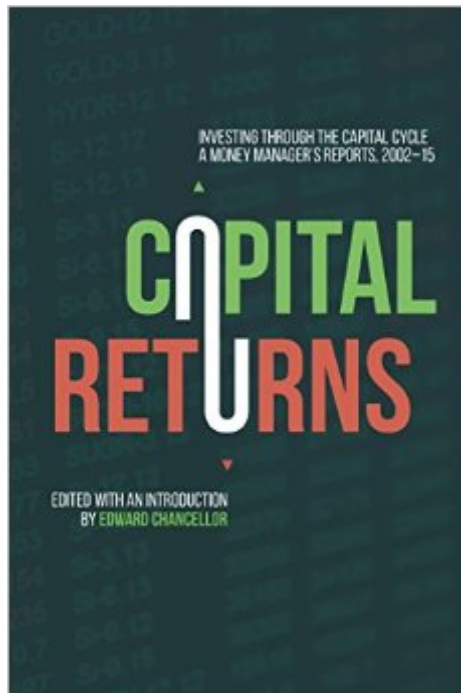


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# Capital Returns: Investing Through The Capital Cycle: A Money Manager's Reports 2002-15



## Synopsis

We live in an age of serial asset bubbles and spectacular busts. Economists, policymakers, central bankers and most people in the financial world have been blindsided by these busts, while investors have lost trillions. Economists argue that bubbles can only be spotted after they burst and that market moves are unpredictable. Yet Marathon Asset Management, a London-based investment firm managing over \$50 billion of assets has developed a relatively simple method for identifying and potentially avoiding them: follow the money, or rather the trail of investment. Bubbles – whether they affect a whole economy or merely a single industry, tend to attract a splurge of capital spending. Excessive investment drives down returns and leads inexorably to a bust. This was the case with both the technology bubble at the turn of the century and the US housing bubble which followed shortly after. More recently, vast sums have been invested in mining and energy. From an investor's perspective, the trick is to avoid investing in sectors, or markets, where investment spending is unduly elevated and competition is fierce, and to put one's money to work where capital expenditure is depressed, competitive conditions are more favourable and, as a result, prospective investment returns are higher. This capital cycle strategy encourages investors to eschew the simple 'growth' and 'value' dichotomy and identify firms that can deliver superior returns either because capital has been taken out of an industry, or because the business has strong barriers to entry (what Warren Buffett refers to as a 'moat'). Some of Marathon's most successful investments have come from obscure, sometimes niche operations whose businesses are protected from the destructive forces of the capital cycle. Capital Returns is a comprehensive introduction to the theory and practical implementation of the capital cycle approach to investment. Edited and with an introduction by Edward Chancellor, the book brings together 60 of the most insightful reports written between 2002 and 2014 by Marathon portfolio managers. Capital Returns provides key insights into the capital cycle strategy, all supported with real life examples – from global brewers to the semiconductor industry - showing how this approach can be usefully applied to different industry conditions and how, prior to 2008, it helped protect assets from financial catastrophe. This book will be a welcome reference for serious investors who looking to maximise portfolio returns over the long run.

## Book Information

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## Customer Reviews

This is the even more brilliant sequel to the already superb 2004 book Capital Account. Edward Chancellor, the author of the classic Devil Takes the Hindmost, picks and chooses among the 2002 to 2015 Global Investment Reviews written by money manager Marathon Asset Management. The essays are sorted into themes. The benefits for us all of keeping some sort of diary, writing monthly investment letters or in some other way document happenings, the zeitgeist, thoughts and feelings become more than apparent. This wasn't too long ago, but things that shouldn't be forgotten are starting to fade away from ones memory. Here Marathon lets anybody peak into their diary. Capital Returns has three important sections. The first one is what sets this book apart from its prequel; Edward Chancellor has written a terrific introduction that spot-on describes the main features of Marathon's investment philosophy. The next section presents essays that dive deeper into this philosophy and the final one looks to the buildup of, the crescendo of and the resurrection from the Great Financial Crisis. Although there are several interesting topics in the latter they are pretty well discussed and I will focus on the investment philosophy parts. As any investment philosophy it contains several components but what differentiates Marathon's thinking is their focus on The Capital Cycle and a number of industry supply factors. Here they clearly stand out. It's been a long time since reading an investment book gave so many impulses like "I should start a time series of this" or "Hmm, perhaps I could build a model of

thatâ • etc. So what is The Capital Cycle?

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