

# FCL*Capital*

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*"I mean, we went so far... from an intellectual standpoint that is, that the question could be – wouldn't this be the case for a little pause? Meditate for the first time about what was achieved, digest what was ingested? "*

Joahn E.Mellbye, congressman, Bondepartiet

May 2<sup>nd</sup>, 1927

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There are many scary statistics in the world of investing. Here is one of my favorites: Peter Lynch, as any amateur stock investor would know, is one of the most famous and successful stock pickers ever. From 1977, when he was hired to run Fidelity's Magellan Fund, to 1990, when he retired, he achieved an amazing compounded annual return of 29% per year.

Stated in other terms, any investor who was lucky enough to invest \$ 100.000 in him at inception and just sit still for the next 13 years would have walked away with 2.8 million dollars. No wonder there are books and articles about this accomplished money manager.

Here is the scary fact: after all the praise and celebration, Fidelity once did a study to calculate the average return the fund's investors achieved. They concluded, based on weighted average buying and selling of the fund's shares, that most investors achieved less than a 1% return, with many investors actually losing money in the fund, despite Magellan's amazing long-term performance.

How can this be possible? Simple, investors usually came back to the market after bull markets close to the tops and then get scared and sell their interest after the drops, right when the market was at the bottom. And don't feel bad: professionals tend to do the same mistakes.

Magellan fund average returns (1977-1990): **29% per year**

Magellan Fund average investor average return: **0.5% per year**

This phenomenon is called performance chasing: our tendency to feel confident when prices are high and desperate when prices are low, when it should be the contrary<sup>1</sup>. There's also the fact that investors not only chase performance, they also overtrade, buying and selling at a frantic pace and overreacting to any new bit of information.

Is it time for a refounding of the money management activity? Our thesis in this letter is the following: the modern world, with Google news, Twitter feeds, and especially, Bloomberg Terminals, is a miracle. The market has never been as robust, efficient and exciting despite its many well-publicized flaws. On the other hand, it is hard to avoid the cliché: there is a lot of information, but not enough wisdom.

Many articles have been written about investors biases, like anchorage and overconfidence and many others about the importance of costs: high fees and taxes, and even more importantly, overtrading, hurts investors long term performance, even more so when it is combined with performance chasing.

Still, in our opinion, the central reason that combines all of these mistakes is not much discussed: for the first time in history, there is excess instead of a lack of, information. Excess of information on many levels changes people's behavior.

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<sup>1</sup> A framework that might be useful amid Brazil's and emerging markets current market troubles.

From social networking that when badly used keeps people distracted to complete overreactions to short-term news that makes every new bit of information. Even the ones completely inconsequential to a company's long term cash generation - to influence stock prices, to the feeling that, since we have new information (and we have it all the time), we have to act on it, therefore making investors overtrade.

Above everything else, too much information can lead to short-term thinking. If one is to think about information tools at investor's disposal, surely the first place to look at is the Bloomberg Terminal. With thousands upon thousands of functions, surely no one on Earth can totally comprehend all the possibilities of a Terminal.

Certainly, among all that information - and we are daily users of a terminal - amid weather reports or stock charts, amid all those macroeconomic forecasts or through commodities futures - one has to start to wonder at which point information starts to become detrimental instead of helpful to an investor's long-term performance .

We are already at a point where globalization has assured that the competitive advantage is no longer how fast or how accurate we get information- the Financial Times or the Economist can be downloaded every day at exactly the same time as if this house was located in London or New York.

As internet enthusiasts usually say, information wants to be free. Instead, the game has moved-even more than in the past- to how well each one of us processes the same information we all have access to. In other words, what matters is the treatment we give to the same information, instead of how much or how fast information reaches us.

One piece of evidence that this has always been the case is the often forgotten fact that the most successful investor ever does not live and did not spend his career in Wall Street. Instead, Warren Buffett has spent

almost all of his life in the peaceful Nebraskan town of Omaha. This can't be just coincidence.

If he lived in New York City, among all the work lunches filled with conversations about the latest investment fad, we surely doubt he would have had the same level of success. Dealing with people that could be at times overexcited and at other times too scared to do anything, inside the eye of a hurricane of people talking about their bonuses and career prospects. There is something to be said about being away from the crowd, both figuratively as well as physically.

Just like we can better judge a historical or literary period once we get some distance, it probably helps not to deal too much with other investors and company managers. If there's one necessary quality to be a successful investor is the ability to think independently and this is certainly easier when you are not in the eye of the storm.

Some smart managers have started to realize this. Guy Spier, for example, author of the Book "The Education of a value Investor", has moved with his family to Switzerland to build in his words "his own Omaha". When people protest that Switzerland is efficient but boring, he replies "*but boring is good!*"

Since excess of information produces overtrading and short-term thinking, another natural contrarian trade, besides "being away from the crowd" is to seek ever longer-term strategies and ideas, since these are less explored by a short-term thinking herd. At this house, we specialize in these trades. We do not have the ability or necessary talent to profit consistently from short term or even medium term strategies. Instead, we seek very long-term game changing ideas that we think the rest of the market simply does not care about

Since, for a numbers of reasons, be they lack of interest, institutional limits, career risk, etc. most participants in the market simply do not care about these and others very long term catalysts, we think there's an unexplored opportunity in these ideas. One of the last "inefficient" corners of the market.

Company	Long-term Vision for Position
<b>Minerva</b>	Gain of share by South America in international beef trade.
<b>Braskem</b>	Increase in profitability of Brazilian industry with cheaper currency.
<b>Fibria</b>	Income gains leading to higher consumption by China and India.
<b>Apple</b>	Increase in market share and demand from emerging markets.
<b>Log-in</b>	Cabotage displacing trucks in Brazilian infrastructure matrix.
<b>Regus</b>	Change in work habits due to technological improvements.
<b>Match.com</b>	Change of dating habits of the millennial generation.

Surely, we are as subject to the market short and medium term fluctuations as anyone else and we still have to survive and care about the short term to reach the long term. At FCL, unfortunately, our early investors so far have achieved most of the rewards. Due to the negative cycle in the Brazilian market in the past three years, the "second generation" of our investors still have not enjoyed substantial gains. We still think and hope that over the very long term, when these thesis reach maturity, this difference will gradually matter less and less.

The reason is simple: we think most of the gains in our fund lie ahead. If you think our shares are only going back to the highest they've ever been, a bit above R\$ 3 per share, then it is a huge difference to have invested in us on our first day when our shares were 1 or instead when they were at, say, R\$ 2.50. If, on the other hand, you think our shares will someday be at R\$ 20, or even a lot higher than that, then you believe, like we do, that this difference is irrelevant.

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**Find our daily share value at:**

**[FCLCapital.com/rentabilidade.php](http://FCLCapital.com/rentabilidade.php)**

## Sobre a FCL Capital

A FCL Capital é uma gestora de recursos sediada no Rio de Janeiro, cujo objetivo é maximizar o retorno de seus investidores. A FCL tem como nicho principal, mas não exclusivo, investimentos em empresas abertas, listadas em bolsa de valores (posições compradas e vendidas nos mercados acionários). Para saber mais sobre nosso trabalho, entre em contato conosco ou acesse nosso website: [www.fclcapital.com](http://www.fclcapital.com).

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