Memo to: all clients
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Subject: Sir John Templeton I A Portrait

Buy when blood is running in the streets

Why do most investors tremble with fear when prices plummet, whilst the world's most successful investors strike with almost stoic calm at precisely that moment?

It is the paradox of the markets: when opportunities are greatest and prices are lowest, the masses flee. When risks are at their highest and prices are inflated, everyone rushes in.

Sir John Templeton, one of the most successful investors of the 20th century, did not learn this principle in the ivory towers of Wall Street, but as a child through observing human fallibility. His journey as a 'bargain hunter' began in Winchester, Tennessee. There, his father, Harvey Maxwell Templeton Sr., sat in his second-floor office looking down onto the market square. He watched as farms were sold off at auction during the Great Depression. When not a single bidder remained, Harvey Sr. would step in and buy land at the lowest possible prices.

True wealth is created through consistency and the resolve to act against the tide of general sentiment. This became part of John's DNA from an early age.

Here are five lessons that are as valuable today as they were eighty years ago.

<u>The point of maximum pessimism is the best time to buy</u>

Templeton's philosophy can be summed up in a guiding principle that is now regarded as the cornerstone of value investing: "Bull markets are born of pessimism, grow on scepticism, mature on optimism and die of euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell."

For Templeton, a gloomy outlook was not a warning sign, but a necessary condition for a bargain. His most famous coup in 1939 illustrates this perfectly: when war broke out, he borrowed $10,000 to buy every share on the US stock exchange trading below a dollar – a total of 104 companies, 37 of which were already insolvent.

Yet the decisive insight was not mere courage, but razor-sharp analysis. He knew that the government had introduced the 'Excess Profits Tax' (a tax of up to 85%) to skim off war profits. However, this only affected profitable, well-managed firms. Bankrupt companies were able to carry forward their immense losses from the Depression era for tax purposes. They were allowed to retain 100% of their profits whilst the competition stagnated. One of the biggest winners from his investment: Missouri Pacific, bought for 0.125 cents per share, later rose to 105 dollars. He saw the potential where others feared only ruin.

Preis ist nicht gleich Wert: Am Beispiel vom Limonadenstand

Um den Unterschied zwischen Marktwert und innerem Wert zu verstehen, nutzte Templeton oft einfache, aber einprägsame Metaphern.

Man stelle sich einen erfolgreichen Limonadenstand in der Nachbarschaft vor. An einem sonnigen Tag sind alle euphorisch, die Kinder stehen Schlange und es werden 500 Euro geboten, um den Stand abzukaufen. Wenige Wochen später herrscht tagelanges Gewitter - „Rainy Days“ am Markt - und die potenziellen Käufer verfallen dem Pessimismus. Sie sehen den Regen und bieten plötzlich bloß noch 50 Euro für den selben Stand.

Hat sich der fundamentale Wert des Geschäfts verändert? Natürlich nicht. Die Vorräte, das Rezept und die Kundenbasis sind identisch. Aber die Wahrnehmung hat sich getrübt. Templeton nutzte die Hektik und Einfalt der Masse. Zuversichtlich, dass die Sonne wieder scheinen wird, kaufte er den Stand, wenn der Preis durch temporäre Emotionen weit unter den Wert der Pulvervorräte und Becher gefallen war.

The marketplace is the world
Or: why a narrow local focus costs money

Templeton was a grand master of global investing. He realised earlier than most that it is ignorant and short-sighted to look for opportunities only within one’s own country. His global strategy offered tangible advantages:
- Larger pool: Instead of 3,000 US shares, he could choose from 20,000 companies worldwide.
- Asymmetric opportunities: In the 1960s, US shares were trading at a P/E ratio (price-to-earnings ratio) of 19.5. In Japan, Templeton found quality shares trading at a P/E ratio of 4.
- Protection against crises: Global diversification protects against country-specific political missteps.

He was convinced that diversification must be the foundation of every portfolio. To be precise, he said: “The only investors who should not diversify are those who are right 100% of the time.”

Facts over fairy tales. The danger of ‘story stocks’

Wall Street loves a good story. For Sir John, ‘story stocks’ were often toxic. He relied on hard metrics such as the P/E ratio or the PEG ratio (Price/Earnings to Growth). His handling of the Japanese giant Hitachi is a prime example of analysis triumphing over narrative.

Hitachi appeared to have an official P/E ratio of 16. Templeton looked deeper into the balance sheets and consolidated the profits of the numerous subsidiaries, which at the time did not have to be reported under Japanese law. His conclusion: the true P/E ratio was 6.

Feature	Story stocks	Bargain stocks
P/E ratio	Very high (often over 30x)	Extremely low (often under 10x)
Financial transparency	Focus on the ‘narrative’	Hidden profits
Sentiment	Euphoric, omnipresent	Pessimistic, neglected
Expectations	Perfection priced in	Problems overdramatised

The ‘Doctrine of the Extra Ounce’ and psychological strength

Templeton called it the ‘Doctrine of the Extra Ounce’ – the principle of that final ounce. He believed that the difference between mediocrity and excellence lies in the willingness to put in that extra hour of research. When data in Mexico was unreliable, he literally counted the number of telephones in the country to calculate the value of *Telefonos de Mexico*.

This analytical strength was coupled with an almost mathematical emotional control. Even as a student at Yale, he financed 25% of his education through poker (interestingly, a common trait among well-known investors). He did not see the game as gambling, but as an exercise in probability and psychology. He learnt to keep a cool head when others lost theirs.

He also disciplined himself with a strict selling rule: a share was only sold once he had found an alternative that was valued at least **50% higher**. This prevented the frantic buying and selling that eats into the returns of many private investors. His average holding period: 5 years.

In conclusion: Investing with wisdom and prudence

Anyone who invested $10,000 in the Templeton Growth Fund in 1954 would have had over $2 million by 1992. An investment in the S&P 500 over the same period would have yielded only around $100,000. A truly impressive result.

According to Templeton, value investing is a philosophy of life based on thrift, curiosity and emotional self-control. In a world that reacts ever more quickly to headlines, the ability to keep a cool head is an often underestimated yet highly valuable asset.

When the next market crash comes: will you be among those who sell in a panic, or those who patiently search for their next ‘lemonade stand’?

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