LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

> "To succeed in the market, then, one must not do what most others are doing. Hence it is dangerous to pay the slightest heed to what you most often hear or see—"*vox populi*, *vox Dei*," regardless. But since most people are fairly sure to be wrong, he who does the opposite has a good chance to be right. We may not know what the highly intelligent minority are doing, but by watching and studying the crowd, we can pick up useful clues as to what that same minority are not doing."
>
> – Fred C. Kelly
> *Why You Win or Lose* (1930)

An important aspect of our investment approach is to incorporate contrary, independent thinking into the investment equation. Contrary opinion is a theory by which one attempts to analyze and determine precisely what the popular opinion is, and then act contrarily to it. Contrarianism is a way of thinking, not a doctrine. Hence, those practicing contrarianism may have different strategies that happen to fit their own personalities and circumstances. Moreover, since it is an art form, there is no one way of applying contrary thinking to an investment problem.

Contrarian investors recognize that when the consensus is strong, there is a greater likelihood of an opposite reaction. When expectations are high, one should be suspicious. When expectations are low, a positive upward swing is more likely. Indeed, the application of contrary opinion investing is to buy unloved or misunderstood stocks—as judged by value criteria such as price-to-earnings or price-to-book ratios—in the hope that their prices have overreacted on the downside and thereby offer an opportunity for purchase. It is not that Contrarians have access to special information, but that they can, and do, interpret publicly available information differently while paying attention to swings in investor sentiment.

In addition to practicing contrarian theory when there is a strong consensus about something, the contrarian can be effective when there is controversy about future expectations—as such controversy often creates opportunity. For example, in the present environment there is considerable disagreement among analysts as to the future direction of energy prices. Disagreement about the future direction of energy prices is especially pronounced when it comes to future expectations for the price of natural gas. Most analysts have the price declining in the near future while a few expect prices to stay at current levels or even go higher. Needless to say, there is a wide range of earnings forecasts for the companies in this industry which presents an opportunity for contrary thinking. In such instances, carefully thinking through the controversy and taking a longer-term time horizon than generally assumed by Wall Street can be rewarding.

Contrary thinking also allows investors to make sector bets. Much of investing, at least at the professional level, is all about comparing to some index. The general idea is to have some representation in most sectors of the market and to weight those sectors close to their weightings in an index such as the S&P 500, so performance will not vary greatly from that of the index. Contrary thinking would suggest just the opposite. The Contrarian's portfolio would likely be characterized by favored sectors with large over weightings and unfavored sectors completely ignored.

Many other examples of contrary thinking could be given. Suffice it to say that, while there is comfort in following common wisdom, we here at Lawson Kroeker Investment Management believe that is seldom the way to successful investing.

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