Intelligent Fanatics Transcript

Grant Williams in Conversation with Anthony Deden

Video Interview: https://youtu.be/a4_U6bS-cU4

Grant Williams: For me, the best part of my Real Vision journey has been the chance to refine my own investment framework through a series of conversations with brilliant investors in every corner of the globe. In this series, I want to try and continue my education by digging deeper into the lives and careers of my guests to try and learn how they think. I want to understand the experiences that have shaped them, the failures they've bounced back from, and the lessons that those failures have taught them, and I want to break down their success to find out what sets them apart. I'm not looking for trade ideas or guesses about an unknowable future, but rather, knowledge accumulated over the course of careers, to try and make me a better investor. And I want to share those conversations with you.

Grant Williams: Several years ago, I was introduced to my guest today by a mutual friend who entrusted a significant portion of their savings to him. This man, they told me, invests in a way which is not only unlike the methods employed by 99% of money managers today, but also with an integrity and a methodology which is a throwback to a time which is sadly almost vanished. In the intervening period, as I've gotten to know my guest better, I spent a considerable amount of time trying to persuade him to sit down with me and share both his experience and his investment philosophy with the Real Vision audience. Sadly, each of my invitations has been met with a very polite but very firm "No thank you." This was no surprise to me. My guest has never before been interviewed either in writing or in camera, and for good reason. He's a private man who prefers to spend his time reading and thinking, and who invests far from the spotlight with no care for either mainstream opinion or consensus strategies.

Grant Williams: A year ago, I finally got to meet my guest, and I spent an evening, I will never forget, listening to him talk about how he sees the world and how he thinks about the discipline of investing. That meeting made me more determined than ever to try and persuade him to break his silence and give others the chance to learn from him as I had done. Now, three years after I first approached him, he has very graciously agreed to talk to me in front of the Real Vision cameras, and so I'm excited to be traveling to the Swiss Alps to discover how his framework has evolved over the years, and see how he looks at the process of investing that which he considers permanent, irreplaceable capital. So please join me for a conversation with Tony Deden.

Grant Williams: There are going to be people that watch this who know you, and they're probably sitting there thinking, "What the hell is Tony Deden doing here?" And then there are going to be people that don't know you, who after this conversation are going to go, "Why the hell do I not know Tony Deden?" So I know this is the first time you've done one of these, and I really appreciate the fact that you've agreed to do it because there's so many things I want to talk to you about.

Anthony Deden: Thank you.

Grant Williams: As I love to do, particularly given the lack of visibility that you have, is to give people a sense of your background, because it's an interesting one. It's a varied one, and it's taken you all over the world. So perhaps we could start just by talking a little bit about you and your life and your background.

Anthony Deden: How much time do you have?

Grant Williams: We have all the time in the world. So you left Greece at an early age.

Anthony Deden: I left when I was a young boy, and I lived in America for nearly 30 years, first in California, and then for many years in Houston. I think I became as American as one could possibly ever become, even though for all these years, I never really felt quite at home there. Not that I feel at home anywhere else, but then I was married there, I had a family, and I had a wonderful time in the United States. I've met some of the greatest people I've ever known in America. I learned a great deal, and many years ago, I moved back here to Europe and I've lived in Switzerland now for many years. I have traveled a lot, mostly to learn and to observe. But I have not traveled as much as you have, for example.

Grant Williams: Well, I wouldn't wish that on you anyway, I think you've got the balance about right way.

Anthony Deden: There's nothing extraordinary about my background. I found myself in this work by accident. Back in 1985, when I was asked to help a family with their investment affairs, the passing of a husband or other situations, and one family became two, and then three, and etc. So I found myself being an investment counselor without having the preparation or the background. I've never worked for a financial institution; a bank. I had to learn a great deal by the sheer desire to do the right thing. So my background is not as extraordinary as you make it sound. I think you perhaps flattered me a bit with your introduction. When you are an investment counselor to a family, and in essence, you are asked to provide guidance for the entire wherewithal this family has, you come to the inevitable observation that this is all the wealth this family possesses, and no one is ever going to give them any more.

Grant Williams: Yeah.

Anthony Deden: And there's a sense of irreplaceability to this capital, so you have to start respecting it. Respect the fact that it is really irreplaceable. It represents a lifetime's worth of savings. That is that you must avoid the kind of error that would put this family out of business. You also learn fairly early on something that takes men far longer to do, that is it's easier to actually make money than to keep it. Not merely on account of external issues, such as inflation, taxation, but also internal things: error, imprudence, and other such factors. It is a kind of different world than a fund manager has, where a fund manager in essence has an undefined, unlimited amount of capital at his disposal. And if he loses part of that, he can get others by changing his policy and his investment objectives to something more desirable at the time.

Anthony Deden: I find fascinating the fact that the idea of family offices has grown so much in the last 20 years. When I was younger, yes, truly there were some very wealthy families that managed their own affairs, but it was very rare. And I often thought about the reasons that contributed to this. I cannot help but say that perhaps one of the reasons is that the investment management industry and the banking industry have failed in their obligation and ability to protect and preserve the savings of those who have accumulated some.

Grant Williams: Yeah. So what was it about you back then that led this first family to come to you and say, "Please help us manage this wealth."

Anthony Deden: Well, there was a fellow, he's long gone now, who was sort of like a mentor to me. At the time ... I must have been 30 or something like that, and he was in his 70s, and he liked the way of thought I was in. I was on the board of a finance company, and I was very curious about matters of money, but I was always more interested in what can go wrong than what can go right.

Grant Williams: Right.

Anthony Deden: And I always thought that what could go wrong was not necessarily of the quantitative nature, like the stock market or the bond market, but the kind of decisions that one makes and the impact of those decisions, both in the long and short term on the whole. So he is the one who originally made introductions to one or two families, and he's the one who pushed me to pursue this.

Grant Williams: How did you begin to form the framework that helped you invest? Because I know that's changed and morphed over the years, but how did you begin to think of investing? What was your first perspective on it?

Anthony Deden: Well, initially I did not know much. I erred on the side of inaction. But then I made some friends, particularly with some large firms, that I knew at the time. I learned about this idea of ... Prevalent among investment management firms, about seeking to understand the investment objectives of their client, and risk parameters, so to speak. And designing some kind of a portfolio that is suitable to their needs. At the time, this sounded really wonderful to me, because it was very structured and it made a lot of sense. I've since figured out that it's nonsense.

Grant Williams: Right.

Anthony Deden: I had one or two friends among ... This was back in New York, and I went to them for help. I figured out how securities trade, and how to do this, how a bank settles securities, delivery against payment and this sort of thing. And then

I came across this idea of value investing, the Graham Dodd and Warren Buffett type of things that every American comes across from time to time. I really was not aware of anything other than ... And I began reading some of this great investors and others ... I was fascinated with the idea of value as defined by such value practitioners, only because it made sense theoretically. But it was a different world, and then came the crash of 1987, if you remember, which did not really affect me a great deal because I had no exposure to the equities market. But then great opportunities to invest to deploy capital in 1988, and then you had these great opportunities. I had a great opportunity to meet firms at their genesis who later became the technology issue. But the problem is that I always knew I was operating in a vacuum of sorts without really guidance as to the fundamentals of things. I always wondered what was the nature of money. We measured our wealth in terms of money, but I couldn't figure out what money was in itself.

Grant Williams: Yeah.

Anthony Deden: I had questions about really fundamental things about the nature of interest rates. And then I discovered economics in the Austrian tradition, the classical liberal tradition, and I begun reading. It changed my perspective a great deal, not in that economics makes you a better investor, but it gives you a light with which to see the furniture in the middle of a room in the dark.

Grant Williams: Right.

Anthony Deden: That's more or less. I borrowed this from James Grant. So I became concerned with the nature of risk, the nature of value, for what it was. I became aware that the quantification that was largely embedded in the financial sector was not really necessary, and I felt that the only way to protect this capital, and I had these kind of portfolios that were standard, back in those days. They used to call them "balanced portfolio," if you remember.

Anthony Deden: And I had defined the work around this idea of capital preservation back in those days when capital preservation meant the austerity of a bank trust department, you are a fiduciary and you do things from fear of failure rather than cognizance of it's the right thing to do. But the idea of owning bonds and recapitalizing the income, and having a first class collection of equities, for example, and then taking parts of what remains and making some meaningful speculations in things that matter overall gave you a tremendous advantage, and so the results are wonderful, but I didn't really understand quite why.

Anthony Deden: But I felt also that this idea of organizing an investment portfolio around the so called "unique special needs of each individual family" was intellectually not quite consistent with reality, because in essence, there's no need to shape an investment portfolio around a particular person's idea of risk, because people's idea of risk is not necessarily real. Risk to most people is the uncertainty of the unknown, or prices are going to go down, or something like that. To me, risk was the idea of losing your capital permanently with no ability to ever recover it.

Grant Williams: Yeah.

Anthony Deden: So I went to the 10, 12 families I had at the time and I said, "I've changed my view about investment management, and henceforth, I'm going to have one investment policy that I think is appropriate to all, and that is protecting and enhancing and deploying this capital permanently." ... With the only issue is the time preference. You have to have horizon. You have to have a purpose to this capital long term. They all said, "Okay." So we scrapped the old investment management agreements and set up new ones.

Anthony Deden: I think that was a necessary growth and a change, because as you learn more things, you become able to acquire understanding about what it is you have, what it is you face better than you had before.

Grant Williams: What did that change in strategy do to your portfolios? Did you find it completely changed the composition of them? Or did you tinker around the edges but realistically just gradually evolved over time? Was there a sudden, “Okay. Now we've changed the mandate, the portfolio has to change considerably.”?

Anthony Deden: Well, starting at about 1996, '97 or so, I never saw this as a portfolio in the sense that the word is used today. I saw this as a collection of assets in the form of securities, having a purpose, each of the components having a sub-purpose of its own. When you start seeing it this way, you become completely uninterested in what others think-

Grant Williams: Right.

Anthony Deden: ... about matters. The idea of having X% in industrials and Y% here, and overweighting this and underweighting that is complete madness. It doesn't make any sense anymore than a car manufacturer thinks that he has to have X% of an automobile in glass, Y% in steel, etc. It makes no sense. So every component has a purpose. It did change things somewhat because it allowed me to focus on what I thought was value in the sense of irreplaceability. So, you take irreplaceable capital and deploy it to irreplaceable assets. But bonds remain still the hard core of the thing ... The thing with bonds is that I ... I had two kinds of bonds I invested in: governments and junk.

Grant Williams: Right.

Anthony Deden: I never quite bought corporate. Junk in the sense that it was not rated.

Grant Williams: Yeah.

Anthony Deden: Back those days, in order to rate a bond you had to pay money to the rating agency. And many small issuers didn't want to do that, so oftentimes you found issues that had two, three hundred million in outstanding debt, unrated. And because of that, it sold ... oftentimes, it changed hands extremely, incredibly good yields. Real yields in fact, we had real yields back then.

Grant Williams: Yes, I remember those days.

Anthony Deden: I think our children will never know what that is.

Grant Williams: Yes.

Anthony Deden: But then came the period of 1995, '96, '97 where .... Monetary policy has always played a role in financial matters, but all of a sudden, the monetary policy became the driver. And industrial activity took a backseat to financial activity. That was the beginning, I think. Maybe others will disagree on that, about the timing, but prices of securities were going up independent of economic results or economic activity. And that's mostly in the United States, but the rest of the world followed along with American policy.

Anthony Deden: At some point, prices became untethered from the reality of the situation, and I saw this possibly in 1998, and I became certain that there must be an error, and the error must be either outside or it could be mine and I couldn't see the fact that the world had changed. I went through a period of soul searching, because I thought perhaps I was too old-fashioned, I had too many rigid ideas and the world was changing. Remember, those were the days of Mr. Greenspan, who advocated a complete revolution in productivity and other such factors. And I asked myself, "Perhaps I'm wrong. Perhaps what I believe is wrong, and perhaps everyone else is right."

Anthony Deden: Now, it seems insignificant, but back then, it was an enormous burden on me because if I were wrong, that means my actions or inactions would have an effect on other people's savings. So I had to do something about it. What you do in this case is when you ... Sort of like when you get lost on the road and you don't know where you are, you may have a map. But the map doesn't help you unless you know where you are.

Grant Williams: Right.

Anthony Deden: So you have to retrace your steps in some way, and go back to the very basics, and try to rethink the basic assumptions of what is real and what is not. Most of us, when we're younger, we want to believe the authorities. We want to believe the rating agencies. We want to trust government statistics or authorities of all sorts. It happens, as you grow older particularly in a setting like this, where you become convinced that they all lie and everything is phony and everything is false. And I mean everything. Everything. So you go back and retrace your steps. I did that, and I did that with some friends, and I rediscovered the fact that I was right. The whole economic system ... Financial system, not economic, as we knew it, was false. That gave me a great deal of courage to acquire the kinds of things at the time that no one wanted, and realize a lot of gains that were gained in the previous 15 years.

Grant Williams: Yeah.

Anthony Deden: And what people didn't want at the time was oil, it was copper, coal, gold, silver, and German government bonds.

Grant Williams: Right, yes.

Anthony Deden: So by the time the system came to a crashing halt in 2001, '02, '03, whatever it was, it became obvious that my sentiment about relative value of these financial assets was correct. But then it started a new era where we re-inflated the system somehow.

Grant Williams: Yeah.

Anthony Deden: And so all I'm saying to you is that we have gone, in my own brief lifetime so far, 30 years of practice, we have gone from booms to busts to booms to busts. Now, if you are merely in front of a Bloomberg machine, you think that you can anticipate these matters and you can anticipate interest rates and foreign exchange rates. You're deluding yourself because no one really knows when the next boom or bust will take place or where. But the problem comes in not trying to impress your customer, but trying to protect what he has spent years accumulating. How do you do that? That has always been difficult throughout the ages, but it has become phenomenally more difficult, nearly impossible, if you practice within the framework that you have been used to all these years. Think about it.

Grant Williams: No, I agree. When you went through the soul searching period back in the late '90s, and you went away and you sat down for a weekend and you really went through every assumption that you made, and stress tested it ... First of all, to come out of that sure that you're right and everybody else is wrong ... That takes a lot of character, a lot of self confidence, and a lot of real belief. And you came out knowing that, and you acted accordingly. You essentially sold everything in your portfolios. That's taking action after a lot of soul searching, and few people would have the courage to do that. Your investors, your customers, obviously they put their trust in you, and here you are coming back and saying, "Okay, everything I've been doing has to change."

Anthony Deden: Yeah.

Grant Williams: How did they react to that? Is that reaction ... You've built up a very strong bond, relationship with these people by doing the right thing over so many years. Do you find that making such a drastic change causes some of them to say, "Tony's lost the plot," or do people having seen your track record, seen your performance, say, "Wow, this is serious."?

Anthony Deden: First of all, it is their capital and they have a right to find someone else to help them.

Grant Williams: Of course.

Anthony Deden: I have no monopoly on ideas. I think one or two perhaps did. But I think I have always been eager to communicate the framework, the foundation of the principles of the framework that motivates action. In 1999, I worked very hard to make a speech to our clients at the time. I wanted to show that the seeming prosperity that existed, because if you go back and look, everything seemed to be so extraordinary at the time. It was an illusion. This is very difficult to see, and so I wrote my speech and I borrowed from James Grant's title of his book, "The Trouble with Prosperity." Which, he makes the same point, you have this apparent prosperity but unless you examine its causes, you don't know to what extent it is real or it's an illusion. If you gave me your American Express card, I can go on a buying spree and I can acquire all kinds of goods, and everyone can see how wealthy I am because I'm wearing wonderful clothes, I'm driving a great car, in fact, I'm adding to the GDP.

Grant Williams: Right.

Anthony Deden: But no one quite knows that the money has been borrowed from your credit card.

Grant Williams: Right.

Anthony Deden: And to the extent I don't have to pay it back, then it's real.

Grant Williams: Words like integrity are thrown around like confetti these days, but I was captivated by Tony's framework, and the clarity and the simplicity of his thinking. Tony's a deep thinking, principled man trying to assemble a collection of assets which cannot only endure, but also withstand the pressures exerted upon them by time and turbulence. It struck me that perhaps this second definition of integrity, the notion of a soundly constructed, durable, and unimpaired portfolio, has been lost in a world where mostly performance has become the holy grail, and investors' time horizons have been compressed, in many cases to the point of becoming a hindrance to effective money management. Tony's ideas around endurance and permanence of both capital and the assets selected to represent it fascinated me. And I wanted to dig deeper into how his framework evolved, and how he thought about building such a collection of assets.

Grant Williams: You have this way of investing in permanence and endurance, and things that have been there and will be there for a long time. So if you can, describe how you think about that and how you go about identifying companies and people that you would invest in.

Anthony Deden: In the beginning of the QE period, the global QE period, I became convinced that the system was going to destroy the nature of money in itself. I became convinced that the rules of the game had changed completely. When the rules change, the basic framework with which you make decision needs to change. I mean, I remember back in those days post-2008, 2009, '10, '11, back in those days, virtually every economic financial agent, not economic, wished that things would go back to normal. They thought that pre-2008 was normal, which is not near the truth.

Anthony Deden: When the rules of the game change, the process with which you make decisions, the processes with which you act, the value of information, the value of inputs must change with it. I think that two things change, not only the rules of the game change, but the expectations of people were not commensurate to the reality that existed. So I felt, as perhaps others did, that the time had come for me to hang my wings, so to speak, and leave the game. I would not want to participate in an environment in which I had to do things because they were expected rather than I thought it was the right thing to do.

Anthony Deden: But the second most important thing that happened to me is that as a result of that, I begun thinking about ... If the rules of the game have changed enough, I cannot trust anything. If you don't trust financial accounts, if you don't trust ratings, reports, if you don't trust the government, if you don't trust the press, if everyone lies to you, literally ... It's sort of like going to a restaurant where everything on the menu is poisoned, but you're hungry.

Grant Williams: Right.

Anthony Deden: Right? You have to do something. What you can do is exit the system, just exit completely. The second thing that mattered to me, if I am involved in a situation where honestly I don't know what is real and from what is ...

Anthony Deden: I am involved in a situation where honestly I don't know what is real from what is not. I have to start reexamining what is really real, versus what is not. People talk about outstanding companies, the word is used often by value investors. The question is "What is an outstanding company?" We could talk about good managements. What is a good management? No one can really define that.

Anthony Deden: People judge others and make value decisions with respect to so called equities on the basis of the success of the stock price. Well, I began thinking about what is it that is important, and one of the things that I felt really ... even though I lived in Europe at the time and I had left. In America there's something extraordinary that takes place and that is, we in America, and I say we are quite keen to like what is faster, and what is bigger, and what is better.

Anthony Deden: So, often growth for the sake of growth overwhelms our motivation and our actions. We think of growth stocks, we think of growth industries. We even use the word "to grow earnings".

Grant Williams: Right.

Anthony Deden: We just ... "to grow the company" et cetera. But, what if these measurements were wrong? What if really what mattered is something other than bigger and better? The second monumental observation I made, was that what really mattered was not that, but the idea of endurance, the idea of durability. I began looking at investments we owned, that had a history of 100, 150 to 200 years. And you ask yourself "How could these have survived that long? What were the ingredients that have contributed to their said permanence?"

Anthony Deden: Permanence is an illusion, it's not really a fixed word, there's no such thing as permanence in our world, but it's something we perhaps strive to. And, I think endurance is a better word to describe what I'm saying. And, all my life up until that point I have been examining the idea of failure. Failure on the part of others had become, had been the principle from which I learned what not to do forward, how not to think, or what to examine, or not.

Anthony Deden: I began thinking about those who survived. We have survived the test of time. Again, as a way of a textbook. Thinking of those ingredients that have allowed them to adapt to changes, survive wars, inflations et cetera, the people issues et cetera, generations et cetera. And, try to recognize those ingredients that allows a few to survive and do well. Because, if I'm going to protect the earnings, or savings that have been earned prior years for the future, whether it is for future consumption, or a future generation, I have to deploy them in a manner that is consistent with such enduring characteristics.

Anthony Deden: And so, I began ... that was a monumental revelation to me, that some people have survived, and have adapted, and have grown, and I have ... but, many of these companies are of course privately held, and they would never wish to be listed on the stock project. But, others are listed but only nominally in the sense that they once had and offering some 50, 60, 100 years ago, and they still have a few sales going by non-family members.

Anthony Deden: And, I discovered that I owned a few of these things for reasons ... they were not purposeful.

Grant Williams: Yeah.

Anthony Deden: So, I began focusing on what endures and what is real, independent of the financial world, completely independent.

Grant Williams: And so, what did you find? Because, we do live in a financialized world and finance for finance's sake, and investing has become all about making money, not necessarily capital preservation, not necessarily income. It's become "Okay, which stock is going to go up the most in the next six months to a year?" Or, whatever my timeframe is.

Grant Williams: What did you find? When you had this monumental moment and you started looking into these companies, what was it that you found?

Anthony Deden: The first principle I operate from is the idea of exclusion.

Grant Williams: Right.

Anthony Deden: I exclude whole swats of things from my universe of things. I think that in the whole world, I probably ... 150, 200 listed companies, that I would even consider owning a piece of. It's a completely different way of looking at the world. Well, they were all in my universe already.

Grant Williams: Yeah.

Anthony Deden: I think that when you start examining what it is you own. What happens if you're on a ship and it's going down, and you're in your cabin, and you have five minutes to get out, to get up to the deck, to ... You look at your possessions that are sitting in your cabin, and you say "What's worth taking with me?"

Grant Williams: Right.

Anthony Deden: Not very many things, is it? And, this is what I did in essence. Now, the thing is that if you do this with respect to your own savings it's one thing, but if you do this in an institutional setting where other people are involved that's a little bit more difficult, because not only must you deal with the idea of what is right with respect to the capital you have been entrusted, but you have to be concerned also with the expectations of other people, or the expectations of others.

Anthony Deden: And, this is quite significant, because I think that one of the things that is missing, and one of the things I have discovered is that there's a substantial distinction between people who are investors and people who are owners in businesses.

Anthony Deden: An owner in a business is far more interested in his survival, in the first instance, than it's necessary monetary value. No owner of a business wakes up every morning asking himself what he's worth.

Grant Williams: Right.

Anthony Deden: He doesn't know what he's worth. He's concerned with his products, he's concerned with his employees, he's concerned with his suppliers, he's concerned with his customers. To do that you have to have a time preference that is different from other people. If you only own things that are quoted, you look at the quotation machine as to give you confidence in the fact that "Hey, I made a great decision yesterday, this thing went up."

Grant Williams: Right.

Anthony Deden: Okay. You have a falsity in your understanding, you're an investor you rent something for hoping that it will go up. You are making decisions based on expectations of what you think other people's expectations are likely to be based on their framework, and you know, an investor is really, one who generally acquires something hoping he will sell it at a higher price.

Grant Williams: Mh-hmm. (affirmative)

Anthony Deden: And so, all of the calculations, and all of the pseudo intellectual activity that goes along with it is based on this idea of price. Is this price high or low relevant to what other people are going to think of it next year? What is it likely to be next year, and why et cetera?

Anthony Deden: Owners don't do this, they instead build in substance, they instead build in the productive base of the company, you're recapitalizing earnings, or whatever. So, the focus on wealth creation is different from that of an investor as an owner. But, to be an owner ... it's difficult for an investor to be an owner, because you can not have immediate liquidity.

Anthony Deden: You know, if you and I owned a big farm to grow carrots, we can't sell part of it tomorrow, because we want to finance a trip around the world.

Grant Williams: Right.

Anthony Deden: And, also there is another element that is of significance here, and that is that, there's a very large gap in perception and temperament between and American, and perhaps and english speaking view of the world, form say a continental European temperament and view of the world. I'm not familiar with the Asian world at all, I've stayed out of it, I can't do everything.

Anthony Deden: The idea of leveraging and balancing to buy back your sales, so your earnings percent can go up is completely foreign to where we are for example, it just doesn't happen, yet it is a financial tool in America. The idea of having a fragile balance sheet for the sake of a higher goal price doesn't lend itself to the idea of ownership, an owner is really very concerned with his balance sheet.

Grant Williams: Yeah.

Anthony Deden: In fact the balance sheet is perhaps more important than his income statement. His ability to endure and to survive is based on the strength of his balance sheet and the nature of the assets on the balance sheet. It's not just assets, but the nature of the assets.

Anthony Deden: And so, on account of the convenience of the english language we speak in general terms about financial matters and equities et cetera, but the framework with which different people in different countries make different decisions on a generalized basis is very, very different.

Anthony Deden: For us it's even more difficult, because we have shareholders from some 30 countries around the world. All have, perhaps a different cultural, a different business expectations, a framework, but the important thing is that they're all largely like-minded to what we aim to achieve.

Anthony Deden: As I said to someone recently, it's akin to the idea of, if you are a captain of a ship. It's nice to know that all of the passengers on board your ship are going to the same destination, or that's where they wish to go, and that's where you started out going. And so, they will judge you eventually by having gotten there, rather than perhaps how long it took, because you avoided certain weather, or other such things.

Anthony Deden: By the same token, this like-mindedness, I have come to conclude that it is a necessary ingredient even in the deployment of capital, and that is, if I am interested in acquiring a 5%, 10% of your enterprise as a participation, I want to be absolutely certain, that the motivation that you have as an owner and a manager is similar to that of mine. I have an interest in you making the kind of decisions that will have an impact on the company 20, 30 years from now, rather than next quarter, or next year.

Anthony Deden: So, if your objectives, and if your motivation is different than that of mine, and the capital that I deploy, then at some point I'm going to be disappointed. So, like-mindedness, whether it is in a marriage, in a business, or in any enterprise is a principal and important factor in doing the right thing in the right way.

Grant Williams: Leonardo Da Vinci once said, that simplicity is the ultimate sophistication, and as I listen to Tony talk about the carefully led foundations of his investment framework and what he looks for in terms of, both assets in which he may want to take an ownership stake, and the families that he as the captain allows to board his metaphorical ship, I realized that by the end of the day, the simplicity of how Tony invests affords him the luxury of being able to do so in a way that few professional managers today can.

Anthony Deden: I do what you would do with your own capital as an owner of that capital.

Grant Williams: Yes.

Anthony Deden: The only thing I have is that I have purposefully extracted myself and our team and our organization from the financial world. That's all I've done. So, when you extract yourself from it, your vocabulary changes, your practice changes, your philosophy changes, everything changes.

Grant Williams: Yeah.

Anthony Deden: You know, the fellow Nicolas Taleb?

Grant Williams: Yeah.

Anthony Deden: He's written this ... in my opinion one of the most extraordinary books I've ever read, called "Anti-Fragile".

Grant Williams: Yes.

Anthony Deden: And, in it ... to many people it will be a rambling thing, but it is the most extraordinary analysis of those factors that lead to this kind of issues that we talked about, the ability to survive, robustness, or the ability to actually gain strength from a difficult environment in which you are, this anti-fragility sort of thing.

Anthony Deden: Anyway, these ideas have always existed in life, have always existed in the course of events, have always existed in industry, in people who do things, where they don't exist is the financial world. So, in order to understand them and appreciate them, and embed them in your thinking, you have to exit the financial world completely.

Grant Williams: Yeah. That ability to own something, really own it for the long term has been taking away by, mostly liquidity, by how many basis points did you miss the benchmark by what I'm going to redeem. That has really made most people doing what you do, as stewards of other people's savings, it's taken away the ability you have to own things.

Anthony Deden: Agree.

Grant Williams: Because ... Yeah, you can't own something for a month.

Anthony Deden: This is really true.

Grant Williams: That is called renting.

Anthony Deden: But, earlier I talked to you about the idea of like-mindedness for example, and so I'm serious about this in a sense that I want to own a participation, I don't call it a stock, or liquidity.

Grant Williams: Yeah.

Anthony Deden: I want to own a business participation in a business that is run by owners, whose motivation is the same as mine, who are responsible to their family and to their community, and to the capital that they employ as much as I would have been if I owned the same enterprise. So, instead of owning 100% I own 2%, 3%, 4%, 5%, 10%.

Grant Williams: Sure. But, the other missing 78%, 89%, 90% is owned by one-

Anthony Deden: One or two families.

Grant Williams: Yeah.

Anthony Deden: Who've owned it for 50, 100, 150, 200 years. I can sleep very well at night, which I think is more important than eating well.

Grant Williams: Right, right yeah.

Anthony Deden: You can go without food, but you can't go without sleep. And also adds to the idea I said I consider important is the enduring value of something. So, when you think of value simply in financial terms, a price to earnings ratio, a price to book ratio, all of these are accounting terms, they also reflect what happened in the past.

Grant Williams: So, the traditional EBITDA, and price to earnings ratios, and all the things that people fixate on, and guidance ... you know, you and I have spoken previously about guidance and what happens when a company misses a guess they made about what might happen at some point in the future.

Anthony Deden: Right.

Grant Williams: How do you look on that sort of stuff?

Anthony Deden: Well, EBITDA is not traditional.

Grant Williams: No.

Anthony Deden: EBITDA didn't exist when I was a young man.

Grant Williams: Sure.

Anthony Deden: The only reason EBITDA is around, is on account of the ability to finance acquisitions to credit.

Grant Williams: Yeah.

Anthony Deden: Were it not for credit creation, there wouldn't be an EBITDA. Second, real owners do not think of the value of business as a multiple of the cost to generate, before everything, earnings before everything it's a BBA.

Grant Williams: Right, right.

Anthony Deden: Second, the idea of earnings if you really quite think about it is very important. Earnings is a very important idea, a company must be profitable, and equally as much it has to generate cash. Profitability can not be related only to accounting entries.

Grant Williams: Yeah.

Anthony Deden: But, even though this is the case, the idea of profitablility on any one period to another is really a function of the, often times temporal events. And so, a price to earnings ratio is actually quite meaningful somewhat, but is not really so essential in terms of value. So, we don't really pay much of any attention to that.

Anthony Deden: I do want to see a recapitalization of earnings, so I think to us, perhaps earnings before interest and tax is perhaps more important in the sense that it incorporates balance sheet components, but also the compounding of that earnings to book value per share is a far more important indicator of a company's ability to compound, because that's really where wealth is. Wealth is the compounding of earnings.

Grant Williams: Yeah.

Anthony Deden: And, you acquire machinery and equipment to allow you greater freedom in adding to that pile. So, you take from existing earnings and add to that. This is really the nature of capitalism, the ability to satisfy the needs of a customer and create an enduring enterprise that adds value to you. Self interest is the foundation of all.

Grant Williams: Right.

Anthony Deden: Today also, largely in the United States, but this is increasingly more common here in this continent, the emphasis is placed on the income statement, often to the complete exclusion of the balance sheet.

Grant Williams: Yeah.

Anthony Deden: And, I said to you earlier I think, the balance sheet is probably more primary engaging this idea of endurance, but not on it's own alone, the components that are there must be examined, the nature of the assets.

Grant Williams: Yeah.

Anthony Deden: Their economic value in the process. So, I think that most owners or businesses do exactly the same thing we're doing. I don't think there's any difference.

Grant Williams: No, but to your earlier point, you're aligned with the businesses and your motivation.

Anthony Deden: Right.

Grant Williams: That's crucial.

Anthony Deden: Now you ask me about this nonsense about earning estimates and forecasts.

Grant Williams: Yeah.

Anthony Deden: And, what did they call them?

Grant Williams: Forward guidance I think.

Anthony Deden: Forward guidance. Bollocks, I mean ... I think that every CEO that I know personally would tell in person that they have no clue.

Grant Williams: Yeah.

Anthony Deden: And, first of all even if they did have a clue, why would they give you forward guidance?

Grant Williams: Yeah, there's nothing in it for them, you're right.

Anthony Deden: No, there is something for them, if they have their options involved.

Grant Williams: Well, exactly right. We're talking business owners here, not CEOs.

Anthony Deden: I mean, what is the purpose for having forward guidance? The only purpose is the price of the stock.

Grant Williams: Yeah.

Anthony Deden: And then, therefore the price of the stock become the product, so then it becomes a game, so the focus is not on making something, the focus is on "How do we make money?"

Grant Williams: Yeah.

Anthony Deden: So, the idea behind the business is, money is made as a result of doing something well. I mean, that's the principal, foundational aspect of this. You do well financially as an individual, because you contribute something worth someone else is willing to pay what you contribute.

Anthony Deden: The extent of the only objective is to make money, or to acquire something for the purpose of reselling it, or what have you, you lose track of those essential components of this idea of independence and endurance, that I spoke to you about, as then it becomes a game.

Grant Williams: Yeah.

Anthony Deden: I have a very different view of other people have towards the idea of diversification. You scream because, or you have certain ... now computers, when I was a young man we didn't have computers, and you couldn't do any of this stuff, you had value line in America and other such things in Europe, in fact I invested in companies in Europe, who did not even want to give you their balance sheet and accounts.

Grant Williams: Right.

Anthony Deden: We owned 28 participations, they all have a purpose, some of them are more core and more permanent, and others are opportunistic, or temporal, or whatever. The idea of going out to try to find more, why would I want to do that? First of all.

Anthony Deden: I once wrote a paper and I called it "My Great Broom Theory", and what I did is, I went on the Bloomberg machine, and I said "Give me all the companies in the world that are listed." The principal listing thing. And, the computer says "78,522" for argument sake.

Grant Williams: Yeah.

Anthony Deden: I say "Okay." Now, I said ... I really don't know anything about Africa, The Middle East, say South America, and some places in ... so, I just wanted to reduce it to companies that are in North America, Western Europe, and perhaps Australia, New Zealand and ... Computer said "Now you've got 48,226." Okay, that's good. Then you say "Okay, now give me companies that are financially solvent." That means they have a current ratio, at least on a current ratio basis of at least one.

Anthony Deden: The computer says "22,500 something" I said "great". Now, I said to myself "I will invest in nearly anything, except for businesses that are finance related." Banks, insurance companies, mortgage companies, I just ... I'm not interested. Take out all those companies "Okay, now you've got 10,500 something."

Anthony Deden: All right, now I said to myself "I really want to own something in a firm that is manageable, or it's owned by ... so take anything away over 10 billion of market cap."

Grant Williams: Okay.

Anthony Deden: And, let me think under, say 100 million in market cap ... just give me some ... "8,500". Okay, now I said "Give me companies who are ... " This is true you can do that today, or some variation of ... "That pay a divident of more than one penny per share." At least one penny, I want some divident back.

Grant Williams: Right.

Anthony Deden: Another thing, "Give me companies that have ... " I don't know, " Debt to equity ratio of more than "X"". Another thing ... Ends up, that you end up with maybe 250, 300 out of all those, and that's in all industries.

Grant Williams: Yeah, sure.

Anthony Deden: Now, how many ... The possibility of finding anything worthwhile in there, it's really, really low. I mean, at any one point in time.

Grant Williams: Yeah.

Anthony Deden: But, what you do is, you learn about business, and not about stocks, but about business. You learn the food business, the fertilizer business, engineering, you learn about specific endeavors, and you acquire an understanding.

Anthony Deden: A businessman who grows ... say, carrots, I'm using this example.

Grant Williams: Yeah.

Anthony Deden: He's completely uninterested in spending time learning about semi-conductors.

Grant Williams: Sure.

Anthony Deden: Yeah? Because, no matter how much he knows, he will never know what can go wrong.

Grant Williams: Yeah.

Anthony Deden: He knows carrots, he knows what can go wrong in the carrot business, he knows the components that contribute to a successful carrot business. So, you can never tell me, that there's a young man, 25 years old, however many degrees he may have from Harvard, who can sit in New York, and know what can go wrong in some biotech business in Japan, or some machinery business in Spain.

Anthony Deden: He sees things superficially on financial information, on superficial "look at what it looks like, or what it has looked like".

Grant Williams: Sure.

Anthony Deden: When you buy for the purpose of selling you don't really need to understand what can go wrong.

Grant Williams: That's very true.

Anthony Deden: You see everything in terms of price.

Grant Williams: That's very true.

Anthony Deden: So, we have a relatively important stake in the business of salmon farming for example, for argument sake. Well, not just myself perhaps, but we have a team that knows more or less everything there is to know about salmon farming literally everywhere in the world, we know what can go wrong, we know where the strengths are, we know where their ability is, where their skill is, we know ... and, not just merely from what will happen in the price of salmon today, or tomorrow, the demand, or supply of it, but in terms of those ingredients that contribute to the longterm viability of a business.

Anthony Deden: But, we also pay to understand what can go wrong. What can go wrong is really more important than what can go right, because over time even the marginally good business will do well. So, you really need to understand ... You don't know what anything is worth until you know what can go wrong, because we value things differently, because we weigh components differently.

Anthony Deden: There's no such thing as valuation metrics based on some standardized formula, unless you see it in connection with other issues.

Grant Williams: Yeah.

Anthony Deden: So, when you extract yourself from the financial world and you say "What is this salmon company worth? What if we were a private?" Well, you don't have metrics, or you can use listed company metrics ... but, "What do I pay for this?" And, "What do I pay in a genuine economy?" Not in a distorted economy that we have today, where the cost of money is zero. So, today valuation of businesses have been distorted on account, I guess of these distortions in money, and so this is a very difficult time to have ... this is why it's so important to have your own subjective way of measuring and accessing value.

Grant Williams: Yeah.

Anthony Deden: And, part of this method includes the value that is imputed by elements of risk, that are unique to a particular business, a particular geographic location, a comparative advantage and on. So, it's simple, but it isn't easy.

Grant Williams: As Tony so beautifully put it "When you buy for the purpose of selling, you don't really need to understand what can go wrong. You see everything in terms of price." Having a clear understanding of the kind of business you want to have an ownership in is fast becoming a lost art. Today the focus is almost exclusively on price and the ability to make a profit on a specific position, rather than finding and enterprise that offers a robust sustainable revenue stream to an investor.

Grant Williams: Finding such businesses requires the diligence and discipline to look in places that most mainstream investors shine away from, but it's the very fact, that the types of business which meet Tony's criteria are so rare, that creates the value opportunity.

Grant Williams: So, let's talk about scarcity, let's get back to that, the point of scarcity, and why it's so important.

Anthony Deden: Well, I should tell you that in 2002 we formed an investment fund, which largely over the course of the next 4, 5 years I abandoned the private ... being an investment councilor, and just focused on this one fund, and in 2010 we changed the character of this to be more akin to a holding company.

Anthony Deden: Character of his do and being more akin to a holding company but the issue is that it became very important when you are dealing with ... You are no longer dealing with families where every decision you made had an impact over them directly because you knew who they were. But you were dealing with a pool of capital belonging to the very same people you had ... Whether it was an error or not, I had made this ... This sentiment ... I've given this sentiment out that we will look after your savings, whatever you put into this investment company as if it was the only money in the world you had. This brought about a ... This was a wonderful thing because it not only focused our views on doing the right thing for the whole, but it allowed a number of people to really keep into this investment company the vast bulk in some cases. All of their financial savings and wealth.

Anthony Deden: This kind of policy does not lend itself to popularity because people wanna put you in a box and they wanna put a label on you and investment practice does not ... An honest investment practice does not lend itself to labels because ... And they want to label your current by some predefined idea of what you are. You are a value investor or [inaudible 01:01:29]. And so it became really important in 2010, 11 or so, I don't remember the year, to create some, not a slogan but a defining characteristic of the practice that would allow someone to focus on the essentials of it and we used ... We define it by the word scarcity and that scarcity is the most important law in economics ... In that no one can have all that they want. Scarcity is a natural law. It's just part of life. There's scarcity in material goods, in resources. Everywhere you look at is scarcity. In real savings, in terms of money, other than perhaps credit that is being created. But there's not just scarcity only in visible, tangible resources.

Anthony Deden: There is also scarcity in skillsets. There's also scarcity among the kind of characteristics in character in men that you and I would consider to be attractive. So scarcity, in all of its permutations, is an important ingredient in any action that deploys capital for the future. What makes that [inaudible 01:02:57] painting valuable is not the canvas or the paint or the fact that there's only one. By this same talking, there's another ... There's a second component which we call permanence. I sometimes think we should have called it endurance but nonetheless, it's the idea of creating a framework not only within your collection of investments but by extension, within each investment the nature of the investment itself and the people ... the participation that it represents. In the kind of policies and the kind of practice and the kind of purposeful behavior that is designed to endure rather than really grow. You can grow but become fragile and then die. That's not interesting to me. So if my mandate is to protect capital from both inflation, taxation and bad decisions then the idea of seeking divine endurance is very important.

Anthony Deden: It's really important. And the third part was the idea of independence and ... So it was scarcity, permanency. Independence is even of significant value as well in the sense that much of what we see today in the world is ... Our world is interdependent today. We depend on so many external factors. We depend on suppliers. We depend on the light coming on when we turn on the switch. We take it for granted that the light will come on. We depend on the water company to ... but more so, in a business sense. We depend on perhaps, key suppliers. That often, perhaps, the situation is not as strong as we think it is. We depend on competitive ... We have competitive pressures that have come as a result of competition that would not have been there had there not been credit. SO credit creation, the debasement of money has created an environment in which there is falsity within the competitive arena in which companies operate.

Anthony Deden: In order to survive they have to more or less adapt to that condition's end. So there's demands on governments for subsidies or for tax abatements or other such things. Sometimes there's dependence on one costumer. So dependence makes a system fragile. So the more independent an organism is from external weaknesses. The more likely is to adapt to its endurance or this strength. So independence is very valuable and is actually costly. Yeah, it's an element of freedom. Freedom doesn't come free. You have to work at it. The threats to your freedom and to your liberty, to your dependence are many. And they change from time to time and from [inaudible 01:06:11]. But a successful practice in which seeks to protect, preserve and enhance the patrimony over many years, is one that must be concerned with these three components. We think with words and the ancient Greeks said that, "The revisiting of definitions is the beginning of wisdom."

Anthony Deden: So today we use words often times without really thinking about their significance. And often times, words we use today have a different modern meaning than the word had been used in earlier era. So we have to be careful about words. I actually don't use the word wealth much at all. I use the word savings and by that, I have a very precise meaning for savings which is, "That which is left for production after consumption and the accumulated results of that savings over time." I think that people make the error of considering anything with a bid to have value where frankly, many of the things I have a bid on have no ... may have financial value but have no economic value. So distinguishing that which has economic value from that which has ... which is just a claim or a loan or a promise. Is just merely a beginning because even that which has real economic value often times its value is fleeting or is temporal.

Anthony Deden: This is why I think that more than the aspect of life investment practice you and I have to be incredibly discriminating. To a point of absurdity actually, because there are very few things that would fit into this very narrow and very constraint for you of the sanctity of savings that I think it's important.

Grant Williams: You appear to be an outlier in the modern way that people appear to think of managing money but the truth is, you go back to an age before the know it, before cocofronus din that surrounded money management. You're a throw back. You're a throw back to real money management as it used to be. When people didn't have 70,000 stocks to choose from. They had to invest their capital. They had to invest their savings in a way that was restricted by the universe they were presented with. All you've done is go back to those first principle you took from earlier on. But to people watching this, you'll seem like some strange beast, doing things in a strange way.

Anthony Deden: Aright. I think there are the others but they are very few.

Grant Williams: Yeah.

Anthony Deden: And in fact I think the reason we're few is because this kind of practice is not really what is wanted. It is not demand on the part of man ... A man with money in his pocket for this sort of practice. Largely on account of the fact not only that man's time reference has changed over the years. So it's hardly anyone works to provide for another generation. People want to consume what they have. They see their investments as an extension of the current account. This isn't always true but this debasement of money has changed. It has had a moral impact on man's view of his savings or his world. So there's really no demand for this at all. Very very nominal and minimal and I say this from experience.

Grant Williams: Sure. But what that does is it enables you to create ... a practice create an investor base of two quite like minded people because they are so few and guys like you know there's all so few that eventually you find each other and that creates itself a very robust practice. That gives you that ton of preference, that permanence of capital that enables you to do what you do.

Anthony Deden: No but the only way that we would ever get permanance of capital as other holding company have is by listing ourself on our stock exchange and making a shareholder liquidity subject to exchange trading. That allows us to fix our capital base and not ... Of course ... that we shareholders can trade our shares with other shareholders or the company buys back the few from time to time. But capital changes are ... They are insignificant. We have maybe a 1% a year change in our capital. By mono standards, it's tiny. I think you're looking at the wrong thing by saying I'm strange but in that they've been many families and others in the past particularly in Europe. Americans, if you ask them about investment. Great investors, for example, they can name Warren Buffett for example, which is ... Here on this continent, they're many. Most of them are completely unknown. Have no interest in promoting themselves and they have extraordinary records over generations in creating wealth in the form of a family or a listed holding company.

Anthony Deden: When do you start thinking about enriching yourself from the assets of those who are participants in your scheme, then you are no longer an owner you become really ... That becomes a business in itself. If for example, I out capital base about 330 million, if it was double, I would not make any money. I would not see myself or anyone of our team. This is completely different from the world in which funds and others operate. Where the size of their capital pool is directly proportional to their income and very little of it has to do with long term results because people do come and go. No one sees annualized rates of return over 20, 25 years because no one hangs around for 25 years. But for each family alone, the part on a personal basis, the results over 20, 25 years, matter a lot. Financially it gives you the tools with which to deceive oneself. To make it seemingly complicated so you can razzle dazzle people and make them think somehow you know more than they do or on the average.

Anthony Deden: The average man who worked very hard for what he owns, probably knows more than most investment advisers.

Grant Williams: Yeah.

Anthony Deden: It's true.

Grant Williams: Yeah. But is this idea of industry first, finance second has been turned on its head. We don't think of ... We think of industries in financial terms now rather than think of the industries themselves. What is the business? Who are the costumers? That's been turned completely on its head. We now look at: What are the earnings per share? What are the fore costs for the next 12 months?

Anthony Deden: But this is truly an American observation. You cannot internalize this around the world. In America, this is generally true. You won't find it among privately held firms where I'm from, extraordinary [inaudible 01:14:37] Americans privately held. But in the United States generally, a listed company there ... and I'm being unfair perhaps by generalizing too much but even with this disclaimer, a listed company's principle business is their stock.

Grant Williams: Yes.

Anthony Deden: Nothing else. What they do is unnecessary complication to the idea of the stock going up and so ... because this is what the costumer want. If there were owners in those firms, there would not be any disputes about compensation because the owner of a business knows very much well how to compensate. An owner in a business doesn't take options, no. It's common stock, he owns it.

Grant Williams: Yeah, yeah.

Anthony Deden: This idea of sustainability. I think about the increasing use of the word sustainability. The more unsustainable the system becomes, the more we talk about it. The idea of corporate responsibility has become a very big business. Owners don't need to be reminded to be responsible. It is not uncommon for someone to be given somewhat of a tip of some kind. Perhaps watching CNBC or something and say, "Well, this must be great idea. I will put a 5, 10 thousand in this and hope it works." And they are likely to part with that 5 or 10 thousand or 15 on the basis of a very very flimsy suggestion by someone or just a hunch or a hint. The story is a real story about this man who often did this sort of thing but one day he came to me. He says, "I need your help." He Says, "There is going to be a dry cleaning store in our neighborhood and I have a chance to invest money." And I said, "Well that's wonderful."

Anthony Deden: He says, "Well I've got to do some research." So he says, "I went around, found out that nearest dry cleaners is only two and a half miles. They're very busy so there's likely to be demand for this cleaning shop." I also went to industry to find out what the operating margins are for dry cleaning stores and what is the normal labor proponent versus the immortization equipment and on and on. And so this man was a dentist, actually. He was an educated man by knowing the standards. The moment he had an opportunity to invest in something that was not quoted and he didn't really know what he'd likely to do, he became fascinated with he'd like to do. He became fascinated with the idea of being an owner in a dry cleaner. But he saw the necessity of understanding those ingredients that would otherwise contribute to the success or failure of his investment whereas on the other hand, because an investment ... Throwing money on the tip is the kind of thing that allows you well the next day to sell it or to buy more et cetera.

Anthony Deden: That liquidity gives you your ... an excuse not to want to know anything. Not to understand anything. I think this ... For me, it was an incredibly interesting example of a microcosm of a larger world.

Grant Williams: Yeah.

Anthony Deden: This again. Again, I think that when you look through history and people bought into their South sea ... China South Sea company in London, they bought the Mississippi bubble company in Paris some years ago. Man has always sought to become rich with our world. I'm not interested in that. See, I'm not interested in a man who's already rich. Who's already earned something and he wants to keep it. These are different people. Their needs are different, their world is different. So if you have some money in your pocket, some ability and somebody wants to become rich. There are a million places where you can go gamble, from Las Vegas to everywhere to Wall Street to [inaudible 01:18:43]. There's an umpteen number of ways. Bitcoin, Zitcoin. There's just everything. But for someone who has already acquired ... has the fruit of past labors at hand, the tools of which you protect wealth are different from the tools that are needed to create it ... to start wealth. And so, the tools are different. The framework is different. The objectives are different. The methods are different. The language is different.

Anthony Deden: I have a habit of revisiting decisions. Good or bad over the years and I go back and I ask myself, "What is it that I should have seen that I didn't? What was possible to see?" That one overlooks. I also ask myself, "What could I have seen that I didn't? What did I see and how did I focus on those that others didn't."

The idea behind this is to be able to separate an element of luck and happenstance from skill. Now of course, since then I'm making fewer decisions than I ever did in the past. I think back in those days I would have made 20 or 30 decisions. Investment decisions a year. Today I make one, maybe two on a very busy year (laughs).

Grant Williams: Right.

Anthony Deden: The ability or the necessity to go back and examine decisions is necessary because it hones your skills and understanding because what you see is ... I've come to the conclusion that and perhaps we can talk about this at some point. The unseen and the unmeasurable are more important than the other kind. And that has come from such observations over the years. Things that kill you are often times things that you cannot measure or we cannot see. Generally refers back to people perhaps.

Grant Williams: Yeah. Understanding not just the notion of risk itself but the nature of and the possible places from which the kinds of risks that threaten an investment may emerge is crucial and frankly, something which is given far too little thought by the average investor today. In modern times, we distill risk down to a number. We call it volatility because it's easier for most people to quantify. But in doing so we are ignoring the very nature of the risk itself. But as Toni and I walked in the snow, a conversation turned into something he feels is a vital component of any investment, time preference.

Anthony Deden: This date farmer I met is an Arab and he had inherited and orchard right. It was called an orchard.

Grant Williams: Yeah.

Anthony Deden: It's roughly about a thousand trees and he had just ... he showed me around and he showed me that ... something like a hundred trees that were recently planted and I said to him out of curiosity, "I have this curiosity about-" I said, "How long will it take to ... for this to bear fruit?" And he says, "Well this particular variety-" He says, "it will bear fruit in about 20 years." But that's not good enough for the market. It may be about 40 years before we can actually sell it. I have never heard this. I did not know this. Are there other date trees that would produce faster? But anyway, So I said, so all of a sudden, I became odd because I looked at all these trees that were being harvested and you realize that he couldn't have possibly planted them.

Grant Williams: Yes.

Anthony Deden: He goes, "Okay. Here's my grandfather and my father, great grandfather." It was fascinating. Why would a man do something today for which he would receive no reward in his life time? And the only reason he would do this if he's time preference is solo. That he's concerned about his family's wealth a generation or two from now because he received no reward by planting a tree that will have no ... In your world they would call it an economic loss. A loss of opportunity or God knows what they would call it but he saw the world differently. And in the supermarket I see dates. I think about the story now. And I'm sure there are other similar kinds of situations. I do wanna certainly tell this story about anteau antuvet, the german of belle from Azori Belle and the first time I met him. Something had happened in the company. It was notable. Anyway, he said ... So I said, " I want to congratulate you for-" Something, I don't remember what it was and he says, "Anthony, you don't need to congratulate me. I

Anthony Deden: found myself in this family. Those several generations built this wall and I'm adding on two bricks and I'm passing this on to someone else. Think about what this man said. I was instantly in love with this man.

Grant Williams: Yeah.

Anthony Deden: And it made no difference if he made cheese or made furniture. He had a perspective of what his role was. A perspective of what his task was, what his mission was. To protect, to preserve and to enhance what he was handed. He was not in the business of quickly selling it and making money and doing... It didn't make a great deal of money but it did make money as a result of making great products.

Grant Williams: Yeah.

Anthony Deden: So how many people in the world can I find that I can buy 2,3,4,5% of their business to think like that. Cause that way I can sleep very well at night and I can assure you the capital that I commanded is deployed, it's gonna be around 50 years from now.

Grant Williams: Great but we touched on it earlier but this comes back to people. This is ... We could find a company that looks good. Like, coming out of that screening you did when you got 78 thousand companies down to 150. It then comes down to the people. It comes to the ... Let's face it. Every intergenerational company, I guess the biggest potential pitfall is you get that one generation where the kid comes in and he decides that he wants a Ferrari instead of a family business.

Anthony Deden: Sure. Absolutely.

Grant Williams: That's an unquantifiable risk.

PART 3 OF 5 ENDS [01:30:04]

Anthony Deden: Its just in factor of the norm more than an exception.

Grant Williams: Yeah, right.

Anthony Deden: You probably, you were a manager as well for a while weren't you?

Grant Williams: Yeah. Sure.

Anthony Deden: Did you go visiting, talking to people. This is not...

Grant Williams: Not as many as you.

Anthony Deden: Obviously.

Grant Williams: I'm not the same kind of people as you because these were big companies.

Anthony Deden: Oh yeah, yeah, yeah. You're right. You asked them for their [inaudible 01:25:32] (laughing)

Grant Williams: Yeah, there you go. There you go. Something along those lines. A lot of that stuff was private.

Anthony Deden: No. This has happened to me twice. Once happening in the United States and the case, I told you it happened here in Europe where I'm visiting briefly with the man who runs the business who is the member of the family who owns a large stake and many of the times, they aren't really involved in the production of things. So it's really not a ... they don't [inaudible 01:26:11] by the way.

Grant Williams: And-

Anthony Deden: So he says, "How many shares you own?" I said ... Sorry I don't remember what it was. He said, "By the way what are our stock price nowadays?" Nowadays.

Grant Williams: Nowadays, yeah.

Anthony Deden: He was genuinely curious because he could have found out ... It didn't occur to him that it was necessary for him to know what the current price was. And so half the times you see ... For example, let me just give you ... I sometimes think about this. Yesterday we have one holding in which someone sold 14 shares. The prior closing price was 505 Euros. Yes?

Grant Williams: Yep.

Anthony Deden: And the new bid was 480, asking 550, 540. Past 540 mid 480. Somebody sold 14 shares at 540. The last price came down to 2 and a half percent and I calculated that for the family that owns the company that was ... translates to something like 400 million Euros worth of change but imagine they were watching it.

Grant Williams: Yep.

Anthony Deden: [inaudible 01:27:30] For us it was something like 600 thousand of dollars or Euros or I don't know what but the fact is that the more often, the more frequently we look at something. The more frequently you second guess why you own it and would ask ... Who is that? It's important to know that you work for people that are like minded with you. I'm not doing this to become famous or rich. And so, if there are ... If we have 117 shareholders in the firm, I want to make sure, I want to know that at least the majority of them (laughs). Understand what we do. Appreciate what we do and then I feel confident in working for them. I really feel a sense of pleasure in doing whatever we do for people who ... If they were strangers, if they were people who were going somewhere else or wanted something else. Wanted excitement in life. You've been told many times, "Why don't you leverage the portfolio? Borrow money?" I've never done this. "Why don't you sell something short?" Never done this before. I don't even know how to do it.

Grant Williams: Right.

Anthony Deden: "Why don't you buy this or why don't you take your reserves and buy treasury bills in Zimbabwe? The interest rate is higher?" We don't do any of these things. If you are not happy, there's so many people that would be happy-

Grant Williams: Don't play with your money.

Anthony Deden: This is not a competition.

Grant Williams: But it comes down once again to people. You have to make a judgment on the investors when they come in. They have to make an adjustment-

Anthony Deden: This is so rare.

Grant Williams: I know (laughing) They have to make a decision with you and then you have to make an assessment of every management that you were ... Okay, you bought 28 investments. That's 28 investments you have to write.

Anthony Deden: Our shareholder turnover is much lower than our portfolio turnover.

Grant Williams: Which itself is-

Anthony Deden: Which [crosstalk 01:29:32]

Grant Williams: Yeah. But there's a reason for that and it comes down to people. It's because the people you invest in and the people who invest in you make judgments that turn out to be in the most part, correct about those people.

Anthony Deden: Right. Right.

Grant Williams: So how do you, as that judgment of people, is such an important component , in both directions of what you do. It's also the hardest quantification to make successfully because they're people who'd really notice.

Anthony Deden: Yes. It's also important that for

Grant Williams: Because they're people, who really knows?

Anthony Deden: Yes, it's also important that, for example, in my case, I have a wonderful team and I want to be able tot pass on to another generation the ideas that are most valuable. They all have their own personality and they have their own temperament and all that. So you want to pass on ideas that matter. And one of those ideas is the ability to judge other men.

Grant Williams: Yeah.

Anthony Deden: And you can only do this with practice. And you can only do this by observing things. We have been known to make a completely reversal on an investment we hold on the basis of a single sentence that was uttered by a CEO or CFO.

Grant Williams: Right.

Anthony Deden: That betrayed something that I would not want to have. So imagine you owned a whole company. And your president of your company or financial officer comes in and gives you a report. And in that report he says something that you'd want to fire him on the spot. Right?

Grant Williams: Right.

Anthony Deden: And you would. And you should. In my case, I only own 1%. You don't sit there and rationalize and say, "Well, that's not what he meant. And his [inaudible 01:31:26] ratio is good. And the [inaudible 01:31:27] is good. And the prospects are great. So hold it." No. You get out.

Anthony Deden: I can tell you an incredible story, I don't mind telling you the name. Well actually, maybe i should. It's a company that at one time in Brazil was the largest processor of chickens in the world. The company was called [inaudible 01:31:46]. And I went to visit them in Sao Paulo because this company not only produced chicken for the local market, but they also sold a vast majority of breasts and other good components of the chicken to markets in the Middle East, to Russia, and elsewhere. They generated a great deal of foreign income, foreign exchange. They had their own, they grew their own wheat to fee, they made their own chicken feed. They were exceptional. And it was the second generation.

Anthony Deden: And one day I went to visit. And we owned a stake in it. And I visited with the CFO, the patriarch in the family was absent, he was not there and it was sad because I wanted to meet him. The CFO said, "Ah," he says, "if we had the ability to have access to the banking system so that we can hedge our receivables from various countries," and this was 2000 something, "we can make more money by being able to foresee," because we can foresee foreign exchange rates. Only if we could work with an institution that would work with us in the forward market. And the CFO insisted on telling me, spending 15 minutes telling me about this thing that had nothing to do with chickens.

Grant Williams: Right.

Anthony Deden: So I noted it. Two years later, it was in the news, [inaudible 01:33:17] buys a 60% stake in a bank in Brazil. Within 30 minutes our entire stake was sold.

Grant Williams: Right.

Anthony Deden: Just on that announcement alone.

Grant Williams: Yup.

Anthony Deden: Within two years, the company goes [inaudible 01:33:33]. Out of business. Look it up.

Grant Williams: Why is it, I wonder, that stories such as that of [inaudible 01:33:43] demise seem so unsurprising today? And yet Tony's response to that one announcement about the company buying a stake in a bank catches one completely by surprise. Tony's logic is simple, his action in selling his whole stake in the company completely justifiable. And yet it seems like a bold move instead of a prudent fiduciary action. This intense focus on the people responsible for the stewardship of a company in which he has an investment is central to the way in which Tony identifies potential places in which to deploy his irreplaceable capital.

Grant Williams: But sometimes, even with this level of attention to detail, drastic and painful action can be required.

Anthony Deden: How would you act if you owned the entire thing? You walk into a business and you meet the head of the business or the Head of Development or the head of anything, ask yourself, "If I own this entire thing, would I hire this guy to run it?"

Grant Williams: Right. Yeah, that's a great question.

Anthony Deden: Now where is the formula to tell you that?

Grant Williams: You're absolutely right. But yo have to [inaudible 01:34:44], you have to look them in the eye.

Anthony Deden: And the answer is no. Why would you want to own a thousand shares?

Grant Williams: I don't disagree, but how do you make that judgment without going to meet the man and talking and him, maybe on another day, you may have had a completely different conversation with him.

Anthony Deden: Sometimes you don't have to meet them. Sometimes what you can do is you can look at their actions over 20, 30, 40 years, 50 years. And be absolutely certain that in the right time, they made the right decision for the right reason in the right way. And they've done this all their life. You don't need to meet them.

Anthony Deden: We have a fairly large investment in France and I have never met ... actually two. I've never met the people involved. But I am extremely assured, as much as I've done everything else, that they're the right people doing the right thing in the right way.

Grant Williams: Yup.

Anthony Deden: Assured. On the other hand, I must tell you about an unbelievable error in judgment we made because we bought a large stake in a company that by all standards had enormous value in it. And, the people who run it, said all the right words.

Grant Williams: Yup.

Anthony Deden: And it was not until a year or two later that, through sleuthing really, we came to conclude that what they said and what they did and how they acted were completely different. And so, no matter how valuable the company was, we exited it.

Grant Williams: Yeah.

Anthony Deden: And it was actually quite painful, mostly to my own ego.

Grant Williams: Of course.

Anthony Deden: Because I'd invested a lot into understanding this. Today, you're suffering from a culture of unaccountability.

Grant Williams: Yes.

Anthony Deden: Look how many times you've heard recently the word transparency. Everybody says this, huh? When I was a young man, no one really know the word transparency. When a company's owned by an owner, there's no need for transparency, right?

Grant Williams: Yeah.

Anthony Deden: When a company's owned by someone who is responsible to the owner, that's all we need, is responsibility.

Grant Williams: Yes.

Anthony Deden: We used to have this word, no? Now we have manufactured all this bureaucracy and to satisfy our nominal need that things are being reported, et cetera et cetera. Every fraud in the world had audited financial accounts. Every one. So that doesn't mean anything either, does it?

Grant Williams: No, no it doesn't. It doesn't.

Anthony Deden: This is an old business, in making barrels for wines and spirits and the Francois family in France had controlled it for years. But the son was a bit more ambitious and he saw opportunities in an industry that was being consolidated, principally on account of incompetence, particularly [inaudible 01:37:51] in Scotland. But because, it may sound a simple thing, making a barrel, but it actually isn't. It takes a lot of work and you need to know what to do with the wood, the components. You need to teach people how to - it's really difficult.

Anthony Deden: But they're very traditional. For example, this company relied mostly for most of its life on demand for barrels in the Bordeaux and Burgundy regions in France. In fact, I think, they have all the market there for that. But they've grown. Now they have operations in Australia and California, in Scotland, in South Africa, Chile, I think, I'm not on top of all those details. But the point is that they've grown to be really the largest company of its kind in the world even though there are only 250 million in size.

Anthony Deden: And this is in a business that people would consider boring.

Grant Williams: Right.

Anthony Deden: I mean there's nothing sexy or exciting about making barrels. But I tell you, they'll be making the same barrels 50 years from now and they'll be the very best at it. And they will be three, four, five times the size they are today.

Grant Williams: But that's durability, that's endurance that you talk about. Finding these businesses that people think are boring because they don't leverage out the balance sheet, they don't chase growth, they don't do all these things.

Grant Williams: Talking about durability and permanence, so I have to bring up the subject of gold.

Anthony Deden: Why do you have to?

Grant Williams: Well because I feel like it's a permanent asset. It's a durable asset.

Anthony Deden: Why?

Grant Williams: Well I'm going on 6,000 years of history. Maybe one day it doesn't become permanent. Maybe one day it doesn't become durable. All the evidence so far points to it being that way.

Anthony Deden: Why are you asking me if you know more about it than I do?

Grant Williams: I'm curious to see your views on it. Because I know you have owned gold. I suspect you probably still own some gold. But I'm curious as to how you think about it within the framework that we've been discussing today. Because it's not a company, there isn't a man whose eye you can look into.

Anthony Deden: It has no PE.

Grant Williams: It has no PE.

Anthony Deden: It has a P but not an E.

Grant Williams: Right.

Anthony Deden: And the fact is that the P is in money which itself has no ... we don't know what it's worth.

Grant Williams: Yeah.

Anthony Deden: Well I have had a fairly long history with gold starting with 1998. I've owned gold [inaudible 01:40:21] for many years. I think at one time I saw it as being incredibly miss priced. And I saw it as an anomaly thinking that somehow the market has ... occasionally the market miss prices certain assets.

Grant Williams: So what was it that made you think it was miss priced?

Anthony Deden: I had a curiosity about gold for the right reasons for a long time I used to be an owner in Franco [inaudible 01:40:51] since 1996 or there abouts. But I've never owned a [inaudible 01:40:57] and Franco was in the business of royalties. And it was an extraordinary business managed by incredibly good people. But in 2001 I had a fortune to be a guest of Goldfields in Johannesburg. And as part of this thing they gave us a tour of several facilities and I don't really know what mine we went to, but I know at some point, the man looked at us and he says, "Do you see this filed over there? There are ten thousand people that work two and a half miles down.

Grant Williams: Right.

Anthony Deden: And I stopped for moment to consider the logistics of providing air, food, water, whatever, living conditions for so many people down there. And immediately I think of the capital that it takes to do that. This is not a small matter. And then they took us in this elevator shaft that moves actually quite fast. They took us all the way to the bottom of this bit and they gave us a tour of the rock faces and all that and I remember I had this unbelievable feeling as I was coming up the elevator some house later, that either the price of gold was miss priced, it was selling at the time at 250 dollars, somewhere, give or take ten dollars. Or, all of this capital that had been sunk here had to be written off completely and forgotten.

Anthony Deden: I thought of the idea that it was either one or the other. They could not have been any rational solution in the middle.

Grant Williams: Right, it either was nothing or a lot more than 250 bucks.

Anthony Deden: That's correct. And what I did is that I felt compelled that this was the time to buy it. And I did not buy gold, I bought shares in gold fields.

Grant Williams: Right.

Anthony Deden: At the time they were selling for around two dollars or something, or less.

Grant Williams: Yeah.

Anthony Deden: But a year or two later, after the initial rebound had taken place and gold fields were selling at 18 or 19, I decided that I would own gold, the physical metal, for different reasons. I would own it ... so I sold equities and I bought shares in GLD which I subsequently sold because shares in GLD, for me, did not represent ownership in gold. They represented a security that perhaps reflected its price. I wanted to own the real thing. Same way a farmer down here doesn't own cattle futures, he owns the real cattle.

Grant Williams: Yes, cows. Yeah, right.

Anthony Deden: So over the years, the component in gold portfolio, of course the price went up from 250 to whatever, 1600, et cetera, back down to 1200. Today, it represents gold about 35% of our capital. Physical metal. But, I should tell you, I don't own it with the idea that the price will go up. So don't ask me where the price is going or when...

Grant Williams: No, I would never do that because you're right, it's unimportant.

Anthony Deden: I own it because, had I not owned gold today, I would own treasury bills, I would own short term commercial paper, I would own cash deposits and other such things to provide me liquidity because I think that roughly about 60 some percent of our capital is permanently invested. Roughly about 40 of which 35% is gold is in liquid. I want it liquid so I can exchange it for participations like the one we have in the future some point.

Anthony Deden: And I think any good investment operation, particularly it involved irreplaceable capital, must have embedded in it a source of continuity and substance and reserves. So, an years ago, I would not hesitate to buy treasury bills, commercial paper, short term bonds, time deposits. But I have come to believe that virtually all of those things I just mentioned, they're actually debt.

Grant Williams: Right.

Anthony Deden: When you deposit money in the bank, the bank doesn't actually hold it in their vault, it's a liability of the bank. When you buy a treasury bill, you're buying somebody's debt and you call it an asset. You're buying a bond, it's actually a debt, you call it an asset because it's got a [inaudible 01:45:30] number or an [inaudible 01:45:31] number on it. So I decided I want my liquidity not to be somebody else's liability. I want it to be an asset.

Grant Williams: Now that's interesting.

Anthony Deden: So gold gives me what? Scarcity.

Grant Williams: Yup.

Anthony Deden: It gives me permanence. And it gives me independence from the financial system.

Grant Williams: Yup.

Anthony Deden: It gives me all those things.

Grant Williams: All those things you're looking for.

Anthony Deden: In those three things.

Grant Williams: Let's do a present day hypothetical. It is hypothetical, but still, let's give it a try. But if you decided today, what would make you exchange your gold for something today.

Anthony Deden: I mean, I hate to say this to you today because I don't want anyone to quote me on it. But today, the nominal price of gold is in fact cheaper than it was when I first bought it in 2001. Now, if you buy it for the sake of profiting from a price rise, there's really nothing wrong with this and I'm sure in fact there are many people in your organization who you've talked to who know far more about it than I do.

Anthony Deden: My sentiment about gold is very simple. It's something that I understand, something that I hold in a vault that I can. Something that can be sold to anybody, anywhere in the world at a moment's notice. Something no one actually owes me. It's not a claim on anything. It's not a promise for anything.

And there's a sense of peace that I possess by having financial strength that even central banks don't do.

Anthony Deden: We own three tons of gold and at one time it's more gold than most central banks in the world own.

Grant Williams: Right.

Anthony Deden: Canada owns nothing I think, or something.

Grant Williams: I'm willing to bet a substantial size of my [inaudible 01:47:19] that you don't own any bitcoin. Nor will you ever own any bitcoin.

Anthony Deden: Point is I don't what it is.

Grant Williams: Right.

Anthony Deden: I don't know where it is. I don't know what it looks like. I mean they have the silly pictures of gold coins.

Grant Williams: Gold coins, yup.

Anthony Deden: With a B on it. And they talk about mining it. So they've used all the elements of ... superficial elements of that having some sort of tangible ... I don't know what bitcoin is. Where do we find one? Can I misplace it? Do I lose it? Where is it held? And so, I don't want to own things I don't understand. I don't care if it's going up. It makes no difference.

Grant Williams: Right.

Grant Williams: From everything we talked about, I knew gold must have had a place in Tony's portfolio. But even I was taken aback at just how large a part it played. Upon reflection however, and given the exceedingly small universe of companies which meet these stringent investment criteria, it made more and more sense to me that gold would be the perfect place to keep his liquid assets. A world away from gold, Tony's search for long term investible opportunities, requires an understanding not just of an overall industry or even an individual business. But also of the various component parts that come together to create that which the world sees at face value.

Grant Williams: So I want to talk to you about something that is a common thread in some of the conversations we've had. And it's the idea of the structure of production. Because this is something that recurs time and time again and I'm interested in it because today people think one step down the line. If an idea happens, they think, who's the beneficiary? And once you get a sense of the structure of production, and some of the examples that you have of companies that you found that are three, four, five, six, seven steps down the production line, just talk a little bit about that concept of how you use that to identify companies.

Anthony Deden: I don't think that we purposefully look for [inaudible 01:49:21] standing. It's just a natural outcome of perhaps valuing the idea of scarcity a bit more than others. For example, a lot of people [inaudible 01:49:37] ... perhaps like to enjoy having a whiskey. But a lot of people do make whiskey, a lot of people make the glass and the bottle, but how many people make the machine that makes the bottle?

Grant Williams: Right.

Anthony Deden: Only one. And you end up having a view that there is scarcity in oligopoly and certain areas have come as a result of some event or some reasons that are ... economic positions that are impossible to compete with for a number of reasons.

Grant Williams: Mm-hmm (affirmative)

Anthony Deden: So to the extent that these economic agents are wise and they can use their position to do well, that idea of scarcity in technical expertise or position adds to their enduring value of the company. I would not want to participate in the securities of a company that does some commodity item like, even if it may have a label on it or some kind of a brand. Because the barriers to enter are fairly low in most cases. Or the general acceptance of such product is subject to the seasonal whims of the public, the buyers.

Anthony Deden: By the same token I'm not interested in acquiring a stake in a company that provides aircraft transport or train transport or truck because they have no operating leverage, they're subject to inputs and costs that are beyond their control, the subject of government regulation. And they don't represent the substance that I want to have. Now they may be find for other people, but just not for me.

Anthony Deden: On the other hand, we spoke earlier about an investment we have in [inaudible] in Switzerland. And here's a company that produces polymers, I mean a lot of people can probably do the same things they do, nonetheless, here's a chemical company that has operating margins unheard of in the chemical industry. But only the sense that they take this polymers polyamides in this particular case, to create products that solve problems that no one has ever thought of. Among their many products, in fact, they make the little exciter that goes into every air bag in the world.

Anthony Deden: We're not looking for the place they are in the structure of production as much as we're looking for this uniqueness, this ability to have natural barriers to entry that are based on a number of factors that difficult to compete with. That's just an advantage. It's not always permanent, you have to cultivate it and you have to adapt it, nothing is permanent.

Grant Williams: Right. But the further up the structure you go, the more challenge you have of identifying an input that is, for now, unique.

Anthony Deden: Yeah, but you don't want to manufacture a product or to be part of ... I don't want an investment in, a participation in a company that makes something the nature of which is so large as a component of something so as to be subject to the seasonal demand or subject to external risks through government intervention or regulation or competition. I want an element of independence and often times, for example this excitor I was telling you about, only as an example, is an infinitesimal part of an automobile.

Grant Williams: Yeah.

Anthony Deden: Yet, an automobile cannot do without that. As a matter of, we can talk about many other such examples. So you need to gauge and understand the strength of what you own within a competitive economy in which we operate.

Grant Williams: But this excitor idea is an interesting one because it's a tiny component that costs a handful of Swiss francs, but it's in every single car that's made today.

Anthony Deden: Sure.

Grant Williams: And as the number of air bags increases and safety standards increase, the number of these units required also increases. So something like finding a company like that, which is up there hiding in plain site, but people think about, "Oh, car sales." Ford, GM, Volvo, Saab, whatever. They don't think about component parts, certainly not down to that one tiny tiny component. That's the extra work required if you really want to understand a process and find a point in that process that is defensible and profitable and will help a company make money for a long period.

Anthony Deden: Yeah, right.

Grant Williams: So when you find a company like that, just, if you can, walk us through the process from finding the idea, how do you then go from, "Here's my idea, here's a potential investment." How do you turn that into an investment?

Anthony Deden: I'm not sure that there is a check list that one would normally think is there. First of all you need to ask yourself, do I like this business?

Grant Williams: Yup.

Anthony Deden: You can't just merely say, "I'm making an investment because I'm gonna make money with it." First of all, "Do I like this business? Do I understand it? Do I want to be in this business?" Why? What is the history of this firm? What are the competitive advantages? What is the larger environment in which it operates? Both from the issues of demand, what is the demand for the product come from? Does it come as a result of government policy or subsidies or regulation or does it come as a result of choice on the part of the consumers or the customers et cetera?

Anthony Deden: What are the components that go into this business and how are they regulated and what subject? What risks are they subject to in and of themselves? What is a market for this company's products? The supply of components, the market for those components.

Grant Williams: Sure.

Anthony Deden: How honest are the revenues? How permanent are they? What are the factors that influence their operating margins or unit growth? How have they deployed their earnings in the past years? How have they grown? I have never met a company that has grown from acquisition subject to just acquisitions. Acquisitions are ... when you look at something that depends on acquisitions or financial engineering, you're looking at an accident waiting to happen.

Grant Williams: Mm-hmm (affirmative)

Anthony Deden: What is the ownership structure of this company? Who owns it? How long have they owned it? What have they done with it? Who are the people involved? How long have they been here? And so, the fact is, that as you begin looking at it, at any one moment you come across something that say, no I'm not interested. Something significant.

Grant Williams: Yeah.

Anthony Deden: It's only at the very end when you say, here's something that is substantive, valuable, something enduring, something scarce, something extraordinary, something beautiful, that you ask yourself, well, what is it worth? We all know what something sells for, right?

Grant Williams: Right.

Anthony Deden: Particularly listed securities. You know you can look it up and immediately see what it sells for. But what is it worth? How do you approach the idea of value in this particular case? What are the components that add to value? What risks are inherent in the business that you would want to take haircuts against? How do other people think it's worth? Under what circumstances over the period of time? Is it something that's neglected? Is it something that' followed by every mutual fund and ETF in the world? If it is, I'm not interested.

Anthony Deden: Look, it's not a science.

Grant Williams: No, absolutely not.

Anthony Deden: And I think it would be a mistake to suggest that you have a check list and you go through [crosstalk 01:58:29].

Grant Williams: Oh no, I'm not suggesting that. I just, [crosstalk 01:58:31].

Anthony Deden: It's a subject process that, sometimes you come to a very quick conclusion as to the attractiveness of something. Sometimes it's sort of like you meet a girl, some people just know immediately. I've met someone who says, "Immediately when I saw this girl, I fell in love, I knew she was gonna be my wife." That does happen.

Anthony Deden: Other times, you get to know someone. You get to grow with them, talk to them, take them to dinner, et cetera. And then, you begin to appreciate the value that is in this person. The same thing with this. The last thing I do, really, as a person, is look at the price and say, well, often times of course, in the last ten years more often than not, things that I would like to know are priced at such a level where I think it's just not suitable for me to acquire it, to invest at that price.

Anthony Deden: Price is an important thing. But ... what others think about what the potential earnings are is not of consequence to me because I know they all, I've never met anyone who can predict these sort of things accurately consistently. So I don't rely on any of it. We have a wonderful team that does a lot of work answering some of the basic questions, but I ask myself two or three questions often times. One is that if I own this whole company, would I want the same people to run it?

Grant Williams: Yeah.

Anthony Deden: This is I guess very

Anthony Deden: I don't want the same people to run it. This is very subjective. Another question I ask myself - would I want to own the entire thing? Is it something I would want in my collection of assets? If I wouldn't want to own the entire thing, why would I want to buy just a little bit so that I can...I ask myself, is this business likely to be around 20 years from now? I know this is a difficult question, and I know you probably say to yourself, "How would you know?" Well, if it has been around for 200 years or 150 years, chances are it will be around for 20 years. You generally know when you look at the decisions that are being made over a period of years. Looking at decisions, you understand the motivations of those who own this firm, and you understand whether or not they're sowing seeds for the next year or for the next ten years. I used to own a stake many years ago at Safra's Bank in Luxembourg. Safra National Bank. You remember this bank?

Grant Williams: The Safra, yeah.

Anthony Deden: We owned it for seven or eight years, and the price never changed. It was 50, 51, 52, 49, for seven years. The business was doing very well. No one was following it, unbelievably, so the dividend yield at the time was 12%. Current yield. Anyway, I remember distinctly someone saying to me, "Why do you own this? The price is not going anywhere." I said, "It's a great business." Edmund Safra was a banker's banker. He's one of my heroes. Then one day, HSBC paid me $195 a share when he sold the bank after seven, eight, nine years; I'm not sure how long.

Grant Williams: And you'd been paid 12% a year to hold that for seven years.

Anthony Deden: I was paid 12%, yeah. The point I'm trying to make is, we make a lot of judgments by looking at the price of something on a daily or weekly basis without having a clue as to the seeds that are being sown today, good and bad, that are likely to bear fruit a year, two, three, or four years down the road.

Grant Williams: Do you start trying to find reasons not to do something? Or once you have an idea, do you start?

Anthony Deden: Sometimes, yes. Sometimes something looks very nice, and you say, "There's got to be something wrong here."

Grant Williams: So you seek out to find the reason not to buy something?

Anthony Deden: Or not to add something to an existing holding. I'm a doubting Thomas. Now there comes a point in time, though, there are people that I know - people that run investment companies in which we have a participation - that I would trust completely. I mean, completely. Because they have a demonstrated faithfulness to the families, to their companies, to their shareholders over many, many years, and I would never second-guess them, never. There are others that I would second-guess, but I will write a little letter, maybe. A very nice little letter. If there's a series of error or actions that I'm not sure are in the best interest of the company long-term, I will quietly leave. That's the only thing I can do, being a minority shareholder.

Grant Williams: Sure. But these relationships...this comes back to time preference again, because you don't get to develop that kind of relationship with management, that kind of trust in management, unless you are a stakeholder, unless you [crosstalk 02:03:56]

Anthony Deden: I love this word - stakeholder.

Grant Williams: -participation. You mention this word, your participation in things. You have ownership in things. These are different terms to the way most investors think of things. It's funny. It's just words, but they convey a different sense of what these investments mean, both to you, your holding company, and your shareholders. You don't get to develop that without holding these shares for a period of time. And people don't. People buy a share. I guess some families pass on shares of Exxon or IBM to the kids. But it's such a big company, everything you know is out there. You don't really know who's the CEO of IBM, but these companies you find, these small-

Anthony Deden: Remember years ago, when we were younger, they're called "the gambling business." Now they call it "the gaming business." This is not by accident. They want to infer to you that there is an element of fun in giving money to the house when all odds are against you. This is quite similar to the typical investment process that most people do. You don't have to participate. You don't have to go to the casino.

Grant Williams: How do you go about generating ideas? Do they fall into your lap because of happenstance, something you say that will trigger a thought, and you'll just go off and investigate that? Or when you're sitting down with this time thinking, whether you're up in the woods or our in a boat? How do you find an idea? How do you find a company? I know it's a very broad question, but people do it different ways. Some people say, "I read the news. A story will happen, and I'll follow it through to its logical conclusion, see cui bono?

Anthony Deden: I've never had any investment ideas come through reading. I knew [crosstalk 02:05:53] forget that. Generally, it will come from knowing other firms who are in the same business or the same industry, or curiosity. You find a nice...I don't know, it comes from all kinds of sources. It's not important to be looking for opportunities. We don't do that. What is important is to acquire an understanding so you can recognize the opportunities when you see them, you understand. If there is an opportunity, it comes across for everyone to see, but very few people, perhaps, recognize it, right? So the people that recognize it are prepared to recognize it.

Anthony Deden: What are the tools you'd need to recognize something that appears? Well, you need understanding of a business, understanding of a sector, understanding of a market need. You need, perhaps, to have a third, fourth sense of something. I have conversations with a lot of people, particularly email correspondence, with people in some industries that we have, some companies that we have. We have a team in the office younger than me who are eager, enthusiastic, and perhaps even more curious than I am. Altogether, generally speaking, it will come across in the course of a year 50 or 60 situations that require that you take another look. Out of those 50 or 60, if you're very lucky, you'll find one that fits. But you have to invest a lot of time and effort. In the meantime, you learn something about the process. [crosstalk 02:07:48]

Grant Williams: Is that time ever wasted?

Anthony Deden: No. No, it's not wasted at all. What happens is that you, if you spend three, four, to five days understanding how oil is extracted in Canada and how it's refined and how it goes here and there and the cost components and the capital structure of companies, you acquire something. You may do nothing about it, but it's filed here. The next time the situation comes, you have tools with which to think. I think that what's missing in our world is this ability to have tools with which to think about the economic value of a business endeavor rather than its financial value. It's easy to say, "This company sells for X number of dollars a year," or francs. What's difficult is to say, "What is this company worth, and why?" Right?

Grant Williams: Yeah, absolutely.

Anthony Deden: Now, what has this been...part of the reason, there are also a lot of distortions. This private equity business that's coming into it. Private equity's nothing other than regular equity that's leveraged. Because of the ability to borrow unlimited sums to buy unlimited things, and their ability to turn them over, they're able to pay prices in the marketplace for businesses that are perhaps higher than the owners think they're worth. Their business is to extract substance out of such companies and get rid of them. Their business is to make money from their security. This has distorted the market's ability to find, to discover, true value in terms of price. The price discovery is really distorted immensely on account of both monetary experimentation as well as the moral consequences of such policies among economic actors.

Anthony Deden: It is difficult, but you don't have to do a lot. You don't have to do many things. You don't have to have expertise in every possible area. You don't have to do...whatever you do, you have to do it very well, though. [crosstalk 02:10:25] If you do it well, if you can say, "If it were my own money, my own savings, would I do anything differently?" And I can tell you I wouldn't do anything differently at all.

Grant Williams: Why is it that, to me, that seems like an extraordinary statement today? Why do I feel as though that's not-?

Anthony Deden: I dunno. Ask yourself.

Grant Williams: No, it seems as though-

Anthony Deden: To me, it's elementary.

Grant Williams: I completely agree, I think it's the way it should be, but I don't hear that very often. I don't hear that as an ethos very often - "I manage money as if it was my own savings." I just don't hear that because I think it's focused on returns, and returns are essentially a price.

Anthony Deden: Look, this is what people want, Grant. The market provides what the market demands. People want to have...I heard somebody the other day, "They don't make great movies anymore." Remember the great movies of the '50s, the '60s, the '70s. Why? That's not what people want. In a capitalist system, as we have, you have the freedom to produce the kind of product that people want to buy.

There's always a limited demand for something that is a bit more rare, different. There's nothing wrong with that. I find it completely acceptable. It is very unlikely that you will find a very large demand for something that is not very popular.

Grant Williams: It's self-evident, I guess, but it makes sense. I just find that this business was built on your kind of philosophy, this careful stewardship of savings. That was the foundation of the investment business. Yet today, I find you to be the outlier. I find your investment style to be an outlier, but to me, it hearkens back to a different time, a time when everybody thought the way you did. It feels as though the industry has lost its way, has lost if not its soul, then perhaps its center. And-

Anthony Deden: Look, Grant, you may be right, but I see it from a different...I know a number of people who do what I do, more or less the same way. Perhaps a few variants, but their philosophy's the same. What I can tell you about all of them: you will not find them on Twitter or on Facebook. No one will promote their shares or themselves. They're not on television, and they will all make fun of me of the fact that I am talking to you. I will get some phone calls about this.

Anthony Deden: But "he who shall search shall find," they say. It's in the Bible, I think. If you want to find very good-tasting tomatoes, it is unlikely you'll find them in your local grocery store. If you want good quality fish, meat, cheese, it is unlikely you'll find it at some large supermarket. But if you are seeking it, you will find it. It's there.

Grant Williams: Somehow it feels appropriate that those seeking a manager like Tony should have to work just a little harder to find him. What he does and how he does it, despite his protestations to the contrary, is unusual today. Not only is it unusual, but to Tony's point about why something might be rare, it's not necessarily something most people are looking for. However, for those whose time preference matches Tony's and who are looking for a true steward of irreplaceable savings, hearing this kind of wisdom will seem like water in the desert.

Grant Williams: How do people find people like you? Because to your point, you're not on Twitter. You don't do interviews. You don't do media. People have found you, and you know other people that think similar to you and invest in a similar way to you, but I don't. I talk to a lot of people in this business, and I spend time with great professionals that do a fantastic job, but you are different. You think differently, you act differently, you invest differently, and that requires you to have a different type of investor. We've always talked about this alignment and this time preference. There are people, I guarantee, watching this who have been trying to find someone that thinks the way you do and invests the way you do. You're very difficult to find. How do people do that? How do they seek you out?

Anthony Deden: I don't know.

Grant Williams: Because they wouldn't have the first clue where to start.

Anthony Deden: I don't know, but eventually, when we list our shares on the stock exchange, they can go buy a few shares.

Grant Williams: Actually, talk about that for a second, because that seems at odds. The reasons for doing that I understand, but it's worth talking about because that seems at odds, for you to list on the stock exchange. It would seem an odd thing to do.

Anthony Deden: Listing on the stock exchange is a way of finding freedom in an unfree world, believe it or not. It allows anyone anywhere in the world who is a share holder to buy five shares or sell them, without having to produce a serum-sample and a copy of this and a copy of the other. Today, we are more or less a rich man's club, but we can acquire more permanence to our capital by listing. A listed company has certain freedoms that privately-held companies don't have. One of the best ways to hide from the world is not in the desert but in the middle of New York City, perhaps sometimes. Listing may give us that longer-term substance that is difficult to find. We haven't concluded yet that we're gonna do that, but it's in the works. It's an option that we are considering.

Grant Williams: When you look at the industry from where you sit - and you are detached from it, you've created your own niche in that business and your own way of doing things - do you pay attention to what goes on in other parts of the investment industry, or are you just laser-focused on your little part in it and the rest of it doesn't really-?

Anthony Deden: Oh, I'm interested in the fertilizer business, the salmon-farming business, and lots of other little areas. I have no interest in, financial or...none. I mean, none. Zero.

Grant Williams: This is the last thing I wanna talk about because people, I'm sure, think, "How can you be an investor and pay no attention to the finance world?"

Anthony Deden: I'm thinking of a friend I have in England who manages a very large public fund with a fairly large visible standing. He will often do things because it's necessary because of the position he's in rather than because that's what he wants. He would readily admit, among others, there's no value in reading the financial press. There really isn't. First of all, the news is not news. It is true, it's all fake, but it's always been fake. It's nothing new. A lot of reports for news are poorly disguised promotions or written by people who have no clue.

Anthony Deden: I was once called by a reporter. I don't know how they found me. They asked me if they could use a quote from me that the reasons for the increase in something was because of this and that. If they could quote me. I said, "You can quote me. Yes, the price of this increased, but not for the reasons you've suggested. I'm happy to give you my view." They said, "No, no, no. I just want to quote you that they went up because of this reason." I said, "You cannot quote me then." They said, "Okay, thanks" and hang up the phone.

Anthony Deden: I recently met a farmer in Greece who has 25,000 orange trees. It's a wonderful business. I was discussing with him the economic viability of adding value to his production instead of selling the apples directly into the market, because he has thousands of tons. He says, "I haven't thought about it because I'm so busy with the trees and their care, I haven't had time to think about some of these matters." I said, "How does government policy and subsidies and other things impact you?" He says, "I don't know." I said, "Don't you have a local press industry that follows it?" He says, "I don't read that stuff. They don't know what they're saying."

Anthony Deden: People who are involved in a real economic endeavor don't have the time. Of the people who have friends who are fund managers, none of them tweets. No one has time to do that. Besides that, what can you say in 40 characters or whatever it is they sell you? I'm not suggesting Twitter is not a good thing, by no means, but there's just not time to do these things. There's no...just don't have the time.

Anthony Deden: I think part of looking at the press constantly and seeing, what do other people do...because people's decisions are largely based on other people's decisions, other people's temperament, other people's world view. They seek to create an investment framework of their own based on ideas that come from others. The way to find them is reading the press or watching CNBC, or whatever people do in the English-speaking world. If you stand back and say, "I'm really not interested in what anyone else does. I inherited this small fortune, and I want to deploy it in a manner that makes a great deal of sense. I'm gonna sit down and figure out for myself, what is the right thing to do?" Then you are uninterested in what other people do because you don't know their motivation.

Anthony Deden: A year and a half ago, they asked me to speak in New York, I told you, in this forum. They told me, he says, "Look, you have to say whatever you say, but then you give us two good investment ideas. People are used to this sort of thing, and they want them." So I said to the organizer, "Imagine you ask a doctor, 'Can you give me the names of two good drugs?'" Hm? It's the same question. First of all, an investment idea is worthless unless you understand whether it's suitable to someone. Appropriate, right? The fact that you take a particular medicine and it is useful for you, you don't say, "Tony, you need to take that, too. [crosstalk 02:22:06] This is good for me." Well, maybe I don't need it.

Grant Williams: That comes back to this point that a good investment idea has become a synonym for something whose price is going to go up, and the two are completely different.

Anthony Deden: Yeah, I don't have investment ideas. You're right.

Grant Williams: That's the problem. That's the quick fix. Give me something that's gonna...it's the instant gratification. This delayed gratification of investing in a business, taking a participation in a business, in a family, in an inter-generational means of preserving capital and growing capital over time has been substituted for, "Tell me the name of something that's gonna go up tomorrow."

Grant Williams: To me, that's a shame, and talking to you these last couple of days makes me realize what a real shame that it. It does take us back to this casino mentality. "Give me an idea of what's going to go up tomorrow. If it doesn't go up tomorrow, you're an idiot," or "You were wrong." Whereas he may have, quite out of the blue, plucked up one of your companies that you spend all these months researching and know the family and to you, it's a great long-term investment. Another guy gives the same stock as a tip, it goes down tomorrow, and I sell it because it didn't go up.

Anthony Deden: I'm completely uninterested in what anybody else does. In fact, I'm happy if they sell it because I can buy more shares.

Grant Williams: Tony, we've spent two days talking, you and I. It's been a wonderful opportunity to get inside that brain of yours. People watching this will have never had that opportunity, and they may never have it again if I've scared you off of doing a thing like this. I can't thank you enough for doing this because I know it's the last thing you want to do. For being so generous with your insight, I can't thank you enough. So thank you for doing this with me. I really appreciate it.

Anthony Deden: I'm glad to talk to you. Enjoyed it.

Grant Williams: The hours I spent talking with Tony seemed to be gone before they'd begun, and when the cameras finally stopped rolling, I found myself with almost four hours of footage, which I knew would be nothing short of heartbreaking to try and distill into what you've just watched. Despite his protestations that what he does is unexceptional, I find Tony to be one of the wisest investors it's ever been my pleasure to talk to, a man who is both true to his principles and rigorous in their application. Tony looks at the world through a simple lens that hearkens back to a different time, and he invests with a thoroughness and a discipline which speaks to me in what I found to be a truly profound way.

Grant Williams: To listen to Tony talk about how he invests in the people who run the companies in his portfolio and how he seeks scarcity and endurance in a transitory, profit-obsessed world was a revelation, a strategy light years removed from that which many of today's managers pursue. As I left the fresh mountain air of Switzerland, I knew that the lessons I'd learned from my time with Tony would have the same kind of permanence in my mind as his various participations did in his portfolio, that I'd been exposed to skills that I would try to incorporate into my own investment process for many years to come. I'd been to the mountaintop, and I certainly didn't mind.