

Li Lu Himalaya Capital 2021 Interview – Value Investing In Asia

Li Lu, Charlie Munger's famous Chinese right hand and manager of Himalaya Capital, recently gave an interview for the Columbia Business School Greater China Society and was interviewed by famous value investing professor Bruce Greenwald.

Here is the interview on YouTube:

<https://www.youtube.com/watch?v=FiHrWy2jGbA>

Here is my 12 minute summary of the above 1-and-a-half-hour video interview, I hope you enjoy it.

We can structure Li Lu's 2021 interview into 3 parts. In the first part the discussion is about how to find investments, what is value investing. The second part discusses the development of China, its position in the world and the opportunities there while part 3 discusses new trends in investing. The interview finishes with perhaps the key question: how to become a value investor today.

Li Lu Investing Interview 2021 – Part 1 – The Value Investing Philosophy

[4:20](#) How did your investment philosophy change over the last 28 years? It didn't

Li Lu started like most value investors and focused on statistical cigar butts Benjamin Graham style, looking for the last puff. Consequently, he transitioned to small businesses where he could become a specialist in the field, later focused on Asia. The main message is that the philosophy is always the same, it is just your core competence that expands.

[12:20](#) What kind of businesses to look for, characteristics? (above average returns on capital)

Li Lu is always searching for businesses that have a long-term durable moat which leads to a high return on capital that is sustainable. In the long-term your investment return will perfectly correlate with the business' return on invested capital.

Such a business also attracts a lot of imitators but if one can fend off competitors, has a long runway for growth, when you are lucky to find one, make sure to hold it. Such a great investment can come in all sizes, industries and forms.

What you also want is to buy such a business at a discount to intrinsic value, that consequently gives you a margin of safety if you are wrong.

[15:45](#) MOAT – Economies of scale, duration and what other elements? (Allocation of capital)

Apart from the obvious indicators of moats, Li Lu mentions the managements' capital allocation capacity as key and the business culture. Unfortunately, this is different for every business and you need to know the business extremely well to understand this part of a moat.

[21:10](#) Is size a key factor for having a moat? NO

Smaller businesses might be easier to understand but big tech businesses have a larger and larger moat these days, so moat is not related to size.

[23:30](#) In what other ways do you do things differently from most other value investors?

Li Lu's 3 core investing factors:

- Looking at businesses that are already successful
- Being intellectually honest with oneself – know your circle of competence
- You need to know a business in and out in order to be able to predict outcomes for the next 10 years and predict the next 2 years with a 90% degree of certainty. Keep in mind that most times you can't, so keep learning until you can.

[25:50](#) What is long-term ownership and how do you buy more when stocks crash 50%?

Only a long-term ownership mentality, where you know the business very well, allows you to buy more of it when a stock crashes 50%.

Imagine someone gifts you 100% ownership of a business, let's say Amazon. If you are a 100% owner, you will want to know exactly how the business works, what is going on and how it will evolve over time. If you do that when you buy a stock, you will do the right decision at the right moment in time.

[26:30](#) The market today?

Li Lu doesn't really study markets. However, we are in uncharted territories with all the money printing and low interest rates. Actually, every time it is different, so you need to invest in businesses that can do well in thick or thin.

[29:20](#) Specific things you learned about human irrationality over time and behaviour in crises?

Every 5 to 10 years we have a once in a century crisis. Human behaviour will never change because it is driven by greed for easy money in good times, based on uncomplete pictures of the environment. So, when things get rough, all the bad things surface, people panic, and due to the complicated irrational relationship with money people have, usually do the wrong thing at the wrong moment in time.

Financial markets actually amplify human instincts. The way to deal with your instincts is to find businesses that will do well no matter the environment and know them extremely well. To quote Li Lu: "if you just pretend you know a business well, you will be tested in difficult times".

[38:00](#) Better to be a generalist or specialist?

It is good to be a learning generalist but then be a true specialist when it comes to the businesses you are investing in. You need to know a business you are investing in better than the management knows it.

That is also the nice part of investing – businesses evolve over time and there is always so much to learn.

Li Lu Investing Interview 2021 – Part 2 – The role of China and Asia in the future

[40:19](#) Evolution of markets – Asian and Chinese role in the future

China and Asia will be increasingly important long term.

[41:32](#) Reliability of Chinese data – trade data vs. GDP growth data

The Chinese economy is more focused on internal growth, so growth in trade should be lower than GDP growth. China will soon become the largest, dynamic and fast growing consumer market in the world.

[47:29](#) Where to find the best value investing opportunities in China?

The Chinese market is still underdeveloped market and it is not representative of the economy. Trading and investors are not as mature as in the west, financial services are yet to be developed and things are about to take off in many ways. The government is opening up for financial services but there are opportunities in every industry, you just need to find the right business.

All in all, it is easier to find value in a dynamic economy like China given the inefficiency of the security market there.

Li Lu says how it is a good time to invest in China and especially for US investors. (likely talking about the diversification and currency risks)

[51:39](#) Development of Chinese financial markets

The IPO process is getting reformed and the markets are more opened for financing through bonds even if it is still all 80% bank financing.

[55:08](#) Investing in local services in China

Banks in China will be a good investment but you need to be a specialist there.

Li Lu Investing Interview 2021 – Part 3 – New Technologies

[58:28](#) New trends in investing – bitcoin, 5G, AI

You need to know the impact of the new technologies on your businesses.

[1:02:58](#) Opportunities in new technologies

Difficult to invest because it is difficult to predict the impact the technologies will have on a business in the field.

[1:03:58](#) Renewable energy, BYD, Tesla – Car Industry

The car industry has been hit by 4 disrupting trends: ride sharing, battery, intelligent design and autonomous driving. The competition is heated, the industry is upside down and it is extremely difficult to know who the winner will be but it is not difficult to predict the megatrend. If you can find a business that has unique tech, scale and the right strategic focus, you will do well. (Li Lu is a long-term investor in BYD)

[1:07:06](#)

Li Lu Investing Interview 2021 – 3 key factors to start with value investing

[1:07:06](#) How to start value investing 3 key factors

1) Always adopt an owners mentality

If you get 100% ownership of a company, then it is all about the business and not about the stock price. You have to think of a company you invest in as if you were the 100% owner. If

you don't have a 100% ownership approach, your mentality is wrong and you will do the wrong thing at the wrong moment in time.

2) Maintain Intellectual Honesty

Be honest about what you assume and what you don't know and how do you know what you know!

The thing is that the market will always hit your weaknesses – if you do not really possess the knowledge, you will be destroyed – the market has been designed to catch you!

Just think that when you buy something thinking it is going to do well, somebody else is selling to you thinking it is not!

3) Study the history of the business

Spend as much time as possible on the history of the business, the more the study the history the better you are about judging the company and opportunity!

Li Lu's interview finishes with a discussion on his career where he mostly praises his luck of being a Columbia student and by discussing the discrimination of Asian Americans and the negative sentiment that Li Lu is working on changing.

[1:13:56](#) What would you have done differently in your career

[1:22:10](#) Discrimination of Asian Americans

I hope you enjoyed this article, if you did consider checking out my YouTube channel that is based on the value investing philosophy and subscribe to my newsletter.