



Abram Brown, Forbes Staff

I write about businesses that merit attention, for better or worse.

MARKETS | 6/05/2013 @ 9:00AM | 5,459 views

Stock Picks And Investing Wisdom From Value Guru Marty Whitman

Contrarian value-investing legend Marty Whitman, founder of Third Avenue Management, likes to **compare equity investing to the study of abnormal psychology**: “You’re trying to figure out what the masses think are going to happen to the



Marty Whitman, founder of Third Avenue Management

securities’ prices. Stock markets can be capricious.” That’s why Whitman has always felt most comfortable investing in the most out-of-favor sectors of the stock market and has often gone after the bargain-priced debt of troubled companies going through bankruptcy restructuring. “You can buy things at 10 or 20 cents on the dollar.”

But Whitman’s affinity for debt securities doesn’t extend to leverage when it comes to the average investor. **“If you are going to be a passive, minority investor, don’t do it with borrowed money,”** he says. “Bubbles are bound to occur, and you can’t insulate yourself from those events if you have large amounts of borrowings.”

Whitman’s flagship \$2.7 billion Third Avenue Value fund invests in some American equities, putting money in financials (Bank of New York Mellon and Keycorp), technology (Intel and Symantec) and energy (Devon). These positions notwithstanding, it’s Whitman’s global focus that truly defines him and the fund. Third Avenue Value invests 52% of assets overseas, with a major overweighting in Asia. The fund has 46% of its assets there, compared to Morningstar peers’ 14%. A considerable portion of the fund is invested in Hong Kong housing stocks—despite continued fears of a property bubble there.

Given this, it’s not surprising that Whitman advises those looking to build wealth to first invest in a good, well-rounded education. “The greatest courses that I ever took, and that had the most influence on my life and career success, were demography and Russian history,” says Whitman, 88, who served in the Pacific during World War II and graduated from [Syracuse University](#) in 1949. **Population flows, politics and social interactions are often guiding lights for global investors.** Whitman is currently worried about Europe but continues his bullish stance on Hong Kong. “Understanding global flows takes

more than being an expert in financial accounting,” he says.

Whitman has retired some from the day-to-day grind at Third Avenue and finds himself involved more in analyzing equities than debt. After all, distressed debt is a younger man’s game since it requires taking a role in the company’s restructuring. “I’m not interested in being an activist,” he says. He likes four stocks in particular: Hong Kong-listed Wheelock and Co., Lai Sun Development Co. and Henderson Land Development and Canada’s Brookfield Asset Management. Each stock meets Whitman’s criteria. They have a strong financial position and easily attainable regulatory disclosures, and they trade at least at a 20% discount to his calculation of net-asset value in a market that protects investors. Whitman estimates each can grow their NAV by double-digits in the next three to seven years. “Stock picking is not very labor intensive or hard to do, if you stick to those criteria,” Whitman says. “It’s not the only way to invest, but it’s good for a rich, lazy old man.”

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