

# PG PERSPECTIVES



## The Value of Quality.

*Getting the Best Value for Your Investment.*

**VALUE INVESTING** seeks to identify, and profit from, companies that are trading at a discount to their actual value. Everyone appreciates a discount, but not all discounts are created equal. Investing in *superior companies* at a discount (which we describe as 'quality value' investments) offers the possibility for substantial long-term gains.

### Quality value.

*Quality value* investment opportunities arise from in-depth company research to assess the prospects for long-term capital appreciation. This approach goes beyond evaluating a company's financial statements. Rather, it takes into account the whole company picture — including its business strategy, products and competition, management team, and growth prospects. As a result, the *quality value* approach has the potential to provide meaningful long-term returns.

The full benefits of the *quality value* investing approach come from: combining investing in **superior companies**; using a **concentrated investment strategy** to maximize the impact of each investment; and **investing for the long term**.

### Superior companies.

*A superior company has substantially greater earnings potential than an average company.* Leading companies have created franchises that command a premium in the marketplace. For example, Coca-Cola can charge more for its product than competing brands because of its broad emotional appeal and status as an icon; similarly, Apple, with its reputation for superior products, can generate significantly greater profits than its competitors.

*Superior companies also have the potential to grow more profitably than their competitors.* For example, Coca-Cola may profit from opportunities in emerging markets, such as China, where the appeal of Western brands remains strong. Apple may extend its reach through new products or services that build on the customer loyalty it has cultivated through its history of developing superior products and services. >



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## WHAT PG PORTFOLIO MANAGERS HAVE TO SAY ABOUT...

### Quality Value Investing

“Investors benefit by buying stocks at attractive prices. An approach that simply identifies “cheap” stocks by considering the stock’s current price against its book value may have limited upside potential. This approach does not consider a company’s growth prospects. In contrast, investors who target *quality value* investments are likely to identify companies that are able to increase their intrinsic values over time. Investments in these companies have the potential to generate more attractive returns for long-term investors.”

~ Charles Suh

### A concentrated approach.

After in-depth research has identified a company for investment, the next step is to determine the amount to invest. *A key to the quality value approach is the willingness to allocate a meaningful investment in each opportunity.* Too small an investment can dilute the impact of a strong performer. Typically, quality value portfolios concentrate in the most attractive opportunities while also diversifying across many industries. For example, a portfolio may include 30 to 50 positions. In a slow growth economy, a concentrated approach may be particularly beneficial; a portfolio that focuses on leading companies, and avoids laggards, is more likely to outpace the market over time.

### A long-term horizon.

*Investing in superior companies is most effective over the long term.* By following a company over time, a portfolio manager becomes familiar with the company’s products and services, as well as its competitors and the dynamics of its industry. Additionally, the portfolio manager develops an extensive network of resources, including company management and analysts, which prove vital in evaluating investment opportunities. An extended history with a company also provides important insights into other factors, such as stock trading patterns, that may impact a company’s share price. This knowledge gives the portfolio manager a strong foundation from which to make investment decisions and recognize opportunities. For example, during periods of market volatility, the manager can take advantage of depressed prices to initiate or add to positions.

Also, investing for the long-term can be beneficial for investors: These portfolios typically enjoy greater tax efficiency and, by reducing portfolio turnover, can also experience reduced transaction costs.

### Our quality value approach.

At Pacific Global, we look beyond a company’s ticker symbol and price; **we approach each business from an owner’s perspective with designs for a long-term investment.** We make significant commitments to businesses as opposed to minor stakes in hundreds of stocks. Our equity portfolios are concentrated in 30 to 50 of our favorite names. This focused approach enables us to benefit in a meaningful way from our deep understanding of each holding. >

## An ideal quality investment.

Simply put, a portfolio manager identifies value investments by doing extensive research to answer two basic questions:

**'What is the company worth?'** The manager determines a share price that would reflect the company's *intrinsic* (or *fair*) value.

**'How much am I willing to pay for the stock?'** In determining the amount of money to spend, the manager wants to allow for a *margin of safety*. That way, the manager has a cushion to protect against losses.

For example, let's consider a dominant company in a rapidly growing industry.



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