

Quick Take For The Curious: A Bull Market in the Basics

Buffett, Bonds & the Evidence for Value Investing

Yes, Kailash has done vast amounts of research on the historical data and built powerful proprietary models to help long-term investors make money with an emphasis on quality and price. Yes, this method has been proven out in the data since the advent of capitalism. And yes....this method of investing very much foots with the teachings of the greatest investors in US history.

In that vein, Kailash believes **reading** how the long-term compounders of capital won and win is one of the most potent methods to uncover true “value” in markets. Kailash brings no hubris to investing: we will listen to all sides of a debate, analyze the history when available and render our findings with the integrity and trust our readers expect. **We use this Quick Take to suggest that in today’s markets there is nothing less common than common sense.**

In our [QTFC on Berkshire Hathaway Energy](#), Kailash documented that Buffett has succeeded in showing America a **profitable** path to build out lower priced renewable energy for customers while investing massive and much needed funds into the grid. In our last QTFC, Kailash [hammered a recent battery electric SPAC](#). We contrast the two pieces here because we find it confusing that in a world swamped with aspirational environmental plans, people are paying huge sums for the profitless and unproven.

Sitting there for the entire country to see is a successfully implemented roadmap to move America to energy independence in a manner that is good for all stake holders. **Kailash views the dichotomy as still more evidence of the obvious: the path to compounding wealth at above average rates is paved with proven and profitable firms trading at reasonable prices.**

Our most recent white [paper on the Great Inflation](#) carried no less than six outsized quotes from Buffett & Munger. For those irritated by our insistent beating of the Buffett & Munger drum you can be sure that we intend to apologize at a quarter-past-never. These are days of miracle, wonder and malfeasance in our view. As legendary equity researcher and short seller [Jim Chanos discussed in the FT, we are in the Golden Age of Fraud](#).¹

Kailash believes in times like these the need to remember the lessons of history and stick to the basics is an urgent imperative.

Buffett, Bonds & His Case for Value Investing in 1980:

As mentioned above, Kailash believes that our investment tools are potent stuff. That belief stems from the fact they were built based on the empirical data from history – **not from a set of preconceived notions.** Kailash republishes Buffett’s quote from 1980 discussing how bonds, which yielded 12% at the time, were a losing proposition vs. equities. **Incredibly, he contextualizes the idea by addressing how the two assets might perform between 1980 and 2020.**

The buyer of money to be used between 1980 and 2020 has been able to obtain a firm price now for each year of its use while the buyer of auto insurance, medical services, newsprint, office space – or just about any other product or service – would be greeted with laughter if he were to request a firm price now to apply through 1985. ... our unwillingness to fix a price now for a pound of See’s candy ... to be delivered in 2010 or 2020 makes us equally unwilling to buy bonds which set a price on money now for use in those years. Overall, we opt for Polonius (slightly restated): “Neither a short-term borrower nor a long-term lender be.”²
-Warren Buffett, 1980

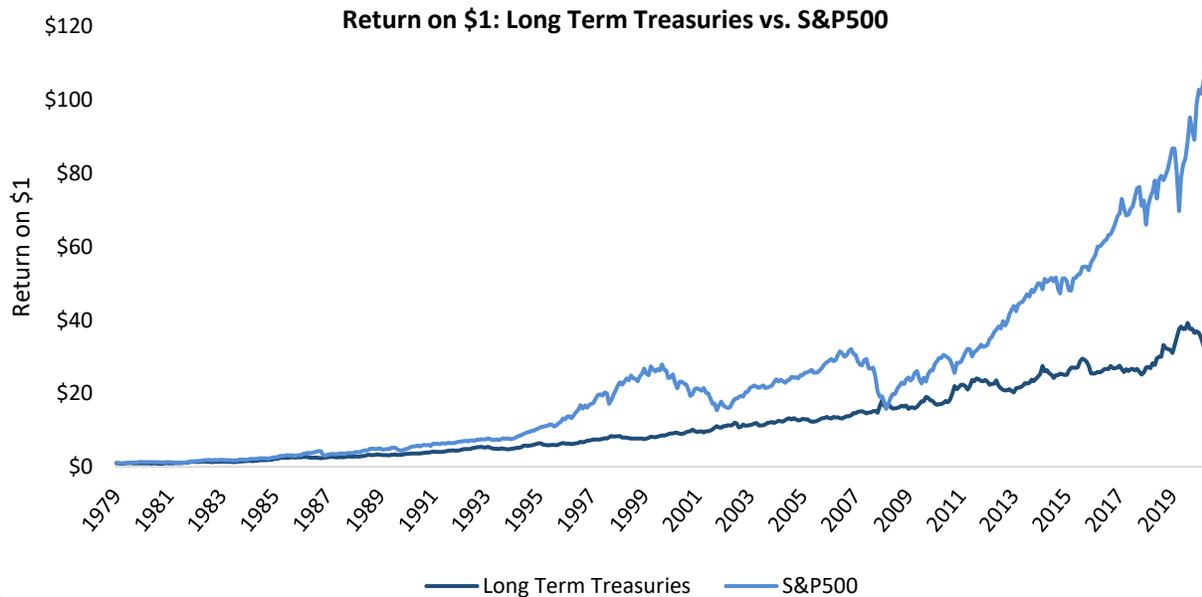
¹ Kailash will happily offer any paid up subscriber to our Enterprise Package a complimentary subscription to the FT, Nikkei Asia or The Economist

² Warren Buffett, Chairman’s Letter, 1980, page 9

The Results:

So how did Mr. Buffett’s “call” to avoid 12% yielding bonds and be long equities do? The chart below suggests the man who said “long equities” and “avoid bonds” in 1980 understood something few could grasp at the time. **In 1980 Warren Buffett said that by 2020 bonds were a losing proposition vs. equities and he was right.**

The Benefits of Watching Warren Buffett



Source: Kailash Capital, Bloomberg; Data from 12/31/1979-3/31/2021

As documented in footnotes 2-9 in this [QTFC](#), Buffett was absolutely pilloried in the press in 2000. We see a similar, if somewhat less caustic, behavior underway today. Kailash holds a fervent belief that the man who helms the largest private owner of American assets³ will be vindicated much like he was post the 2000 bubble. **With his 60+ year track record of successfully swimming against the tide, Kailash believes watching what he does is more important today than any time in his storied career.**

Kailash believes that there is a large swath of low quality firms priced at valuations that have **always** been the precursors to horrible future returns. We believe this is particularly true in the IT sector where the froth has eclipsed the levels seen at the peak of the internet bubble in 2000. In our paper [Income Investing: Staples & IT](#) Kailash presented a brutal chart showing that over a trillion dollars of IT stocks were losing money and published a list of all the IT stocks trading over 100x earnings. **These stocks strike us as an uncommonly good way to skip a trip to the casino but an uncommonly poor way to handle your savings.**

The good news for long-term investors looking to compound capital at above average rates is that the application of common sense has rarely been more important than it is today. The history books are unambiguous: buying high quality cash-generating businesses at fair to low prices is a terrific way to compound wealth.

This is what Kailash specializes in. Our newsletters and investment tools are committed to helping people interested in compounding capital using the most time-tested method we know of. Good companies, good managements and good businesses purchased at reasonable prices. You can find them on our [website](#) or by

³ Warren Buffett, Chairman’s Letter, 2020

contacting us [here](#). To learn about and gain access to our powerful tools built using research proven out in practice and academia please:

- Click [here](#) for our paper explaining our Stock Ranking Tools
- Click [here](#) for our research explaining how to identify firms engaged in earnings management
- Click [here](#) for a list of earnings manipulation firms identified by our earnings management tool
- Click [here](#) for our research explaining how to identify the best peers to compare stocks you might have an interest in researching and investing in
- Click [here](#) for our research on how to think about Beta and the risk of individual securities and indexes
- Click [here](#) for our research on some of the pitfalls faced by investors in index funds

For those of you unfamiliar with Kailash, we believe our organization provides cutting edge, thought-driven, investment analysis tools at prices others simply cannot match. Our research staff has been together for over a decade and has well over 100 years of experience. The team includes proven veterans in the investment management business and one of the most prominent academics in the field of behavioral finance. Our services bring the best of breed quantamental tools and themes to your doorstep.



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