

FEATURE

The World's Best Investors

An excerpt from William Green's *The Great Minds of Investing*, which uses profiles to explore what leads to enduring investment success.



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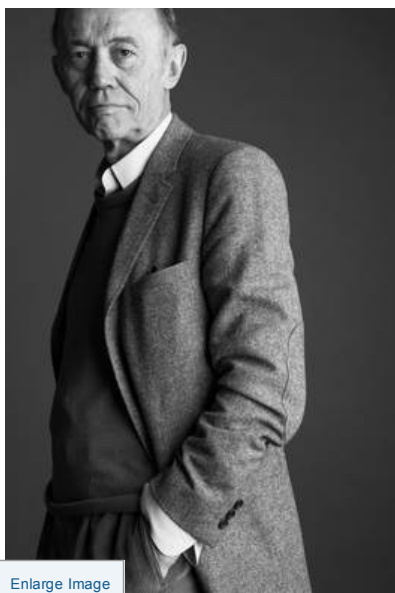
What does it take to achieve enduring success as an investor? A dazzling intellect may help, but it's useless without the right temperament. In my interviews with many renowned investors, I've found that they typically share several indispensable traits, including the independence of mind to go against the crowd, extreme patience and discipline, and extraordinary emotional fortitude.

*These winning qualities appear in abundance in *The Great Minds of Investing*, a new book on which I collaborated with the photographer Michael O'Brien. The three profiles excerpted here tell the stories of Jean-Marie Eveillard, Francis Chou, and Bill Miller, who have each defied gravity by beating the market over decades. Still, success hasn't come easy. Miller and Eveillard both suffered excruciating periods of underperformance that almost wrecked their careers. As hedge fund manager Mohnish Pabrai (also profiled in this book) told me, great investors must possess one invaluable characteristic: "the ability to take pain."*

--William Green

JEAN-MARIE EVEILLARD

In the late 1990s, Jean-Marie Eveillard faced the investing equivalent of a near-death experience. Amid the insanity of the dotcom bubble, he refused to buy any of the overvalued tech, telecom, or media stocks that were enriching more carefree investors. His most prominent mutual funds, SoGen International and SoGen Overseas, lagged the market disastrously for three years running. "After one year, your shareholders are upset," he says. "After two years, they're furious. After three years, they're gone." By early 2000, 70 percent of SoGen International's shareholders had dumped the fund and SoGen's overall assets had fallen from more than \$6 billion to barely \$2 billion.



[Enlarge Image](#)

Jean-Marie Eveillard *Photograph:*
Michael O'Brien

Value investing "works over time," says Eveillard, but he had always known that he would suffer from periods of underperformance. Still, he'd never experienced this sustained misery. "You do, in truth, start doubting yourself. Everybody seems to see the light. How come I don't see it?" As his years in the wilderness dragged on, "there were days when I thought I was an idiot."

Others agreed. Even his funds' own board members turned against him, wondering why he had failed to embrace the new paradigm of instant, tech-fueled riches. One executive at his parent company, Société Générale, muttered that Eveillard was "half senile." At the time, he was only 59. Eveillard thought he might be fired. Instead, the French bank sold his investment operation to Arnhold and S. Bleichroeder for about "5 percent of what

it's worth today.”

And then the bubble burst. The Nasdaq index plunged by 78 percent, devastating legions of reckless speculators. Eveillard's perennially cautious, value-driven approach was vindicated, and Morningstar later gave him its inaugural Fund Manager Lifetime Achievement Award. His renamed firm, First Eagle Funds, rebounded so strongly that its assets have ballooned to almost \$100 billion. Eveillard retired as a fund manager in 2009, but he remains a senior adviser at First Eagle Investment Management. At 75, he retains his reputation as one of the enduring giants of international investing.

In retrospect, Eveillard says his feat of trouncing the indexes over three decades was “due largely to what I did not own.” In 1988, when fad-chasing investors were besotted with Japan, he sold the last of his Japanese stocks, unable to find a single company cheap enough to meet his standards. As a result, he emerged unscathed when the world's second-largest market imploded. Likewise, two decades later, he steered clear of financial stocks before the 2008 credit crisis.

This ability to avoid market mayhem grew directly out of his discovery of Benjamin Graham's *The Intelligent Investor* in 1968, shortly after he left France to work for Société Générale in Manhattan. The greatest lesson was that “you have to be humble because the future is uncertain,” says Eveillard. “Most people refuse to accept that.” For him, this meant buying cheap stocks that provided a significant margin of safety, then protecting himself further by diversifying broadly. Temperamentally, he wouldn't dare to own a concentrated portfolio, because he was “too worried that it could just blow up” and was “too skeptical about my own skills.” Few professional investors so frequently utter the words “I don't know.”

Indeed, Eveillard exudes an air of worry and self-doubt. He suspects that these traits stem in part from the challenges of his childhood as the oldest of five brothers. “I think parents are toughest with the oldest child,” he says. “Once, my mother told me, ‘You found the only occupation where you could be reasonably successful.’”

After settling in New York, Eveillard was surprised to learn that various American friends saw psychoanalysts. One of them explained that it was because he wasn't happy every day. Eveillard was mystified. His thinking was strongly influenced, both then and now, by the sermons he had heard as a Catholic boy in the early 1950s. The priest in his grandmother's village church preached that life on this earth “is a valley of tears and you can be happy only in the afterworld.” With this in mind, Eveillard says, “I would consider myself lucky if I'm happy on some days.”

Despite his achievements, Eveillard admits that he has often found his life “a bit difficult.” He's hard on himself and unusually honest about his flaws and mistakes. Above all, he regrets that he didn't do a better job of balancing work and family. Investing was so “absorbing”—and sometimes so “psychologically painful”—that he now realizes he didn't focus sufficiently on his two daughters while they were growing up. His own parents “were not just self-absorbed but absorbed in each other,” he adds. “So the five of us did not get much attention from our parents.” To some degree, he “did the same thing” with his own children. Then again, he says, “to be professionally successful, it seems to me, requires a lot of attention.”

When I ask if he would have been a less successful investor if he had paid more attention to his family, Eveillard replies: “I don't know, and I'll never know.” He pauses, then adds: “I think the Catholic priest was right. Life is not simple.”

FRANCIS CHOU

When Francis Chou emigrated from India to Canada at the age of 20, he had about \$200 to his name. Within a few months, he landed a job as an electrician with Bell Canada in Toronto. He worked there for seven years, spending his days climbing ladders and soldering wires. During that time, he chanced upon a magazine article about value investing. He knew immediately that this was his calling. “You just have to find bargains,” he says, “and I felt that I could easily do that.”

This conviction grew out of his experience as a child in the Indian city of Allahabad. His father, a university professor who originally came from China, died when Chou was seven. With five children to raise on her own, Chou's mother needed help. So Chou


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Francis Chou *Photograph: Michael O'Brien*

handled the family's shopping, haggling in the markets of Allahabad throughout his childhood. "You needed to go to several shops to see what they're selling and how they're pricing it," he recalls. "If something is expensive, you can always buy a substitute that's cheaper. The stock market is precisely the same. There are more than 20,000 companies. So, if something is expensive, you just go to the next one.... You're always looking for alternatives."

An avid reader, Chou taught himself to invest by mastering Benjamin Graham's teachings. "Basically, the cheaper you buy anything relative to what it's worth, the better your results would be," he says. "That was the criterion. Anything else was just poison." The fact that he hadn't gone to college didn't strike him as an impediment: "A lot of educated people don't know how

to look at bargains. They have their own biases and cannot compete.... They give in to peer pressure. They give in to trends. They don't understand their own psychology and how other people have influenced them."

In 1981, Chou persuaded six colleagues at Bell Canada to pool their money with him, so he could start shopping for bargain stocks. Between them, they scraped together about \$50,000. "I knew I was going to be successful as a money manager. There was no doubt about that," he says. "You need to have a lot of confidence in yourself that you can compete. Otherwise, you'll get crushed because you have a foreign accent and people look down on you because you only have a 12th-grade education." Without that "inner confidence," he says, "you can't get out of the gutter."

In 1986, he turned this private investment club into the Chou Associates Fund, a publicly available mutual fund. It has generated returns of 11.8 percent a year over nearly three decades, handily outstripping the indexes, despite his tendency to hold a large cushion of cash. Along the way, he has won many accolades, including a 2004 Morningstar Canada award for the Fund Manager of the Decade.

Chou, who is now 59, has since added six other mutual funds that invest in everything from European equities to junk bonds. Still, he continues to work entirely alone, except for one assistant. His approach to managing his investment business is decidedly idiosyncratic. He has no interest in marketing. And he has rebated his fees on several occasions when he felt that he didn't deserve to be paid, because he had "performed badly."

Even by the standards of other top-notch value investors, Chou possesses extraordinary levels of patience and self-restraint. "Over 30 years, there have been a lot of temptations"—from booming energy stocks in the 1980s to hot tech stocks in the 1990s to overpriced banking and housing stocks before the credit crisis. He has avoided such "potholes" by focusing dispassionately on valuation and by remaining emotionally detached from the markets. "It's better to be an outsider and just watch the fun," he says. "If you want to participate in the market all the time, then it's a mug's game and you're going to lose. You only want to be a participant when the odds are in your favor."

At the start of 2015, many of his peers are complacent after six consecutive years in which the market has risen. But Chou sees trouble ahead. When he started out in 1981, interest rates were high and stock valuations were low. Today, he says, that situation has reversed, which is "setting you up for failure." He's finding so few bargains that Chou Associates has more than 30 percent of its assets in cash. He remarks: "If I have to go to 100 percent cash, I'd be quite happy."

In situations like this, "you need to maintain your discipline," says Chou. "You cannot force the issue. You just have to be patient and then the bargains will come. In the

meantime, you just read, update your knowledge, and study companies, even if you're not going to buy them."

Is it boring? "No," he says. "If you enjoy reading, it's not boring." But how long can he sit passively on the sidelines, merely watching the game and buying nothing? "Oh," says Chou, "I can wait 10 years. Even longer."