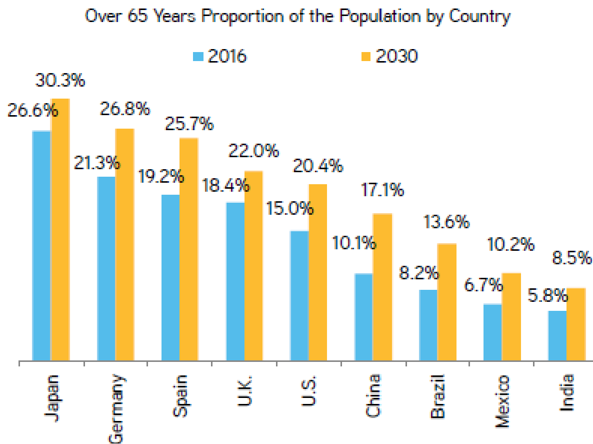
While Europe Has Historically Been the Oldest Region, Asia and Latin America Are Aging Rapidly



Data as at June 23, 2017. Source: United Nations, Haver Analytics.

EXHIBIT 4

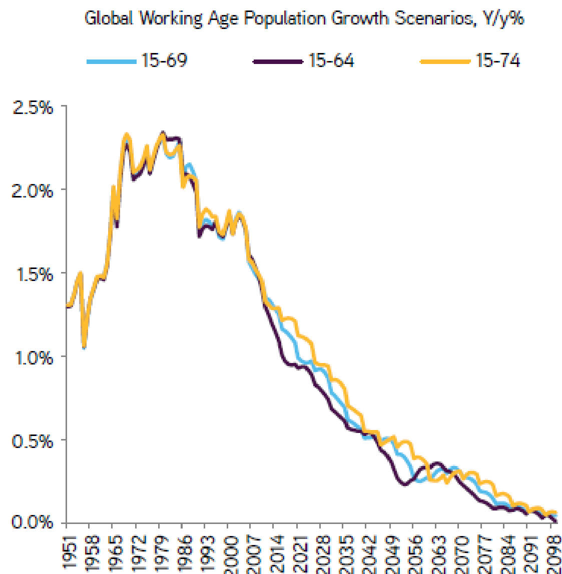
By Country, Japan Is and Will Remain Home to the World's Oldest Population



Data as at June 23, 2017. Source: United Nations, Haver Analytics.

EXHIBIT 6

Working Age Population Growth Rates Are Declining, Which Has Implications for Economic Growth



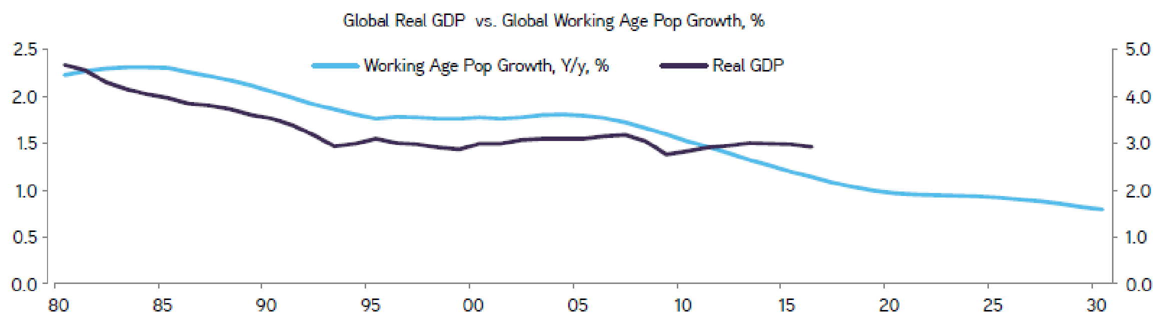
Note: The above analysis depicts the growth rate of the global working age population under three definitions: 15-69, 15-64 and 15-74. In all cases, growth in the size of the global working age population will continue to slow in coming decades. Data as at June 23, 2017. Source: United Nations, Haver Analytics.

The Impact of Demographic Shifts on Economic Growth Slower Growth

The long-term drivers of real GDP growth (inflation-adjusted economic growth) are labour force growth and productivity, i.e., an increase in the number of people within the productive population and the amount of goods and services each person produces. As the global retiree proportion of the population rises from 8.5% in 2016 to 12% in 2030, and global birth rates continue to fall, annual global working age population growth will slow to 0.9% from 1.5%. Holding productivity constant, demographics alone can slow GDP growth.

EXHIBIT 7

Holding Productivity Constant, Demographics Alone Will Pressure GDP Growth to Slow



Data as at June 23, 2017. Source: United Nations, Haver Analytics.

Demographics and Interest Rates

In addition to slowing growth, population aging also lowers the natural rate of interest, which is the rate that neither stimulates nor cools down the economy.[6] Monetary policymakers estimate the natural rate of interest when making decisions about raising rates to prevent inflation.

Lower rates reduce yield and boost financial asset prices, which has implications for investors seeking to achieve certain return targets. Indeed the OECD has noted that over the past five years many pension funds and insurance companies have been on the hunt for higher returns as yields on safer government bonds have hit lows.[7] In order to match the level of returns promised to policyholders, they have had to adjust their asset allocation strategies while continuing to maintain risk management prudence.

There are two demographic drivers of lower interest rates:

increased longevity and declining population growth rates. With increases in life expectancy and longer average retirements, individuals have a greater incentive to save to fund retirement rather than to spend, particularly given current pension underfunding concerns. The overall boost to savings at the expense of current consumption puts downward pressure on interest rates.

Based on the model developed by the Federal Reserve Bank of San Francisco, this negative effect dominates the modest positive impact from an increasing share of population with higher average consumption rates during retirement.

Slower population growth also results in a moderation in aggregate growth in consumer spending, which also leads to lower interest rates.

Investment Implications:

· Amid lower interest rates and returns, the global search for yield in aging societies will drive continued demand for wealth management products offering income.

· Particularly in a lower yield environment where government budgets are likely to be increasingly constrained, infrastructure may become more attractive to private investors.

Shift in Consumption Patterns

In addition to slowing overall economic and consumer spending growth, demographic changes will also alter the mix of consumption.

Consumption growth will be driven by two groups: **retirees** and **millennials.**

Based on our analysis, retiring baby boomers, who wield enormous economic clout, are driving increased spending on **healthcare services, senior living facilities and food at home**.

The youth cohort globally is driving dramatic shifts in consumption patterns including increased digital media usage and the rise of the sharing economy, which has already impacted housing, autos and apparel, to name a few categories.

Investment Implications:

Invest in consumption categories that will benefit from demographic shifts,

e.g., retiree spend on healthcare and grocery,

as well as spending by Asian and U.S. millennials on technology and rentership.

· **Healthcare** – Retirees allocate more of their income to healthcare versus other cohorts. As longevity increases and the proportion of retirees rises, we expect substantial growth in healthcare spend. Amid rising costs, strapped government budgets, as well as an increased focus on self-care, lower cost approaches to healthcare and personal healthcare management solutions will increase in popularity. Additionally, the growing middle class in Asia will also drive demand for affordable healthcare.

- **Rentership -** We expect demand for apartments to continue as a higher proportion of millennials versus prior populations opt to stay in the city amid fewer tax incentives to own and slower income growth for a large segment of the population (in the US).

- **Grocery -** Globally there is an increased focus on healthy and/or higher quality food. In the U.S., both the over 65 and Hispanic populations have above average allocations to eating in. The Hispanic population also exhibits a preference for organic foods.

- **Digital Content and Media** – The tech savvy millennial cohorts in Asia and the U.S. will continue to drive spending on devices, content, particularly online.

- In general, there has been increased interest in supporting companies with sustainable business practices, but millennials in particular are leading the charge. We expect further growth in Environmental, Sustainable, and Governance (ESG) oriented investing as a result.

China

Frances Lim, who leads our Macro effort in Asia, highlights that China has an extremely large and rapidly aging population. The one child policy, which was phased out in 2016, has accelerated the aging demographic and also skewed its population towards more males than females.

Vance Serchuk notes that China's large and rapidly aging population is particularly challenging given less robust safety nets as well as smaller families because of the one child policy.

China's working-age population peaked in 2014, but unlike most advanced economies, which are small open economies, China cannot solve its labour shortage by inward migration as it accounts for 19% of world population.

China also accounts for a third of global growth and it already accounts for 10% of global private consumption.
The larger and older it grows, the less it can rely on exports or migration to solve its demographic headwind.
As such, it is imperative that China continue on the path of productivity enhancing measures to maintain growth at a reasonable pace.
That said the big offset to its shrinking labour force is urbanization and its growing middle income consumer, which should dampen the deceleration in growth for now until urbanization gets closer to 75%.

Investment opportunities are detailed in the table below.

Healthy Living .

Healthcare: Access to affordable healthcare and higher quality services will expand as the middle class grows and poverty declines. In 2016 the government announced the "Healthy China 2030" plan,which pledged to promote initiatives geared toward diet, exercise, and access to healthcare services.

• **Food:** The growing middle class consumer has a focus on safe/high-quality (environmentally-safe) food products.**(ED: Dali Foods 3799 HK)**

• **Beauty:** Beauty needs expand as the middle class grows and as the society ages (rapidly). Digital Content and Media • China's millennials are expected to drive meaningful growth in the e-commerce, digital and social media areas. Underpinning this trend is increasing demand for a build-out of digital infrastructure.**(Perfect Shape 1830 HK)**

Urbanization and Rentership • As China continues to move up the GDP-per-capita curve and urbanize, there will be demand for housing in urban centers, however the pace of increase in household formation is slowing as we have passed peak urbanization. That said, we think there are interesting pockets of demand as the trend is for single family homes, in areas where there is job growth and accessibility to services.**(China Meidong 1268 HK,China Lesso 2128 HK)**

Travel and Leisure • The increase in China's middle class buying power with likely focus on experiences over things. 26% of all international travel originates in Asia, of which China is a key driver.**(CAO SP , Travelsky 696 HK)**

Productivity-Enhancing Tech • As manufacturing transitions from heavy industry and low-end manufacturing economy to a more tech-oriented and service economy, robotics and other efficiency enhancing technologies will play an important role amongst the aging and millennials. Urbanization-wise, there are still over 200 million people in agriculture, so there is a lot of room for productivity and income growth as these people migrate and move up the GDP-per-capita curve. **(ISDN SP)**

Financial Services • As China moves up the GDP-per-capita curve, there will be continued demand for accessible, digital financial service platforms including digital payments, mobile wallets, and e-finance systems to serve the under penetrated segments in the country. As there is still lack of a safety net, the aging population will also need wealth management solutions.

Education • Rise in GDP-per-capita also fuels demand for access to better education. Currently, the college completion rate, which is a key government priority, for China is at 22%, behind India at 27% and Brazil at 43%. At the October 19th Party Congress this year, President Xi Jinping said that priority should be given to education in China to speed up its modernization and to develop education that satisfies people, and the Education Minister hopes China will play a leading role in worldwide education and become a study destination for students worldwide. **(Mapleleaf Education 1317 HK)**

MUGS GAME

For those that like taking advantage of anomalies

Investors now are willing to lend to the THAI Govt at 52 bps CHEAPER than they lend to the US Govt.

Cheapest in the the last decade..

Top panel shows the 10 year govt yields of both (yellow is US and white is Thai)

Bottom panel is the spread between the two

White line is the average, which shows that the US 10 year is usually 73 bps BELOW the Thai 10 year….i.e the US is considered a safer borrower….

Currently, investors are requiring the US to pay 52 bps ABOVE the Thai govt….

It has happened on 4 previous occasions,when Thai paper yielded less than the US (red circles) But that did not last long.

That is what happens when one has a massive Current Account Surplus (excess domestic savings over investment) and the other one has the dreaded TWIN deficits…i.e one has a strong currency and the other a weak one.

And vs Singapore

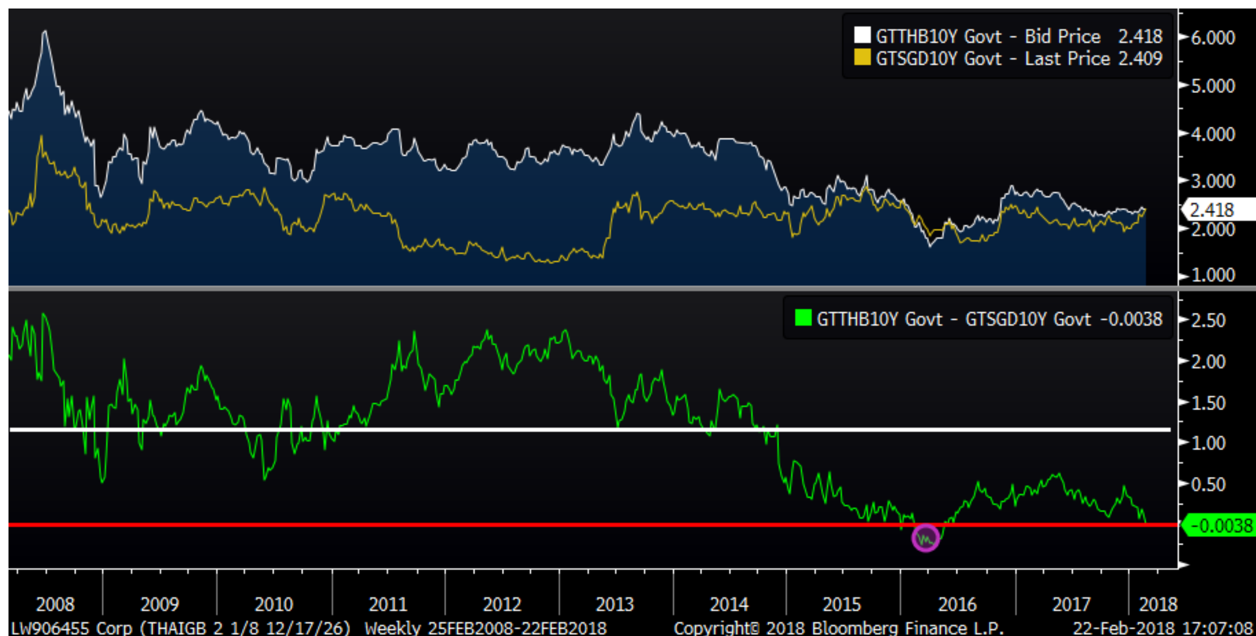
The Singapore Govt is probably a safer borrower than the Thai and has a bigger Current Account Surplus and a better Budget Deficit….

And yet, at present investors are happy to lend to the Thai Govt at exactly the SAME rate as they do to the Singapore Govt….

That has only happened once before , when the Thai 10 year briefly went below the SG yield.

Purple circle in 1H 2016.

Investors usually demand a pick up to lend to the Thai Govt,with an average 113 bps pick up (white line bottom panel)



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SSSSSHHHHHHH…DON'T TELL THE ANALYSTS….

The greatest Investors don't set much store by spreadsheets…

MastersInvest.com

Over the last 20 years or so I've studied the world's greatest investors and I've tried to unpick the characteristics that have made them successful. While business schools all over the world focus an inordinate amount of time on teaching students how to model, I'm yet to find an **Investment Master** whose made his name by having the most detailed financial models. Consider a few of these gems ...

"If you need to use a computer or calculator to make the calculation, you shouldn't buy it...It should scream at you...we do not sit down with ***spreadsheets*** *and do all that sort of thing. We just see something that obviously is better than anything else around that we understand — and then we act."* ***Warren Buffett***

"We never sit down, run the ***numbers out and discount*** *them back to net present value ... The decision should be obvious."* ***Charlie Munger***

"In general, I haven't run ***spreadsheets*** *and I find that, if there is a need to run a* ***spreadsheet****, that is a red flag to take a pass."* ***Mohnish Pabrai***

Sure it's important to be able to navigate around a balance sheet, cash flow statement and income statement, but the really great investors spend their time reading, thinking, focusing on the qualitative data and testing ideas. I've not once heard an Investment Master say *"All I do is sit and model all day."*

So why don't the **Investment Masters** spend their time building 5,000 line spreadsheet models like most Wall Street analysts do? In part it's because models have their limitations including:

Stuck in the Rear-View Mirror

Typically an analyst will build a spreadsheet model by plugging in the last five years financials for a company and then building out the future years from there. The problem is historic data is just that, historic. A company is worth the discounted value of its earnings in the future, not the past. The historic data may provide a useful insight into a company's revenue trends, the quality of the balance sheet and how attractive margins are, as well as provide a basis to compare the company with competitors. But problems can arise because the future may look a lot different to the past. Models are good for extrapolating, but dangerous when it comes to changing circumstances. This is as relevant today as ever given the rapid technological changes taking place.

*"The qualitative analysis is even more important than the quantitative analysis because quantitative is always a **lagging indicator**. By the time you see it in the numbers, it's often too late." **C.T Fitzpatrick***

*"One cannot analyse events until they have already happened. Numbers, the 'oxygen' of analysis, **lag behind reality**. Analytic methodology is ineffective in identifying change in the early stages and thus contributes to what Marshall McLuhan refers to as man's tendency to walk into the future looking in the rear-view mirror." **Bennett Goodspeed***

*"Avoid over-relying on numbers and models. Investors often feel comfortable with numbers and models because they appear definitive. However, they can be misleading because they often are **based on historical data** that may not be repeatable or are based on assumptions that may not prove valid." **Ed Wachenheim***

Over-Confidence and Anchoring

Studies show that the more information someone has the more likely they are to become over-confident. And more information doesn't necessarily mean more profits. Remember, humility is a key ingredient to investment success. An analyst or investor with a detailed model risks becoming over committed to an idea,*"I've built a 5,000 line spreadsheet, I must be right!";*or becoming anchored to the outcome of a spreadsheet, "*The model says it's worth $x, it must be true*"

*"Having more information doesn't necessarily improve decision-making. We know from studies of horse racing than when handicappers receive more information about horses and riders, they become proportionately more **confident** even though they are no more likely to pick the winner. When analysts have too much data, there's a danger they won't see the wood for the trees." **Marathon Asset Management***

*"I'm reminded of a study which showed that as the number of variables requiring analysis increase, the odds of success decline, yet the **confidence** of participants soar due to extensive time and energy invested." **Allan Mecham***

*"The harder you work, the more **confidence** you get. But you may be working on something that is false" **Charlie Munger***

*"[Computer] models can lull decision makers into a **false sense of security** and thereby increase their chances of making a really huge mistake" **Warren Buffett***

Difficult To Model

Einstein famously said "*Not everything that counts can be counted, and not everything that can be counted counts.*" It's an apt quote for investing. The brain and financial models tend to operate in a linear fashion. But it's often the case that the best and worst investment outcomes are derived from non-linear situations.

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Charlie Munger often talks about '*Lollapalooza*' effects where a number of forces combine to greatly amplify a positive outcome - more than simple addition. Alternatively, a credit crunch is an example of a non-linear event that can decimate a business but won't show up in a model.

There are plenty of other qualitative factors that are critical drivers of investment success but are hard to model. Corporate culture and innovation, management quality, capital allocation prowess and incentives would be some examples. Networks effects, product obsolescence, first-mover-advantages, industry developments, winner-takes-all, etc are also challenging to model.

*"When we analyze a business, we pay close attention to the **qualitative** and **intangible** variables –such factors are often **difficult to 'model'**. We are uneasy with fancy numerical models .. which have almost ubiquitous acceptance by the high priests of modern finance. We believe one is susceptible to gaining a **false sense of security**, which can result in mental slothfulness and neglect. In the case of models, analysts tend to overweight what can be measured in numerical form, even when the key variable(s) cannot easily be expressed in neat, crisp numbers. The 'model' behind our largest investment required nothing more than sixth grade math, and a napkin – not a sophisticated spreadsheet capable of more numbers than I'm capable of counting."* ***Allan Mecham***

Missing the Forest for The Trees

Successful investing ordinarily requires determining the few key variables that drive a businesss' performance. By focusing on collecting all the data to build a more realistic model, the investor risks overlooking those key variables.

*"Every company has **100 things about them you could study and learn**. But you have to understand the differences between data and knowledge, and between knowledge and wisdom. Warren Buffett is remarkable in his ability to cut right through. He sees very clearly the **three** or **four** or **five critical factors** that determine whether a company succeeds or fails. It's not about encyclopedic knowledge, it's about **zeroing in on what truly matters** and assessing that. There's no substitute for that in this business." **Howard Marks***

*"Our approach stresses the importance of wisdom by subtraction. We endeavour to look past the **non-essential details** and tune out the often deafening noise. We want to identify the **"essence" of each business**. So, for instance, what is it about MasterCard that enables them to generate after-tax margins approaching forty percent? Why have the Rales brothers, first with Danaher and second with Colfax, been so successful buying and fixing businesses? How has Markel managed to compound book value per share at fifteen percent for the past twenty years despite falling interest rates and a competitive underwriting environment?" **Chris Cerrone***

*"Are there dangers in getting too **caught up in the minutiae of using a computer** so that you miss the organised common sense? There are **huge dangers**. There'll always be huge dangers. People calculate too much and think too little" **Charlie Munger***

Models aren't Reality

A model is only as good as its inputs and it can never truly reflect reality. The inherent simplification of a model is one of its pitfalls. If the model is missing critical information or the key factors for success or failure, the output will be next to worthless. A good example of this was during the Financial Crisis when the bank analyst where I worked had a buy rating on an Investment Bank. The model and the analysts 'buy' rating went over the cliff when the stock went bust.

Critically, the business relied on credit markets remaining open. That wasn't in the model.

*"I have seen so many cases where there is a complex model that is **exactly wrong**. This focus on a model may cause you to move away from thinking about the competitive advantages of the business. Then you are making decisions based on all these numbers rather than thinking about whether this is one of the ten businesses that you would like to own." **Glenn Greenberg***

*"Models are supposed to simplify things, which is why even **the best models are flawed**." **Philip Tetlock***

*"This is the virtue of models: They **exclude information** not directly relevant to the question under consideration, allowing us to focus on the significance of particular variables. This is also the **vice of models:** If the **discarded information proves decisive** to the issue being analyzed, the model will fail." **Andy Redleaf***

Instead of spending their days building financial models, the **Investment Masters** read, think, focus on qualitative data and test ideas. They keep stock valuations simple. If they do work on models, it's more likely to be mental models as an aid to investment success. Let's cover off on a few of those...

Reading & Thinking

The Investment Masters spend their time reading and thinking about investments and asking themselves questions - *Why is this opportunity available? Do I have an edge? Is this a good business? Do I understand the business? What is the business' competitive advantages? Will the business continue to thrive? What could kill the business? Will technology enhance or destroy the business? Could the business be replicated? What is the right price for the business? What don't I know about the business?* etc.

*“I insist on a lot of time being spent, almost every day, to just sit and **think**. That is very uncommon in American business. I **read** and **think**. So I do more **reading** and **thinking.**" **Warren Buffett***

*"I just spend all my time **thinking**, **reading**, and adapting as best as I can."*
Thomas Gayner

*“We **read** and **think.**” **Ed Wachenheim***

*“Warren and I do more **reading** and **thinking** and less doing than most people in business.” **Charlie Munger***

*"Most individuals, including securities analysts, feel more comfortable projecting current fundamentals into the future than projecting changes what will occur in the future. Current fundamentals are based on known information. Future fundamentals are based on unknowns. Predicting the future from unknowns requires the efforts of **thinking**, assigning probabilities, and sticking one's neck out - all efforts that human beings too often prefer to avoid." **Ed Wachenheim***

Focus on Qualitative Factors

Successful investors spend more time understanding the qualitative aspects of their investments. This often involves channel checks with customers, competitors, suppliers, ex-employees and anyone else who might affect the company.

*"Numbers alone won’t tell you the answer; instead you must think critically about the **qualitative** characteristics of your business.” **Peter Thiel***

*“Interesting enough, although I consider myself to be primarily in the quantitative school, the really sensational ideas I have had over the years have been heavily weighted toward the **qualitative** side where I have had a 'high probability insight'. This is what causes the cash register to really sing.*

*So the really big money tends to be made by investors who are right on **qualitative** decisions, at least in my opinion." **Warren Buffett***

*"The quantitative side of what we do is easy, to be honest with you. You don't have to have much more than a sixth-grade mathematics education to spot a potentially interesting investment proposition.... I would say the **qualitative** side of what we do consumes 95% of our time because that's the hard part." **John Harris***

*"While we can run **spreadsheets** with the best of them, we really emphasize understanding the **qualitative** factors that drive the numbers. Market shares. Competitive advantages. The secular and cyclical impacts on the industry. Management's skill in allocating capital. The goal is to identify companies in which we have a great deal of confidence that their values are going to continue to compound as we own them." **C.T Fitzpatrick***

While building a simple financial model can help us better understand a company, it's clear that the people we refer to as the **Investment Masters** do *not* rely on 5,000 line spreadsheets for their ideas. Qualitative investment relies on knowledge, which can be gained from reading and thinking and talking with people. And then pulling all that information together into an idea that is valuable. It's also clear that an over reliance on financial modelling can leave you blind to certain risks. So the question remains as to why people still continue to both create them and then follow them? If the Masters don't use them, and they have the track records to prove their method as the right one, which will you follow? For me, I'll choose qualitative investing over quantitative every day of the week and twice on Sunday, and any investment thesis predicated on a 5,000 line spreadsheet will end up in the trash where it belongs.