



TIME TO DO THE REIT THING (PART 2)

Back in March 2010 (Opinion Piece 53) I suggested that Real Estate Investment Trusts (REITs) should be allowed in Ireland. As much as I would like to claim credit for turning this idea into reality, I have to accept that other people are responsible for putting the legislation in place and also for launching the first one on the Irish Stock Exchange.

My original idea of a REIT made up of modern buildings with quality tenants on fairly long leases has not however been implemented in this first REIT. In fact to my surprise this first REIT, the Green REIT does not own a single building. At this point in time it just has €300m to spend and a team of people looking to spend it.

Very few people in the Irish property sector came through the last decade with their reputation intact but I have to admit that the team managing the money at Green REIT includes Stephen Vernon and he appears to have been one of the few prudent property specialists during that time. There is therefore a hope that he will continue to be a prudent leader as they accumulate a significant property portfolio.

It is one thing to say that a strong team has been put in place but to my surprise the market has put an approximate 25% premium on the tangible asset value of the REIT to reflect the “intangible” value of this team.

As the chart below shows, the market immediately pushed the share price to a premium reflecting this “uniqueness” and it has remained in place. This however is the type of investment that I avoid. Stephen Vernon may do great things and the Irish property market might rebound but I prefer to avoid investments where “hope value” is high. I am prepared to invest in good people but I would rather see what properties are bought before investing in this particular REIT.



There is also talk that another couple of Irish REITs might be launched in the coming months. Hopefully there might be an opportunity to get a bargain but I might just need to wait until the excitement dies down.

BOLTON RELEGATED

I have written two opinion pieces (22 and 60) about Anthony Bolton. I had hoped that a third opinion piece about him would be written a few years from now describing how he had managed to dramatically outperform with his Fidelity China Special Situations Fund. Unfortunately in June he announced that he was retiring and this is after a period when his performance has been so poor that it can be compared with Bolton Wanderers. (For any readers that are not lovers of soccer I should just explain that Bolton Wanderers are a soccer team that has gone downhill rapidly. They have been relegated from the Premiership and are currently struggling in the Championship)

I say that it is unfortunate that he retired because his track record has been spoiled and he has now given up any possibility of gaining back the lost ground. This means that he will join the list of people that the proponents of efficient markets believe were just lucky rather than skilful.

Bill Miller is the other name that comes to mind when I think of people that had a great long term track record. He too has retired from actively running a fund.

Closer to home I can also remember a time when Chris Riley in his Bank of Ireland Asset Management (BIAM) days appeared as if he might be the first Irish based fund manager to join the ranks of the famous but he suffered the same fate as Bill Miller by investing in financials before the 2008 crisis.

The struggles of Anthony, Bill and Chris highlight just how rare it is to have a Warren Buffett, Marty Whitman, Prem Watsa or Seth Klarman but even with the long term track records that they have achieved there are still people that believe that they are just lucky and could any day suffer the same fate as Anthony Bolton. Unfortunately this is a debate that will continue to go on long after I am gone and it means that each individual has to make their own decision as to whether there are skilful investors and more importantly can they find them.

I have made it clear where I stand on this debate about efficient markets and as a shareholder in Berkshire Hathaway I just hope that Todd Combs and Ted Weschler can prove that the market is not always efficient allowing a few good guys to generate excess returns.

As for my own performance I hope to live long enough to at least have a 25 year track record and at that stage I might be in a stronger position to say whether I have any skill. (I just hope that my performance is better than Birmingham City because they are just as bad as Bolton Wanderers).

OVERCONFIDENCE

In recent years I have spent a small amount of my time studying psychology, behavioural finance and neuroscience. There are plenty of books on these subjects and some of them have become best sellers like Daniel Kahneman's "Thinking Fast and Slow" or the one I'm in the middle of reading at the moment, Jason Zweig's "Your Money and Your Brain".

Throughout these books discussions on the subject of overconfidence are one of the things that comes near the top of the list of things that interests me. In fact I think of all the things I have seen during my career, overconfidence has to be one of the most dangerous. It is quite frightening how often I came across it (particularly in the stock-broking world) and I have to admit that there were even occasions when I fell into the trap myself.

It is one thing to read about overconfidence but it is another thing to see it in action and it was my reaction to the Prime Time programme of September 23rd that motivated me to write about the subject in this opinion piece. I do hope that this programme finds its way onto YouTube because I hope everybody will be able to see exactly what I saw. In my opinion one of the panellists did his best to convince me that he suffers from overconfidence, bordering on arrogance. I am referring to the chief executive of Mainstream Renewable Power, Mr. Eddie O'Connor.

Mr. O'Connor sold his last company Airtricity making himself a multi-millionaire. I can only imagine what that does for your self-confidence but he did his best to appear as if he has it in bucketfuls.

The programme was a debate about the pros and cons of wind energy. Mr. O'Connor as Chief Executive of a wind energy company was naturally putting forward the positive argument for wind. When a member of the audience described how she was worried about a wind farm being built close to her home he was dismissive of her concerns stating that the current regulations are adequate. It wasn't what he said but the way he said it that gave the impression that this is a man with incredible self-confidence. (As I said earlier I do hope that the evidence will be available for future viewing because it is obviously just my opinion and other people might think differently but he sure did upset that member of the audience with the way he responded.)

If Mainstream ever becomes a quoted company I would be inclined to stay away because I don't want to invest in companies with overconfident management.