
Billionaire investor and author Howard Marks co-founded Oaktree Capital Management, which is one of the world's biggest distressed-debt firms. A renowned contrarian, his insightful assessment of market opportunity and risk are well known in the investing world. Here are a few pointers from his time-tested, fundamental philosophy.

## 1 Grasp the essence of contrarianism

When others are afraid, you needn't be; when others are unafraid, you'd better be. At any given point, the market is driven by fear or greed.

To be a successful contrarian, you have to be able to:

- See what most people are doing
- Understand what's wrong about most people's behaviour
- Possess a strong sense for intrinsic value, which most people ignore at the extremes
- Resist the psychological pressures that make most people err
- Buy when most people are selling and sell when most people are buying

## 2 Know that punishing times are part and parcel of investing

No group or sector in the investment world enjoys as its birthright the promise of consistent high returns. There is no asset class that will do well simply because of what it is. Every investment approach, even if skillfully applied, will run into environments for which it is ill suited. Buy and hold. Growth stocks. Value stocks. Small stocks. Large stocks. Foreign. Domestic. And that means that even the best of investors will have periods of poor performance. Nobody performs great all the time.

## 3 You cannot be successful if you have no patience

Be patient. Underpriced does not mean "going up tomorrow". Overpriced does not mean "going down tomorrow". Markets can be over- or underpriced and stay that way -- or become more so -- for years. Sometimes there are plentiful opportunities for unusual returns with low risks; the global financial crisis of 2008 threw up plenty of opportunities. Other times they are fewer. It's important to wait patiently for the former. Even if you are correct in identifying a divergence of popular opinion from eventual reality, it can take a long time for the price to converge with value and it can require something that acts as the catalyst. You should have the emotional strength to be able to stick with an approach or decision until it proves out, which can be a long time.

## 4 Understand the importance of having a philosophy and a process you believe in

The mark of a good investor is to have courage in your conviction and patience to see it through. If not, you will constantly be driven to fall in line with the consensus by buying at the top and selling at the bottom.

Investors swing like a pendulum between greed and fear, euphoria and depression, credulousness and skepticism, risk tolerance and risk aversion. Usually they swing in the wrong direction – they warm to things after they have risen and shun them after they have fallen. The higher the stock goes the more they want to buy. Their motivation for selling increases as the stock price falls. Most investors behave pro-cyclically and it is to their detriment. If you don't have a philosophy in place, you too will fall prey to this behaviour.

Since no approach will allow you to profit from all types of opportunities or in all environments, you have to be willing to not participate in everything that goes up, only the things that fit your approach.

- Be disciplined.
- Invest in what you know.
- You don't have to catch every trend to make money.

## 5 Choose your bargains correctly

You must understand how securities are valued and how money is made. If you take a simplistic approach you cannot succeed.

You have to think different from and better than the crowd. If you think the same as the crowd you'll have average results. If you are going to make money to an above-average extent, you have to see when the crowd's thinking is off. By definition, if you think like the crowd you can't know when the crowd is off.

Having said that, it is insufficient to bet against the crowd for the sake of it. That's stupidity. The potentially profitable recognition of divergences from consensus thinking must be based on reason and analysis. You must do things not just because they're the opposite of what the crowd is doing, but because you know why the crowd is wrong. Only then will you be able to hold firmly to your views and perhaps buy more as your positions take on the appearance of mistakes and as losses accrue rather than gains.

In other words, your job as a contrarian is to catch falling knives, but with care and skill.

## 6 Don't try for "exact bottoms"

Marks once stated that he doesn't expect to be able to pick up a stock when it has hit rock bottom. What he does care about is buying cheap. If it gets cheaper, he buys more. Eventually, it'll work out – if the hypothesis is right.

## 7 Don't buy quality at any price

Superior results don't come from buying high-quality assets, but from buying those assets for less than they are worth. A low purchase price not only creates the potential for gain; it also limits downside risk. The bigger the discount from fair value, the greater the "margin of safety" an investment provides. You enhance return and reduce risk when you buy assets where the value is solid and the price is low. There is no such thing as a good investment idea or a bad investment idea without reference to price. The selection of good companies is certainly not enough to assure good results. It's not what you buy, it's what you pay.

There is no security that is so good that it can't be overpriced, and thus dangerous. Similarly, few assets are so bad that they can't become underpriced and thus safe.

Investing well is not about buying good things. It is about buying things well. If you don't understand the difference, you are in big trouble.

## 8 Psychology matters more than market predictions

No one can see into the future. No one knows what lies ahead in terms of the macro future. You cannot predict, but you can prepare.

To make money, your investment decisions must be based on 3 keys:

- Know the knowable (insight into companies and securities and industries)
- Control emotion
- Invest in a contrarian and counter-cyclical fashion

The most important choice that any investor can make is whether to be aggressive or defensive. Not whether it is stocks or bonds. Not whether it is domestic or international. Not whether it is developed world or emerging markets. Not big or small. Not risky or safe. But, is this a more important time to be aggressive or defensive?

This decision can be made on observations regarding current conditions. They do not require guesswork about the future. Don't act the same regardless of the market environment. Turn aggressive when there are bargains and defensive when everything is high.

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