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The lazy but great way to make a profit

Warren Buffett has made his fortune taking long-term stakes in companies such as Coca-Cola Getty Images

David Budworth
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Mention investing for the long term to most people and they assume you are looking forward five or, if you are really stretching it, ten years in advance.

However, investor Warren Buffett is proof that if you get things right, investing over the long term — 30, 40, even 50 years — can reap huge rewards. Just last week the share price of his investment company, Berkshire Hathaway, pushed through the $200,000 per share milestone: $10,000 invested 30 years ago would be worth $1.6 million today.

Mr Buffett is the classic buy and hold investor. “Our favourite holding period is for ever,” he says. For decades, though, investors have been encouraged to think they need to be active, incessantly reacting to the market and buying and selling funds. The evidence suggests this has created an obsession with short-term performance that often leads to poor decision-making.

How much easier it would be to have the confidence to buy a fund or funds that you felt you could hold for decades. To this end, *Times* Money took a look at the best-performing funds of the past 40 years (the farthest back you can go for reliable data) to see what investors can learn from their success.

We also asked advisers for their top recommendation of buy and hold funds for the future.

Life lessons

We compared data for unit trusts and investment trusts and the first thing that jumps out is that all of the top ten funds are investment trusts. Lower charges on investment trusts have helped give a significant boost to returns over time, as has the ability of investment trust boards to buy back shares. Tom Dean, of Plutus Wealth Management, points out that investment trusts can also borrow to invest, enhancing returns, and are not forced to sell at knockdown prices when markets are in trouble, as unit trust managers can be.

“I think of it in a much simpler way,” says Francis Klonowski of the financial adviser Klonowski & Co. “They just get on with the job of investing people’s money without any distractions. They don’t have star fund managers, which means you don’t have investors rushing for the exit when a big name leaves.”

Finsbury Growth & Income, which dates to 1926, takes the top slot. Managed since 2000 by Nick Train of Lindsell Train, its top holdings include Unilever, Heineken Holdings and AG Barr, the maker of Irn-Bru. The fund, originally called Scottish Cities Investment Trust, focuses on UK companies.

The same applies to Lowland at number two. It is managed by James Henderson for Henderson Global Investors, proving that the UK stock market has held up well against global competition over the long run.

For a more international approach you need to move down to the fourth spot and London & St Lawrence, an unusual vehicle that invests in bonds, other investment trusts and unit trusts. The best-performing unit trust has been the M&G Recovery fund, with an investment policy of buying undervalued companies since it first appeared in 1969.

Funds for the next 40 years

Although investment trusts have trounced the opposition over the past 40 years, times have changed, says Jonothan McColgan of adviser Combined Financial Strategies. “In the 1970s investment trusts were the main investment vehicle so the best fund managers wanted to be in the investment trust industry,” he says.

“Most star fund managers now reside in the unit trust world and you would have to wonder if their priority will be their main fund [the unit trust or Oeic] that pays their salary or the investment trusts that employ them on the side?”

Since January last year commission has been stripped out of the unit trust charges so investment trusts no longer have the advantage of being much cheaper to buy. It is also worth remembering that the ability of investment trusts to borrow or “gear up” makes them riskier. It enhances performance in good times but also magnifies losses.

Mr McColgan says: “Due to the added risk of investment trusts I do not regularly use them in clients’ portfolios, but for those with the appropriate risk profile I tend to use the F&C MM Investment Trust Oeic, which invests in a range of different investment trusts.”

His other two long-term recommendations are also funds of funds: a pick from the Schroder Multi Manager or Jupiter Merlin ranges. “Both these options carry a little more cost than investing directly into specific funds, but you are paying for an additional layer of expertise and fund management,” he says.

Old Mutual Global Equity, whose top holdings include Apple, is the choice of Mr Dean. In a mixed portfolio he would also include Standard Life UK Smaller Companies, Threadneedle US Smaller Companies, and Utilico Emerging Markets Investment Trust.

“Ideally I would hold a portfolio of those four funds, 40 per cent in the Global Equity fund and 15 per cent across the other three funds. I would be equally happy with that asset class mix but using passive ETFs or funds,” he says.

Mr Klonowski believes investment trusts are still a good bet. “I like Lowland as a long-term hold as it’s a sort of “best of” investing in a variety of investment trusts. It is like a mini-portfolio itself and pays a healthy dividend.

“A good global equity trust is always a good bedrock for any portfolio and Bankers and Scottish Mortgage are my favourites, although the latter is currently trading at a small premium.”

Warren Buffett and his British followers

Warren Buffett’s homespun wisdom and the exemplary returns he has delivered over the past half-century have made him a hero to many investors. Sadly, if you think you can emulate his approach, forget about it. His policy of investing large stakes in profitable but undervalued blue-chip companies such as Coca-Cola, American Express and Wal-Mart Stores isn’t replicable unless you have billions to spare. Plus, of course, you need to be a profoundly astute businessman.

Even for fund managers he is difficult to emulate. Some do, though, draw inspiration from the Buffett approach. One of the most interesting is the ConBrio Sanford DeLand UK Buffettology fund, which aims to follow the philosophy of buying mispriced companies with strong balance sheets and comprehensible business models (“Never invest in a business you cannot understand” is a classic Buffett-ism).

Keith Ashworth-Lord, the manager, aims to limit his portfolio to 25-30 holdings, but the link to Buffett goes only so far. While the Sage of Omaha invests in global brands we have all heard of, Mr Ashworth-Lord’s search for value means that his top holdings include the manufacturers Trifast and Scapa and the construction specialist Driver Group, which are hardly household names. However, he has delivered the goods since the fund’s launch in March 2011, returning 57 per cent against 33 per cent from the FTSE all-share. The fund is costly to buy with a total expense ratio (TER), an indication of the annual costs, of 2.93 per cent, but you pay lower fees using a fund supermarket such as Hargreaves Lansdown.

A few other funds managers mimic Buffett’s policy of investing in a concentrated number of stocks and turning over their portfolio slowly. One is Nick Train of the top- performing Finsbury Growth & Income investment trust (see left). Since he took over the fund in December 2000 it has returned 278 per cent, nearly triple the 89 per cent of the FTSE all-share. Over three years the fund has risen 84 per cent against a 54 per cent return from the market. He also runs the CF Lindsell Train UK Equity fund, which has a low TER for an actively managed fund of 0.77 per cent.

Then there is Terry Smith, who runs Fundsmith Equity, which invests globally in 20-30 Buffett-style holdings, including Microsoft, the consumer goods company Reckitt Benckiser and Unilever. It has returned 72 per cent since its launch in November 2010 and 71 per cent over the past three years. Its TER is a reasonable 1.16 per cent.

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Mr Ross Yiend

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