

DODGE & COX®

Video Transcript

Long-Term Investing

Eric Warner: At Dodge & Cox our research process focuses on the long term. We build our investment thesis based on a three- to five-year outlook for a company. The three- to five-year timeframe allows us to look through short term problems a company might be experiencing, it allows company management time to execute on their strategy, and frankly, any period over five years is difficult to predict. The long timeframe is important because in our experience investor emotions move much more quickly than the underlying business fundamentals. Bad news drives down stock prices. By identifying good companies that are experiencing short-term problems, we can take advantage of this mispricing. This gives us an opportunity to invest. We consider ourselves part owners of a business and not a trader in the stock. Part owners think about the underlying business where stock traders worry about the price movements in the short term. Questions we ask ourselves include how strong is the business franchise, how strong is management, have they built a moat around their business that allows them to protect themselves from competitors, and finally, where are the growth opportunities? The outcome of our research is that we have a portfolio that has low turnover. This can result in more tax efficiency and lower cost. After our initial investment we actively monitor the company and the stock price. We're looking at the company to see if there's been any change in its business and if management's executing on the strategy. From a stock price perspective, we want to see if it's over- or underperforming versus our expectations. Our approach then is incremental. If the underlying business fundamentals haven't changed, then depending on valuation, we may nudge a stock position up or down. Throughout this process we keep a strict price discipline because we know that not all good companies are good investments. By taking a long-term view, we can invest in companies that are currently out of favor, where the price doesn't match the underlying fundamentals of the business. It's these types of opportunities that will benefit our clients in the long run.

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