



## THE MANUAL OF IDEAS

TM

## Value-oriented Equity Investment Ideas for Sophisticated Investors

A Monthly Publication of BeyondProxy LLC \* Subscribe at [manualofideas.com](http://manualofideas.com)

*"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."*

### Investing In The Tradition of Graham, Buffett, Klarman

Year IV, Volume V  
June 1, 2011

When asked how he became so  
successful, Buffett answered:  
"We read hundreds and hundreds  
of annual reports every year."

### Top Ideas In This Report

<b>Big Lots</b> (NYSE: BIG) .....	108
<b>ChinaCast Education</b> (Nasdaq: CAST) .....	112
<b>Net 1 UEPS</b> (Nasdaq: UEPS) .....	136

### Also Inside

<b>Editor's Commentary</b> .....	5
<b>Interview with Amitabh Singhi</b> .....	7
<b>Portfolios with Signal Value™</b> .....	11
<b>Screening for Superinvestor Stocks</b> ..	66
<b>New or Increased Holdings</b> .....	76
<b>Reduced or Offsetting Holdings</b> ....	144
<b>Favorite Value Screens</b> .....	156
<b>This Month's Top Web Links</b> .....	165

### About The Manual of Ideas

Our goal is to bring you investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary methodology to identify stocks that are not widely followed by institutional investors.

Our research team has extensive experience in industry and security analysis, equity valuation, and investment management. We bring a "buy side" mindset to the idea generation process, cutting across industries and market capitalization ranges in our search for compelling equity investment opportunities.

## THE SUPERINVESTOR ISSUE

- ▶ Screening for bargains owned by superinvestors
  - ▶ Latest holdings of 50+ top investors
  - ▶ 20 companies profiled by MOI research team
- ▶ Proprietary selection of Top 3 candidates for investment
  - ▶ Plus: Exclusive interview with Amitabh Singhi
  - ▶ Plus: Favorite stock screens for value investors

Superinvestor companies mentioned in this issue include  
Activision Blizzard, Adventrx Pharma, Aeropostale, AIG, Alcoa,  
Alexander & Baldwin, Allied Nevada Gold, Amdocs, American Tower,  
Ascent Media, Autodesk, AVEO Pharmaceuticals, Avnet,  
Bank of NY Mellon, Barclays, Beazer Homes, Best Buy, Big Lots, BP,  
Bucyrus, CF Industries, ChinaCast Education, CIT Group,  
Commercial Metals, Con-way, Cooper Tire & Rubber, Costco Wholesale,  
Cresud, Crexus Investment, Crown Holdings, CVS Caremark, DaVita,  
Diamond Offshore, Dillard's, Duoyuan Global Water, EchoStar, El Paso,  
Eli Lilly, EMC, Expedia, First Horizon Bank, Genzyme, Genzyme,  
Gannett, General Motors, General Motors, General Motors,  
Howard Hughes, IAC, IAC, IAC, IAC, IAC, IAC, IAC,  
Ivanhoe Energy, Journ, Journ, Journ, Journ, Journ, Journ,  
Lam Research, Lubrizol, Lubrizol, Lubrizol, Lubrizol, Lubrizol,  
McDonald's, McGraw-Hill, McGraw-Hill, McGraw-Hill, McGraw-Hill,  
Nalco Holding, Net 1 UEPS, Net 1 UEPS, Net 1 UEPS, Net 1 UEPS,  
Oritani Financial, Pacifi, Pacifi, Pacifi, Pacifi, Pacifi, Pacifi,  
Pool, Qualcomm, Qualcomm, Qualcomm, Qualcomm, Qualcomm,  
Sauer-Danfoss, Sauer-Danfoss, Sauer-Danfoss, Sauer-Danfoss, Sauer-Danfoss,  
Sunoco, SunTrust, SunTrust, SunTrust, SunTrust, SunTrust,  
Taylor Capital, Te, Te, Te, Te, Te, Te, Te,  
Vail Resorts, Va, Va, Va, Va, Va, Va,  
Xerium Techn

Inside:

**Exclusive Interview with  
Amitabh Singhi,  
Managing Director of  
Surefin Financial**

*With compliments of  
The Manual of Ideas*

(analyzed)

## Exclusive Interview with Amitabh Singhi

We recently had the pleasure of interviewing Amitabh Singhi, who has been investing in Indian companies for almost ten years as the managing director of Surefin, an India-based investment firm ([surefin.com](http://surefin.com)). Since inception in mid-2001, the Surefin fund has returned 27.9% annualized, net of fees. Amitabh is also a director of Amrit Capital, a U.S. and Mauritius-based hedge fund focused on Indian equities ([amritfunds.com](http://amritfunds.com)). Previously, Amitabh worked in technology investment banking at Credit Suisse First Boston and in equity sales and trading at Goldman Sachs. Amitabh graduated with a bachelor of science degree in economics from the Wharton School at the University of Pennsylvania. He is an advisory board member of The Dakshana Foundation, a charitable organization founded by Mohnish Pabrai, focused on funding educational opportunities for exceptionally gifted children from impoverished rural backgrounds in India.

**The Manual of Ideas:** Tell us about yourself and Surefin. What was the genesis of the firm, and what operating principles have you followed since inception?

**Amitabh Singhi:** I read *Security Analysis* for the first time in junior year in college (sometime in 1999-2000). Mr. Buffett came to my college campus soon after and I was amazed by his life story. So when I returned to India (this was when the Indian markets had crashed heavily; especially the tech stocks) after a one-year stint working as an investment banking analyst in New York, I approached friends and family whose portfolios had seen up to 90% erosion in value. Armed with my *Security Analysis* knowledge, I offered to help them cut their losses and in turn take over their portfolios. That's how I stumbled into being a fund manager. India was unbelievably cheap back then

For the first few years I mostly read and re-read *Security Analysis* (and Fisher and *Margin of Safety* and the other usual suspects) and did pattern recognition. It was possible to find companies selling at or below net cash with a strong business trading at 3x adjusted earnings! We bought many net nets and very cheap companies that were completely ignored by the serious investors. We were lucky that India was on no one's radar then.

In the ten years since we started investing in India we have stuck to the basic principles of conservative investing. Our mindset has been to avoid bankruptcy. Our job is becoming easier as Indian businesses mature and the institutional and regulatory frameworks improve. Our website at [surefin.com](http://surefin.com) contains information regarding the fund's philosophy and performance.

**MOI:** Help us understand the kind of investor you are, perhaps by highlighting a couple of examples of companies you have invested in or decided to pass up. What are the key criteria you employ when making an investment decision?

**Singhi:** We have bought close to 70 different securities/companies since inception, ranging from net nets to GARP to special situations. We are opportunistic but our natural inclination is towards net nets and arbitrage. We don't do many turnarounds.

*“We are opportunistic but our natural inclination is towards net nets and arbitrage. We don't do many turnarounds.”*

*“Our principle in stock picking is simple: it must be a no-brainer. If you’re struggling too long with an investment decision, it probably belongs to the ‘too hard’ pile, irrespective of what everybody else is doing in the market.”*

Our principle in stock picking is simple: it must be a no-brainer. If you’re struggling too long with an investment decision, it probably belongs to the “too hard” pile, irrespective of what everybody else is doing in the market. It is similar to having an inner scorecard in life — only do things that make sense to you, and not because someone else is doing it. This is something that I am trying to improve at every year.

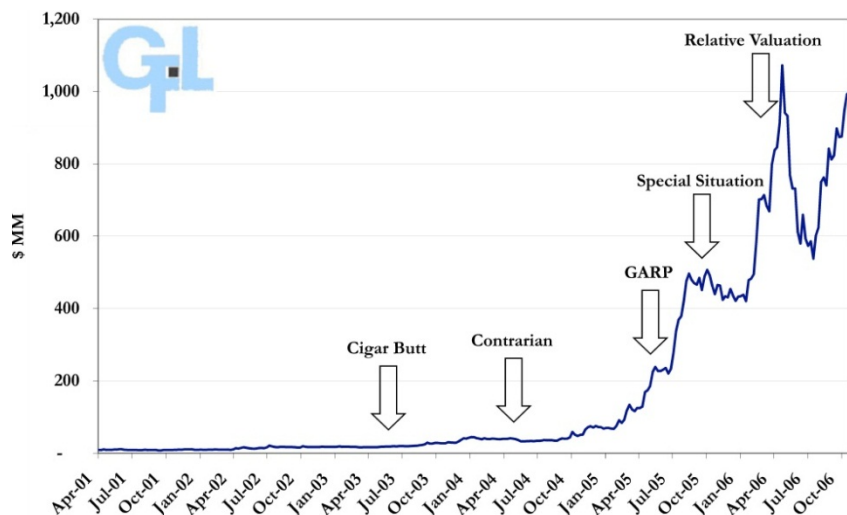
We bought and sold Patni Computers, which went from being an over \$1 billion market cap company to a \$350 million net net in six months. It had never lost money and the chances of losing money in the future were very low and yet it was trading below its net cash levels of \$400 million with almost \$100 million in after-tax profits!

We have had a lot of tiny-caps in our portfolio, the smallest of which has been a company called Compucom Software. We bought this company when the market cap was \$5 million. We sold it at 2x to 3x our buying price soon after.

We are currently buying a large-cap company that has hit a minor speed bump along a stellar track record and investors aren’t too happy — and it is showing in the price!

Also, a lot of such investments can only be classified into buckets after the investment has played out. See the following slide on Gujarat Fluorochemicals, which shows how one company went through all different buckets in a short span of three years.

#### Gujarat Fluorochemicals — Changing Nature of Investment



- **Cigar Butt / Bargain Stocks:** Company was trading below Net Cash
- **Contrarian / Prejudiced:** Maker of CFC gasses which was banned and to be phased out
- **Growth at Reasonable Price:** Sub lists and core business restructured and BPO business also exposed
- **Special Situation:** Going to spin-off 100% sub in multiplex business
- **Growth at Relative Price:** Carbon credits story gets hype, multiplex business gets aggressive valuations

Source: Surefin Investments.

**MOI:** How do you generate investment ideas?

**Singhi:** It is a combination of reading newspapers, screening, talking to friends, looking at investments made in the past, reading annual reports, etc. The process of getting ideas is often lumped together so long periods of inactivity are (fortunately) interrupted by brief periods of hyper-activity.

**MOI:** Investing in Indian companies seems like a daunting task for those of us who are based in the U.S. or Europe. What advice would you give to someone outside of India in terms of researching Indian companies, assessing management, and dealing with issues such as trading illiquidity? Is there a central agency with which Indian companies must file their financials?

**Singhi:** I would do one of three things depending on how active one wants to be. Either average into an index over the next five years with a simple formula which dictates putting more money when valuations are cheap versus expensive. But do it mathematically and consistently. This is great if you don't want to be active. If you do not want to have a physical base in India but are an active investor then diversify into various statistically cheap "Graham-type" stocks and rebalance the portfolio occasionally. Again, discipline and consistency would be important. Ideally, you want to have a physical base in India — or in an area close to the Indian time zone so you can travel frequently — if you want to concentrate your investments.

Luckily, most of the data on Indian companies is available electronically and many companies have started putting all information, including analyst call transcripts, online. Most brokerages will send you information on companies if you ask them. All listed companies must report their earnings to the stock exchange where they are listed. Most companies are listed on the BSE ([www.bseindia.com](http://www.bseindia.com)) and/or the NSE ([www.nseindia.com](http://www.nseindia.com)).

**MOI:** What is the long-term case for investing in India, and is it a fertile ground for Graham and Dodd-style value investors?

**Singhi:** I think it is very fertile ground. There are a large number of listed companies (only second to the U.S.) and a very dynamic business environment. Institutional investors are gaining more strength by the day, the regulatory environment is maturing, and the accounting is good and getting better (although there are some serious exceptions). The internal market in India for goods and services is huge (with exports being only 20% of the \$1.2 trillion GDP) and growing bigger every day. These are irreversible changes.

Layer that with extreme volatility in prices every few years and it makes for an attractive environment.

**MOI:** Good ideas are only one piece of the success equation. Skilled portfolio management is indispensable. How concentrated is your investment portfolio, do you use leverage, and what is your view of short selling?

**Singhi:** It depends on the overall valuations and what we are able to find. I don't think it's something that remains constant. My instinct is to have most of the money in six to ten stocks with the top five stocks having 80% of the capital. We have done well whenever we have concentrated but there are times when it makes sense to make a basket-bet and buy a group of similar companies.

*"My instinct is to have most of the money in six to ten stocks with the top five stocks having 80% of the capital. We have done well whenever we have concentrated but there are times when it makes sense to make a basket-bet and buy a group of similar companies."*



Excerpt from the Q1 2008 letter to investors in the Amrit Investment Funds:

### Should We Short to 'Hedge' Out Some Risk?

Many funds talk about focusing their efforts on extracting "alpha" by hedging out the "beta" from their portfolios. The general idea is to benefit from the relative gain in one's stocks as against the market while also protecting your portfolio from the potential decline of the market. We are what we call an absolute return focused fund and the way we try to maintain such an investment philosophy is by buying 30 cent dollars, having a 3 to 5 year investment horizon and intermittently holding very high levels of cash in our portfolio. Risk is a probability of permanent loss of capital and it comes with doing something one does not fully understand. We do not believe in shorting stocks or index futures to hedge our portfolio due to four reasons.

One, these strategies are nothing more than deceptive statistical safety nets clothed in technical jargon. Statistics is only almost accurate when based upon lots of data points. So not only does the use of statistics become more and more inaccurate (and dangerous) with shorter time durations or lesser data points, it is only approximately accurate at best. The Indian stock market just does not have that type of historical data and therefore statistics have little role to play in our decision-making.

Two, "beta" as a concept is fundamentally flawed since it equates risk with volatility. So in effect if a stock falls in price, it is perceived to be more risky (due to higher volatility and consequently a higher "beta") to buy than if it had not fallen at all. How can something that has fallen in price be riskier for a purchaser? It is rather absurd.

Three, how does one know what is the "market beta" in a stock or, in other words, what is the contribution of the overall market or industry to the company? Since the stock is nothing but a (somewhat emotional and distorted) reflection of the underlying business, how does one "hedge" out the contribution of the overall industry or economy from the performance of the individual business? It is nearly impossible to accurately make that distinction.

Four, in some cases shorting may actually increase our risk by making us take a position in something we don't understand. We may get burnt by shorting some super aggressive management doing something unethical or illegal (the difference between the two, in India is a blurry one given our slow judiciary and opaque and sometimes corrupt systems). Engaging yourself into a short position against some of these managements would lead to little monetary gain and plenty of psychological pain. As Charlie Munger once said, "Never get into a mud fight with a pig because not only will both the pig and you get dirty, but the pig would actually enjoy it!" We are in a marathon race against the indices and not just a sprint; we would rather live with short-term volatility in our un-hedged portfolio than try our hand at something we are not comfortable with.

The only time we would short, would be in an event based situation where we are taking a focused bet on a particular event, say a buy-back or delisting and where there is a risk of a fall-out of that particular event due to drastic changes in overall market or economy which we try to hedge away.

We do not use any leverage. We would be prepared to use leverage for specific special situations but have not done it so far.

Shorting is not efficient. We had written about this in a letter (see the excerpt on the left). Essentially, the futures market is not very efficient because stock borrowing and lending is not very prevalent.

Therefore often the futures trade at heavy discounts to the spots. Another problem is that long-term options either don't exist or are not liquid for the companies where the options do exist. One can look at the daily traded volumes etc. at [www.nseindia.com](http://www.nseindia.com) (click on the F&O section).

Another problem with going short in India is that the crooks have a pretty high chance of getting away with stealing from shareholders for long periods of time. The judiciary dispenses justice with long delays and the doses are usually very small in comparison to the scale of the offence. Also, often the fraudsters are powerful and rich enough to demolish adversaries be it in courts, or stock markets through market manipulation.

**MOI:** What is the single biggest mistake investors tend to make?

**Singhi:** I think most people enjoy the process of creating wealth but not the process of managing it, which leads to reckless behavior in investing. Most people who do not apply the same rules of wealth creation to wealth management don't take the latter seriously enough.

For instance, rarely would one start a business that one doesn't understand. So why invest in situations that one doesn't fully understand?

**MOI:** What books or other resources would you recommend to investors looking to learn more about India?

**Singhi:** I would read the Mint newspaper ([www.livemint.com](http://www.livemint.com)) regularly. Read historical annual reports going back five to ten years to understand certain industries. Capitaline ([www.capitaline.com](http://www.capitaline.com)) is a paid database which has numbers on all listed companies.

*India Unbound* by Gurucharan Das is a slightly dated but good book.

If someone wants an in-depth view on how the social political environment has evolved since independence, I would recommend *India after Gandhi* by Ramchandra Guha.

*The Manual of Ideas* research team is gratified to have won high praise for our investment idea generation process and analytical work.

*"I highly recommend MOI — the thoroughness of the product coupled with the quality of the content makes it an invaluable tool for the serious investor."*

—TIM DAVIS, MANAGING DIRECTOR, BLUESTEM ASSET MANAGEMENT

*"We do similar work ourselves."*

—GLENN GREENBERG, MANAGING DIRECTOR, BRAVE WARRIOR CAPITAL

*"The Manual of Ideas is a tremendous effort and very well put together."*

—MOHNISH PABRAI, MANAGING PARTNER, PABRAI INVESTMENT FUNDS

*"Outstanding."*

—JONATHAN HELLER, CFA, EDITOR, *CHEAP STOCKS*

*"Your reports provide serious investors with a plethora of bargain stocks and sound advice. I highly recommend them."*

—MIGUEL BARBOSA, EDITOR, *SIMOLEON SENSE*

*"Very impressive."*

—SHAI DARDASHTI, MANAGING PARTNER, DARDASHTI CAPITAL MANAGEMENT

*"It's little surprise MOI is a winner. When you start with superior stock screening and combine it with good judgment, you put yourself in a great position to outperform."*

—MARKO VUCEMILOVIC, FOUNDER AND MANAGING DIRECTOR, ALKAR GLOBAL

*"This is the best institutional-quality equity research to come along in a long time. It not only unearths companies with compelling risk-reward profiles but also analyzes them with a clear understanding of business economics and competitive dynamics."*

—PAVEL SAVOR, ASSISTANT PROFESSOR OF FINANCE, THE WHARTON SCHOOL

*"I am (as always) impressed with your work."*

—MARK SPROULE, SCOPIA CAPITAL

*"Keep up the great work, you are quickly becoming one of my must-read sources."*

—CORY JANSSEN, FOUNDER, [INVESTOPEDIA.COM](http://INVESTOPEDIA.COM)

**FIND OUT WHAT THE BUZZ IS ABOUT.**



[WWW.MANUALOFIDEAS.COM](http://WWW.MANUALOFIDEAS.COM)