# How We've Outperformed Since 1999
# (Updated 17 March 2025)

Ally Selby (How the #1 picks went from hero to zero in just 6 months, 12 July 2022) reckoned that the January-March 2022 quarter was "tough, tiresome and damn it, sometimes terrifying." April-June of that year, she added, was even worse: "Only three out of Australia's (18) finest stockpickers' highest conviction calls are in the black, while the rest have slid (some more violently than others) into the red … The total return of our fundie favourites now stands at -30.99% (inclusive of dividends, capital gains and currency movements), far worse than the -3.15% total return that I hesitantly revealed in the first quarter" (see also Stock tips are for patsies – are you a patsy? 12 February 2024).

In sharp contrast, for Leithner & Company (hereafter, "LCO") the January-June 2022 half-year wasn't particularly demanding – or even eventful. It certainly wasn't terrifying; if anything, it was rather satisfying!

> During the half-year we generated a modest (2.1%, including dividend) but nonetheless positive total return for our shareholders. Unlike most others, we didn't merely avoid a significant short-term loss: our very high levels of cash and equivalents, plus today's lower prices (and the possibility of even more attractive ones in the current half-year and beyond), bode well for our investors' long-term results.

**Short- and Long-Term: Four Aspects and Three Implications**

This article summarises LCO's short-term (since 2020) and long-term (since 1999) results. Over both intervals, we've slightly exceeded the All Ordinaries Accumulation Index. According to Standard & Poor's and others, for decades 80% or more of managers have failed to match (never mind outpace) their benchmarks, and few have 20-year track records of any kind. Hence LCO's returns to its shareholders have greatly surpassed most fund managers' returns to their unitholders.

*Our results differ diametrically from most others' because our mentality, philosophy, objectives and operations bear little resemblance to – and are sometimes the diametric opposites of – the mainstream's.*

The herd is usually overconfident (see Why you're probably overconfident – and what you can do about it). Occasionally, however, its emotions lurch towards anxiety (and apparently even terror); in contrast, since 1999 our emotions have remained mostly unruffled (see Successful investors are stoics). And our brains have remained sceptical: we've focused upon risks which others slight or ignore (see Australia's bogus boom and Three risks you can discount – and one you can't), and ignored distractions which obsess the crowd (see Decarbonisation: A doubter's guide for conservative investors).

This article also details four aspects of LCO's operations which underpin these results:

1. *Very conservative asset allocation*: over the years we've allocated a very high percentage of the company's assets to short-duration bonds, deposits, floating rate notes, etc. (and a corresponding low portion to equities);
2. *Rigorous process of security selection*: we don't attempt to maximise gains – we seek to minimise losses ("sins of commission"), and consequently forego some gains ("sins of omission");
3. *Heavy use of cash and equivalents buttress very conservative derivative operations*: these operations tend to generate rising income in falling markets;
4. *Varied sources of income*: our results don't depend upon (un)realised capital gains, and so we don't take silly risks in an effort to achieve them.

Three implications ensue from this summary of LCO's operations:

1. We're investors, not stock-pickers – there's a big difference, which we explain below – and you should therefore shun stock-picking and ignore stock-pickers;
2. When it takes the form of implausible gains, short-term outperformance doesn't promote long-term outperformance; if anything, it hinders it. For the sake of your long-term results, you should avoid short-term "top performers."
3. What's most important isn't how much investors gain during the artificial boom; it's how much they avoid losing during the genuine – and inevitable – bust. Mind your "downside" and the "upside" will tend to mind itself.

## Our Results versus Our Benchmark

*Short-Term*

Figure 1 compares the results of investments of $1 in LCO's Redeemable Preference Shares (RPSs) and a portfolio of stocks that perfectly mirrored the All Ordinaries Accumulation Index (AOAI). Each series assumes that dividends have been reinvested, but they differ in several crucial respects. LCO's portfolio comprises roughly one-half shares (details below); the AOAI, in contrast, is 100% shares. LCO's portfolio is thus much more conservative than the Index. Its return is net of expenses and tax (LCO levies no management or other fees). It includes franking credits, but assumes that their cash equivalent has not been reinvested. The AOAI, on the other hand, excludes franking credits – and, highly unrealistically, also ignores expenses, fees and tax.

**Figure 1: Growth of Capital per $1 Invested, Monthly, January 2020-February 2025**

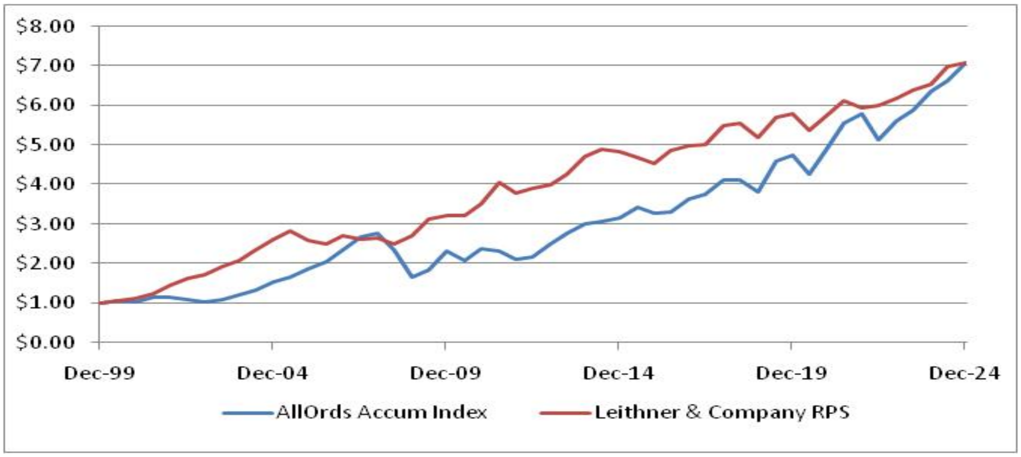

From the eve of the Global Viral Crisis (January 2020) to February 2025, each $1 invested in LCO's RPSs generated total proceeds of approximately $0.44. That's a compound rate of return of 7.4% per year, versus the Index's proceeds of ca. $0.42 (7.2%).

> Our much more conservative portfolio has slightly outpaced the Index, yet our return has also been much less volatile. Most notably, an investment in the AOAI collapsed almost 25% in March-April 2020; the net tangible asset (NTA) value of LCO's RPSs, on the other hand, sagged just 5%. More recently, in the March-June quarter of 2022 the AOAI dived more than 12%; in contrast, the investment in LCO increased almost 1%.

*Long-Term*

LCO hasn't merely outpaced its benchmark recently: it's also produced long-term, market-beating returns (Figure 2).

**Figure 2: Growth of Capital per $1 Invested, End of Each Half-Year, June 1999-December 2024**




Assuming the reinvestment of dividends, each dollar invested on 30 June 1999, grew to $7.08 on 31 December 2024. That equates to a compound annual growth rate (CAGR) of 8.2% per year. (Clearly, these results cannot be guaranteed; you shouldn't assume that results like those of the past 25 years will continue during the years to come.) Each $1 invested in the All Ordinaries Index in June 1999 (dividends reinvested) grew to $7.07 in June 2024. That's a CAGR of 8.1% per annum.

*Why We Welcome Corrections, Bear Markets and Financial Crises*

Most people intensely dislike even modest downdraughts in financial markets. More generally, the mainstream regards markets' fluctuations as bad, corrections as undesirable, panics as intolerable and bear markets as unendurable. In sharp contrast, LCO enjoys them. That's because they greatly boost its long-term outperformance.

Why, over almost a quarter-century, has LCO outperformed the Index? What's most important isn't how much investors gain during the artificial boom; it's how much they avoid losing during the genuine – and inevitable – bust. If they mind the "downside" then the "upside" tends to mind itself.

*Figure 1 and Figure 2 confirm this crucial point. LCO underperformed in 2006-2007 (and again in 2018-2020) – but greatly outperformed in 2008-2018, and again during the COVID-19 panic and since January 2020.*

From its half-year peak before the GFC ($2.77 in December 2007) to its trough during the GFC ($1.65 in December 2008), the investment in a portfolio of securities which perfectly mimicked the AOAI collapsed 40.4%; in diametric contrast, during this interval the NTA per share of LCO's RPSs rose almost 1% (from $2.45 in December 2007 to $2.47 in December 2008).

That's why we welcome bear markets: they enable us to deploy more of our considerable liquidity (see below) to purchase quality equities at sensible or even bargain prices – and thereby to extend our outperformance.

**Asset Allocation: Graham's "75-25 Rule"**

Most investors know that Warren Buffett is arguably the world's greatest investor, and that Benjamin Graham (1894-1976) was his teacher, employer and mentor. Some also know that Graham was the co-author (with his academic colleague, David Dodd) of the seminal textbook *Security Analysis* (1934) and the sole author of *The Intelligent Investor* (1949). A few have even read the latter book (virtually nobody, it seems, has read the former). And only a handful practice Graham's approach to asset allocation:

"We have suggested as a fundamental guiding rule that the investor should never have less than 25% or more than 75% of his funds in common stocks, with a consequent inverse range of between 75% and 25% in bonds. There is an implication here that the standard division should be an equal one, or 50-50, between the two major investment mediums."

Graham was equivocal about varying a portfolio's percentages of bonds, stocks, etc., in response to market conditions ("tactical asset allocation"). Consequently, he was able to "give the investor no reliable rules by which to reduce his common-stock holdings toward the 25% minimum and rebuild them later to the 75% maximum." Our application of Graham's approach to asset allocation draws from another of his insights. He contrasted the "enterprising" investor (who is willing "to devote time and attention to securities that are sounder and more attractive than the average") from the "defensive" investor (who "will place his chief emphasis on the avoidance of serious mistakes or losses").

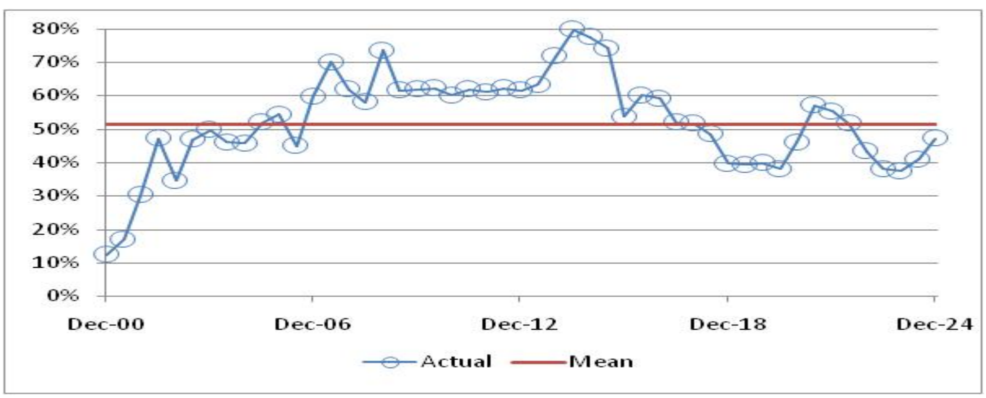
*Importantly, these categories aren't mutually exclusive. Hence LCO is a "defensive-enterprising" (we often call ourselves "conservative-contrarian") investor.*

LCO is highly defensive in the sense that we devote more effort to avoiding loss than to achieving gain. In other words, in order to minimise our "sins of commission" we willingly accept "sins of omission." We're also very aggressive in the sense that we devote considerable time and effort to the search for and research of attractive companies and their securities (particularly stocks).

The problem is that we seldom find them at prices which meet our stringent criteria. When we do, we buy – regardless of others' views, and without regard to the "consensus" (of which more below). Most of the time, when the prices of these companies' securities aren't attractive, we plough incoming cash (whether from new investors, income from investment operations, etc.) into short-term bonds, deposits, etc.

Figure 3 plots LCO's asset allocation at each half-year since our formation in 1999. Its definition of "bonds" is liberal: it includes Collateralised Debt Obligations (CDOs) whose prices collapsed (prompting us to buy) during the GFC, cash at-call and on deposit, and hybrid securities.

**Figure 3:**
**LCO's Asset Allocation, Half-Yearly, June 2000-December 2024**

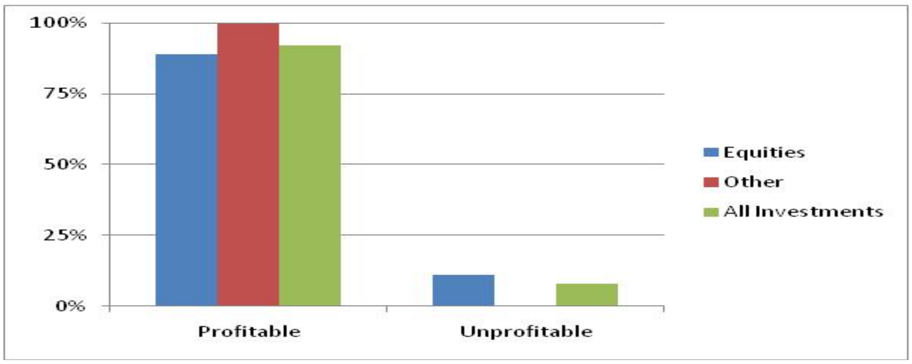



We've generally adhered very closely to Graham's "standard division." On average, since 1999 LCO's portfolio has comprised 52 % bills, bonds, deposits and related securities, and 48% equities. We've also followed his "fundamental guiding rule" – not counting our first year of operation, only in CY14 did our allocation to non-equities exceed 80% (and equities' allocation fall below 20%).

**Selection of Securities, Errors of Commission and Omission**

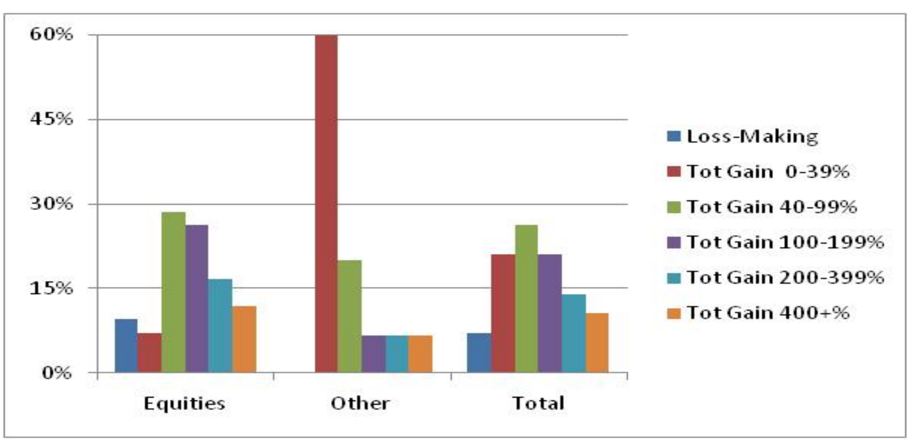
LCO has generated gains by avoiding losses. From inception until 30 June 2022, almost all (93%) of our investments have generated realised profits (Figure 4).

**Figure 4:**
**Results of LCO's Investments (Excluding Derivatives),**
**Inception to 31 December 2024**




This DOESN'T mean that few of our investments produced unrealised (mark-to-market) losses between their purchase and eventual sale (we've had some rollercoaster rides); nor does it mean that few of the securities in LCO's current portfolio are presently underwater. It does mean that of those that have been sold over the years, only 7% (10% of equity investments and none of its other, e.g., hybrid, securities, etc.) have generated realised losses.

**Figure 5:**
**Results of LCO's Investments (Excluding Derivatives),**
**Inception to 31 December 2024**

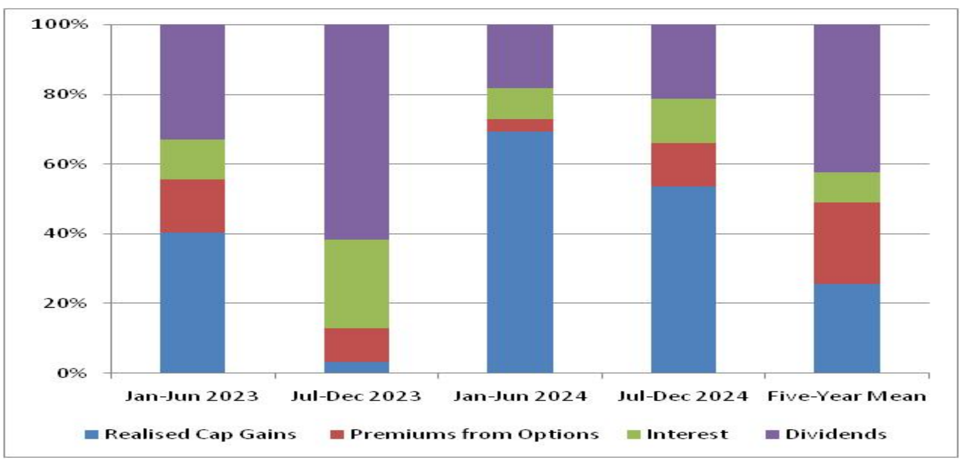


Typically, realised investments have generated gains of 40-99%; 7% have produced gains of more than 400% (Figure 5). More than half of its realised equity investments have generated gains of 40-400%. Of its non-equity investments, none have produced realised losses and most have generated profits of 0-39%.

**Varied Sources of Income**

LCO's portfolio generates income from four sources (Figure 6). Dividends have provided the major (and a continuously-significant) percentage: they comprised an average of 42% of total income during the past five financial years. Although it's averaged 9% over the past five years, more recently interest has comprised a larger percentage (as much as 25% in July-December 2023) of income.

**Figure 6:**
**LCO's Four Sources of Income by Half-Year**




LCO receives premiums from options contracts (see below) and realised capital gains as opportunities arise. Falling markets tend to boost premiums from options (an average of almost 24% of total income over the past five years, and more than 40% from July-December 2021 to July-December 2022), and rising prices of the stocks LCO owns eventually generate realised capital gains (five-year average of 26%, 69% in January-June 2024 and 54% in July-December 2024).

**LCO's Very Conservative Use of Derivatives**

A "derivative" is a contract that under certain conditions requires that one of its parties outlay money to the other. The outlay's amount derives (hence the term "derivative") from a predetermined criterion such as the price of a bond, commodity, currency or stock, the level of a market index, etc.

Warren Buffett has stated repeatedly that derivatives can be very dangerous. Most famously, in 2002 he declared: "In our view, … derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal." The GFC vindicated his concerns. Nonetheless, for decades Berkshire Hathaway has used derivatives extensively (so did Graham-Newman Corp. in the 1930s-1950s).

In 2008, Buffett told his shareholders: "Considering the ruin (I feared in 2002), you may wonder why Berkshire is a party to 251 derivatives contracts (whose face value exceeds $37 billion) … The answer is simple: I believe each contract we own was mispriced at inception, sometimes dramatically so ... Our derivatives dealings require our counterparties to make payments to us when contracts are initiated … As of yearend, the payments made to us less losses we have paid – our derivatives 'float,' so to speak – totalled $8.1 billion. This float is similar to insurance float: If we break even on an underlying transaction, we will have enjoyed the use of free money for a long time."

In an interview later in 2008, he added:

> "We've used derivatives for many years. I don't think derivatives are evil, per se, I think they are dangerous. I've always said they're dangerous … But uranium is dangerous, and I (walked) through a nuclear electric plant about two weeks ago. Cars are dangerous …"

By that sage definition, equities, too, are dangerous. LCO shares Buffett's view: if used recklessly, financial instruments including derivatives can cause colossal losses; but if used conservatively, they can be powerful generators of income.

> Like Berkshire's, LCO's derivatives require that our counterparties pay premiums to us when these contracts commence. We usually enter into them when counterparties are nervous (or panicking); hence their payments to us can be considerable (Figure 6). These counterparties are jumpiest when markets are plunging; hence our derivatives operations generate the highest income in falling markets.

Unlike Berkshire, LCO enters exclusively into arrangements which reference stocks or bonds that it already owns (or seeks to own and is prepared to hold indefinitely). It only writes "covered" call options, that is, agrees (if predetermined conditions occur) to sell securities it already owns. And it only writes "put" options over companies whose shares it seeks to own at "strike" prices it regards as bargains. These obligations are always fully "cash collateralised:" if counterparties simultaneously exercise all of their options, LCO's "at-call" cash is more than sufficient to meet these obligations. In these and other respects, our derivatives operations have always been extremely conservative.

**Implications**

*Shun Stockpickers, Their Tips and "Keynesian Beauty Contests"*

We'vedeliberately said nothing about particular securities that LCO presently owns, once held or in the future will seek to acquire (see, however, What ASX stocks would Warren Buffett buy in 2022?). That's because such details are relatively unimportant: asset allocation (the decision that a portfolio will comprise x% bonds, y% stocks, etc.) is generally a much more significant determinant of long-term returns than security selection (the decision to buy security A or sell security B, etc.).

> Yet one general and crucial point about the selection of securities follows from what I have said: LCO buys and sells on the basis of its own comprehensive analyses – and NOT our or others' superficial guesses about these securities' present or future popularity (see in particular Stock tips are for patsies – are you a patsy? 12 February 2024). This might sound blandly conventional; in truth, it's not just highly unusual: it's boldly heretical.

In *The General Theory of Employment, Interest and Money* (1936), John Maynard Keynes used the analogy of a beauty contest to explain the actions of most market participants (see also Keynes as investor-speculator). In this pageant, judges choose the six most attractive faces from among 100 photographs.

According to Keynesians, the "naive strategy" is to choose those faces that, in the judge's opinion, are the most attractive. An allegedly more sophisticated judge attempts to guess other judges' perceptions of attractiveness and then chooses the photos that best reflect them. This process can become even more complex by assuming that other judges are trying to do the same thing. Keynes summarises:

> "It is not a case of choosing those [faces] that, to the best of one's judgment, are really the prettiest, nor even those that average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degrees."

Two startling implications follow. First, star analysts, "famous fundies" and most "investors" as a whole ("speculators" is a more apt term; see below) base their views of a company and its securities not upon their own analyses of its value, or even upon others' analyses, but upon what they believe others believe is the consensus of opinion about its popularity. *In other words, most "analysts" ground their recommendations – and most investors premise their actions – not upon objective analysis of enduring fundamentals but subjective opinion of short-lived irrelevancies!*

> It's not even the analyst's or investor's own considered opinion: it's her guess of others' opinions. The relatively straightforward exercise of deciding for oneself according to one's own principles and objectives becomes an immensely complex game of second- and even third-guessing others.

Is this really what you want to do – or pay others to do? The mainstream's insuperable problem is that opinions and popularity are ever-changing. Hence Keynes' second implication: in order to profit from the beauty contest, you must make fast money; and to do that you must ignore (because they're irrelevant for this purpose) companies' histories, current operations and prospects. As a speculator, you must anticipate other speculators' actions, buying before they buy and selling before they sell. You must ride waves of investor confidence – and exit before it crashes against the rocks. If you can guess what others are going to think and do, your results will exceed theirs.

> Although you'll win big if you mostly guess reasonably accurately, you're much more likely to lose even more greatly if even occasionally you guess wrongly. *Buffett agrees: you can't buy what's popular today and do well over the long run*. That's why LCO is an investor – not a stock-picker. It's also why you should shun stock-pickers.

*Also Avoid Short-Term "Top Performers" – Instead, Seek Quiet Achievers*

Since January 2020, LCO has outperformed – not by generating mouth-watering gains, but by avoiding gut-churning losses. It's also matched or surpassed the All Ordinaries Accumulation Index since 1999.

> Yet during virtually none of these years did it produce stellar gains; during most of them, its results were pedestrian. In terms of Aesop's fable, LCO is a long-term tortoise rather than a short-term hare. That's because, in investment as well as life in general, the odds greatly favour tortoises.

What causes a handful of funds and managers, during almost any 12-month interval, to produce results that greatly exceed that period's average? It's the very same thing that subsequently causes them to sag or collapse. Mark Hulbert ("The Year's Fund Returns Are In – Do They Matter?" *The Wall Street Journal,* 7 January 2018) finds that it's NOT skill. It's probably mere chance; and if it's not a lucky roll of the dice then it's the draw of a dodgy set of cards. Most short-term outperformers, in other words, are mere flukes; and a few "pursue wildly risky strategies" that before long go badly awry.

> Though on average they lose, occasionally one of them will hit the jackpot and rise to the top of the annual rankings. By choosing that lucky adviser or manager, investors who invest ["speculators who speculate" is more apt] with the previous year's top performer are in effect betting that lightning will strike twice. They inevitably get sabotaged by … sky-high risk.

In short, a single swallow does not a summer make; similarly, one year's implausibly high return does not long-term outperformance generate.

*What, Then, To Do?*

Consider a well-to-do couple, family trust, SMSF, etc., which possesses a long-term perspective and the brains, but not the desire or time, to invest on their own behalf. What should they do? Find somebody who'll invest these funds. But whom to choose? *First, Hulbert advises that they should either ignore the latest performance ranking – or else use it to exclude recent implausibly high performers from consideration.*

> In his words, those who invest prudently and thereby possess strong records of "long-term performance … are hardly ever at the top or bottom of the calendar-year rankings. Slow and steady really does win the race."

This point is fundamental. Consider as a hypothetical but realistic example the three funds in Table 1. (As an aside, the order of each's results doesn't affect its three-year compound rate of return.) Fund A greatly outperforms in Year 1 – at whose end, and as a result of laudatory media reports, it likely attracts hefty inflows of funds from speculators. Alas, it incurs a hefty loss (and wins the wooden spoon) in Year 2 – which prompts strong outflows. Speculators who thought they were investors (or investors advised by speculators) bought its units high and sold them low – which is hardly a recipe for success! Fund B greatly lags in Year 1 but excels in Years 2 and 3.

**Table 1:**
**Three Funds over Three Years: the Steady Tortoise Beats the Erratic Hares**

| Fund | Year 1 | Year 2 | Year 3 | 3-Yr Std Dev | 3-Year CAGR |
|---|---|---|---|---|---|
| A | 20% | -12.5% | 10% | 16.6% | 4.9% |
| B | -10% | 15% | 12.5% | 13.8% | 5.2% |
| C | 7.5% | 7.5% | 6.25% | 1.9% | 7.1% |

In contrast, in no single year does Fund C lead the field; indeed, each year its return is just one-half of the top-ranked fund's. Furthermore, in Year 3 it trails the others – and its results fall year by year.

> Yet two crucial points distinguish it: first, in none of the three years does it incur a loss; second, from year to year its results are the steadiest (i.e., its standard deviation is the lowest by far). Over the three-year period, these traits make all the difference: Fund C's three-year return, expressed as an annualised compound rate of return, handily exceeds A's and B's.

$100 invested in Fund C at the beginning of Year 1 compounded to ca. $125.64 at the end of Year 3. That exceeds Fund B's total ($116.44) by almost 8% and Fund A's ($115.50) by almost 9%. *If this disparity persists, then as time passes Fund C will leave A and B ever further in its wake.*

Secondly, advises Hulbert, focus on those managers, strategies and vehicles with excellent long-term results. "The clear implication," he elaborates, is that

> You improve your chances of picking a [winner] by focusing on performance over periods far longer than one year. How long? *Our analysis … suggests that even 10 years isn't enough. Only when performance was measured over at least 15 years were there better-than-50% odds that a top performer would be able to repeat*. [Moreover,] when following a top performer over the previous 15 years, you are unlikely to be at the top of the rankings in any given calendar year ...

To Hulbert's second point I add a twist. Locate investment managers with a track record of 15 years or more, and then ascertain:

- How did they go during the Dot Com Bubble? The boom before the GFC? Do their results during these intervals suggest that they took undue risks?
- What about their results during the Dot Com Bust and the GFC? The Global Viral Crisis in 2020? The half-year to 30 June 2022? Do their results in the bust confirm that their actions during the boom were unduly risky?
- How many years did they require to recoup significant losses?

The problem is that few managers possess track records of 15-20 or more years; fewer still lose comparatively little during bear markets and crises, and are therefore able to recoup their losses reasonably quickly. The good news is that your list of candidates certainly won't be long; hence your choice won't be hard!

**Conclusion**

Three key attributes distinguish most long-run outperformers. First, and most noticeably, their number is very small. Second, and most importantly, at most times they ignore "experts" and the herd, at critical junctures they defy them – and at all times they think rigorously for themselves. Thirdly, and most subtly, year after year they generate reasonably consistent, almost always positive but rarely top-ranked results. In the short term, they're plodders or even underachievers; yet by putting the odds on their side, they accumulate excellent long-term results.

> *It's vital to emphasise: long-term outperformers' results within any 12-month interval are usually unremarkable; indeed, and as Table 1 showed, they're often below-average.*

Hulbert found that long-run outperformers'

> average yearly performance rank ... was at the 59th percentile. But that's a shortcoming only if you're a thrill seeker who finds it intolerably boring to be merely ... at the top of the rankings for very long-term performance … [Accordingly, and assuming that] you are seriously focused on building up wealth over the long term, you should be more than willing to give up the hope of ever being at the top of the calendar-year rankings.

To the mainstream, it's startling and disconcerting:

1. Short-term outperformance doesn't promote a manager's long-term outperformance; if anything, it harms it. Similarly, investors who chase short-term outperformance depress their long-term results.
2. How much your portfolio advances during booms isn't overly important; what's vital is how much it avoids retreating – and especially collapsing – during busts. In a bull market, anybody can look like a genius; the bear market reveals whether he's really been a dummy all along.

Speculation is a sprint, but investment is a marathon. Yet investors don't compete against others, and still less are they trying to win popularity contests; instead, they set their own destination and run their own race. As an investor, Leithner & Company avoids short-term distractions and steers its own long-term course. We don't try to act brilliantly or outsmart others; nor do we seek to receive the public's passing plaudits. Instead, for more than 20 years we've stuck to rational fundamentals, avoided egregious errors and thereby generated reasonably steady, enduring and cumulatively excellent results for our shareholders.

## About Leithner & Company Ltd

- we're an unlisted public company, established in 1999, limited by shares and based in Brisbane;
- we're a "value investor" in the tradition of Ben Graham and Warren Buffett;
- we have plenty of skin in the game: directors are major shareholders, and investors are partners rather than customers or clients;
- we conduct our own research, think independently – and, when necessary, defy the crowd and "experts;"
- we charge no management fees: directors receive no (with one slight exception) salary and receive only a share of realised profits;
- we invest very conservatively, provides reliable income and offers strong long-term returns;
- investors redeem their shares easily, quickly and at the prevailing NTA.

**For More Information ...**

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