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Templeton disciple stays loyal to contrarian faith

Will Jackson, Deputy Editor

…Alan B. Lancz, president of Alan B. Lancz & Associates, Inc., director of research at LanczGlobal.com and a former pupil of Sir John Templeton, also acknowledges the latter trend and says Templeton foresaw the dangers of "information overload" in the early 1990s. Lancz says Templeton's forecast that the increasing flow of data and news would create market volatility "the likes of which investors had never seen" has come to pass, and drove the success of compressed and exaggerated market cycles over the past 10 years. Ominously, Lancz sees no end to the pattern and says investors piling into fixed income securities will have to learn some painful lessons…

Alan B. Lancz, president of Alan B. Lancz & Associates, Inc. and director of research at LanczGlobal.com, talks to Will Jackson from London's Fund Strategy about contrarian opportunities and explains why he does not want his company to become too big to maneuver.

Alan Lancz is president of Alan B Lancz and Associates, Inc., director of research at LanczGlobal.com and editor of The Lancz Letter. He manages money for business owners, and corporate executives throughout America, as well as abroad for trusts, retirement plans and professional athletes.

Q: What is the history of LanczGlobal?

A: My dad owned a heating and air conditioning company. He wasn't happy with the brokers he had handling his retirement plan. So he started bringing home research to do on his own when I was 10 or 12, and that's where I developed the interest in investing.

So through high school and university I knew what I wanted to do - I wanted to work independently, I wanted to work on a fee basis. After I graduated I ended up working with smaller physician practices and small business owners [in Toledo, Ohio] and grew a reputation there.

Some [certified public accountants] and attorneys liked our style and our philosophy and they recommended us, so we started working with clients in Alabama, California and New York.

Q: How did The Lancz Letter start?

A: We started writing up a little bit about why we bought something, so we wouldn't have 20 client phone calls. So it started as a way to preclude all these calls coming in and the media picked up on it to a point where people were asking "how much does this Lancz Letter cost?" We'd say it was a free service just to our clients - we didn't want to be in the newsletter business.

In the 1980s the most expensive newsletter was $250 a year so, after a couple of years, that's what we charged.

That grew into The Lancz Fax. Then with the advent of the internet we started LanczGlobal to provide daily real-time activity with the portfolios, plus insights every day over our entire research staff. There are two entities - LanczGlobal, which is the research entity, and Alan B Lancz and Associates, which is the investment advisory firm.

Q: Who are your investors?

A: It has really branched out. We manage money for retirement plans with hundreds of employees, professional athletes, a few celebrities, some family trusts.

Q: You were a friend of Sir John Templeton, and you were trained by him in contrarian investing. How do you decide which consensus views to bet against?

A: The best situation is when you see extremes. There are numerous examples, from real estate and the financial bubble of three years ago, to the energy merchants in 2002-03 with Enron and Calpine, to the dotcom bubble at the start of last decade. Whenever you get extremes like that, that's the easiest time to take the contrarian bet.

It's not an automatic. Even Sir John didn't like the term "contrarian" because people think you're always doing the opposite of whatever the majority is doing. It's more when you see fear on the streets, or on the upside, euphoria.

Q: Compared with 30 years ago, how easy is it to find contrarian opportunities?

A: In the early 1990s, Sir John told me that we should expect information overload and it was going to create incredible volatility in global markets - the likes of which investors had never seen.

This was before the internet and I'm not sure how clearly he knew what was going to happen. But it's really in the last 10-12 years you've seen it. It seems like these cycles are all compressed and exaggerated, and I think he foresaw this before he passed away [in 2008].

It was amazing to him, and to me, how short investors' memories are and how they can follow that same 'get on the bandwagon', herd-type instinct. He never understood that. If you go to buy a suit and you like the suit, and the next day it's half-price, you're more likely to buy it. With a stock, it goes down and people shy away.

When we talked with Bloomberg in the US in January 2009 about Apple, we were shot down - they said "don't you know about Steve Jobs' [the co-founder and chief executive officer of Apple] health and don't you know about the problems?"

I said "it's not a one-man company, the stock is trading with $40 billion in cash, it's trading at historically-low multiples and it's going to come out of this recession/depression, whatever it is, stronger than any of its competitors".

Now we're talking about selling Apple and people are saying "why would you sell Apple?" Whenever I hear that it reminds me of Sir John and that we're on the right side. It will probably go up and they'll create something else on top of the iPad that will be phenomenal, but the risk is much higher at these levels than it was a year-and-a-half ago.

Q: Do you see any end to the pattern of more compressed and extreme cycles?

A: When you look at how much cash is on the sidelines now, you go "oh boy". I think it will continue because that cash has to go somewhere. It's not earning much now in money market instruments. Even the surge in fixed income is an ideal situation where investors are jumping in at the wrong time - they're investing with high risk and very little reward.

That's what's happened with a lot of bubbles. This might be more of a bubble of a flight to safety or fear than it is a greed bubble, but I think it's a situation where investors will still get hurt.

Q: What is the future for your company? Do you have plans to expand or are you happy with the size it is?

A: We're really happy. Sir John's firm grew very large and in my meetings with him he gave us a lot of companies that he couldn't buy because he was restricted - he could only buy 5%, which was such a meaningless position for the billions he managed that he wouldn't get involved.

But we went through why he liked a small Canadian company, or why he liked a UK company, and it was a great learning process for me. It also taught me that if you get too big it's hard to maneuver.

So, as smart as he was, if you look at the tale-end of his career the performance was, unfortunately, more mediocre than the early stages. I know I'm not as smart as him, so we want to control our growth and really look at the client's best interest.

I love what I do - I've got a great passion for it. My dad worked at his business till he was 81, so hopefully I'll have another 30 years to continue doing what I'm doing.