Seeking Alpha$^{\alpha}$

Ackman Is Back; Time To Back Ackman Via Pershing Square Holdings

Jun. 12, 2018 1:53 PM ET51 comments | 4 Likes
by: Seven Corners Capital Management

Summary

- Ackman-as-a-Service is available at a firesale price.
- Ackman's financial interests are aligned with Pershing Square Holdings shareholders.
- Recent signs point to Ackman's comeback being firmly underway.
- The time seems ripe to invest in Pershing Square Holdings.

When celebrity hedge fund manager Bill Ackman appeared on the cover of Forbes in May 2015 as "Baby Buffett" (above), in retrospect it marked his "Sports Illustrated Curse" moment. Over the past three years, Ackman's perfect billionaire life has seemingly imploded, marred by a huge ($1 billion) short bet gone awry (Herbalife (HLF), for which see here), a massive (>$3 billion) long bet gone spectacularly wrong (i.e., Valeant (VRX), for which see here), gigantic overall underperformance versus the market for his hedge fund Pershing Square (see here) and even a divorce from his wife after a 25-year marriage (see here). Below are a few choice quotes from Ackman's supposed "peers", evidencing the fact that Ackman schadenfreude has reached peak levels in recent years:

- "I think he hits a brick wall at about 197 miles an hour. I think he's done. I think he's a dead man walking and he's completely un-investable."
- "I think he's proven himself incapable of managing risks. I think that's kind of obvious at this point."
- "I don't think that it's particularly fair, but there is some glee."

(What a classy industry, by the way, where the moment you are down all of your peers jump on top of you and try to stomp you into oblivion, at least verbally).

In any event, we humbly submit that now may be the opportune moment to place a bet on Ackman by buying shares of Pershing Square Holdings (OTCPK:PSHZF). Really... for the following reasons:

a. Ackman-as-a-Service is Available at a Firesale Price - Bill Ackman is an investment manager. Every day he wakes up thinking about how to make his clients money. This is a service; one which we could label "Ackman-as-a-Service" (AaaS). Normally, a high-quality service is priced accordingly. In the investment world, depending on the context, one refers to either book value (or BV) or net asset value (or NAV) as a benchmark. For example, buying "Buffett-as-a-Service" (BaaS) will cost one about a 40% premium to the book value of the net assets Warren Buffett oversees at Berkshire Hathaway (NYSE:BRK.A) (NYSE:BRK.B) (source); similarly, "Icahn-as-a-Service" (IaaS) will cost close to 25% to 30% above the NAV of the assets Icahn manages via Icahn Enterprises (IEP) (per slide 25 in this investor presentation). Quite reasonably, given their respective stellar long-term track records, investors are willing to pay a premium to have Buffett or Icahn manage their assets. Yet, due to Ackman's recent underperformance, Ackman-as-a-Service is currently available at a discount of over 22% (or 1-(14.54/18.71)) to the June 5th NAV of the assets that Ackman and his team currently manage at PSHZF - or a discount of 60% versus Buffett and 50% versus Icahn - as evidenced by the following (sources here and here, respectively):

2018 Net Asset Values and Returns*

As of Date	Period	USD NAV/Share
5 June	Weekly	$18.71

Clearly, investors have given up on Ackman's abilities as a manager due to his struggles over the past three years. Yet, if we look at his entire Pershing Square track record (not just the most recent 3-year snapshot), it is clear that Ackman is an outstanding investor. Below is Pershing Square's gross performance by year since inception versus (1) the S&P 500 (including dividends) and (2) Berkshire Hathaway (note that 2017 and 2018 YTD returns are for PSHZF rather than Ackman's hedge fund; Pershing Square 2004-2016 historical performance can be found on slide 9 of this presentation):

Year	PSQ Long	PSQ Short/Hedge	S&P 500	BRK-A
2004	61.6%	-5.9%	10.8%	4.3%
2005	53.7%	-1.6%	4.8%	0.8%
2006	36.9%	-6.9%	15.7%	24.1%
2007	-5.6%	34.9%	5.5%	28.7%
2008	-23.2%	11.6%	-37.2%	-31.8%
2009	60.5%	-11.4%	27.1%	2.7%
2010	43.8%	-4.7%	14.9%	21.4%
2011	2.5%	-2.1%	2.1%	-4.7%
2012	16.9%	1.1%	15.9%	16.8%
2013	25.8%	-12.0%	32.4%	32.7%
2014	42.4%	5.8%	13.8%	27.0%
2015	-9.3%	-5.6%	1.3%	-12.5%
2016	-7.1%	-1.1%	11.9%	23.4%
2017	1.4%	-4.0%	21.9%	21.9%
2018 YTD (6/8/18)	8.2%	0.0%	4.8%	-1.2%
Cumulative	*1029.0%*	*-9.5%*	*235.6%*	*248.3%*
CAGR	*18.2%*	*-0.7%*	*8.7%*	*9.0%*

From this table, we can see that, purely looking at Ackman as a long/short investor (and therefore ignoring management and incentive fees for the moment), he has outperformed both the S&P 500 and Berkshire over past 14.5 years by over 770% cumulatively(!), while his long-only portfolio has outperformed the S&P 500 and Berkshire by 9.5% and 9.2% per year, respectively (note that the above 6/8/18 YTD NAV estimate is our own; the next official NAV should come out on June 12th). Clearly, a large chunk of this outperformance would not have reached Ackman's hedge fund investors due to the notorious 2-and-20 fee structure that such funds typically employ. However, for an investor today in PSHZF this drawback is limited due to fee waivers and the $26.37 NAV high-water mark, as noted in the last bullet point from the following 2017 PSHZF annual report excerpt:

We believe that this is a particularly attractive time to invest in PSH because:

- our portfolio trades at a wide spread to intrinsic value with catalysts which we believe should contribute to value recognition (which we discuss in detail in the Portfolio Update);
- the shares are currently trading at approximately 23% discount to NAV, which we would expect will narrow with improved investment performance;
- the idea generation engine is intact and productive;
- we have largely resolved the potential liabilities that have caused concern, namely the risk of a short squeeze at Herbalife and the Allergan litigation; and
- fees are low as we have reduced management fees by $14.4 million over the next eight quarters in connection with the Allergan settlement, and performance fees will not be payable until PSH recovers above the high water mark NAV of $26.37 per share.

In essence, the next 41% of NAV appreciation (26.37/18.71-1) will be close to fee-free for the PSHZF long.

Obviously, the time to invest in a distressed asset is when it is still considered distressed, not after the recovery has already occurred (by definition, such an asset would no longer be considered "distressed" at that point). If there was ever a time to view Ackman as a distressed asset, now is it. As shown above, Ackman-hate in the investment world is about as strong as it could possibly be. If one waits for Ackman's comeback to become an obvious success before placing one's bet on PSHZF, "betting on Ackman" will have much less upside potential.

b. Interests Aligned - Significantly, Ackman has been putting his own money where his mouth is by buying a large number of PSHZF shares on the open market (source):

Pershing Square Holdings, Ltd. Announces Purchases of PSH Public Shares by Bill Ackman and Nick Botta and the Listing of Additional Public Shares Due to Conversion of Management Shares

London, 7 June 2018 // Pershing Square Holdings, Ltd. ("PSH" or the "Company") (LN:PSH) (NA:PSH) today announces that the Company has been advised by Pershing Square Capital Management, L.P. that CEO Bill Ackman and PSH Board Member Nick Botta have purchased additional PSH public shares.

Since 29 May 2018, Mr. Ackman has purchased a total of 10,804,142 public shares at an average price of $14.79 per share. Mr. Ackman currently owns 6,645,150 management shares which are convertible into 7,091,986 public shares. If these management shares were converted to public shares, Mr. Ackman would own a total of 17,896,128 public shares, representing approximately 8.1% of the Company on a fully diluted basis assuming all management shares are converted into public shares.

Since 29 May 2018, Mr. Botta has purchased a total of 18,648 public shares at an average price of $14.00 per share. Mr. Botta currently owns 229,971 management shares which are convertible into 245,434 public shares. If these management shares were converted to public shares, Mr. Botta would own a total of 264,082 public shares, which represents approximately 0.1% of the Company.

When a manager mouths platitudes about their optimism for the future, shares being undervalued, etc., these words should typically be taken with a large grain of salt. However, when a manager backs up bullish words with huge amounts of their own money, investors should pay close attention. In short, by putting $160,000,000 of his own money into PSHZF over the past two weeks, Ackman has in effect gone "all-in" betting on himself. Whether he succeeds or fails for PSHZF unitholders in the future, the outcome will not be negatively affected by any conflict of interest. Ackman's interests and the interests of minority PSHZF holders appear fully aligned.

c. Signs Point to Ackman's Comeback Being Firmly Underway - Lastly, recent signs point to Ackman's comeback as a premier investment manager being firmly underway. The most obvious sign is the dramatic reversal in PSHZF's NAV over the past month, going from from negative 5.5% as of May 3rd to positive 7.5% as of June 5th, a positive 13% swing in total:

2018 Net Asset Values and Returns*

As of Date	Period	USD NAV/Share	Euronext Price/Share	GBP NAV/Share	LSE GBP Price/Share	LSE USD Price/Share	MTD Return	QTD Return	YTD Return
5 June	Weekly	$18.71	$14.32	£13.98	£10.72	$14.35	3.2%	17.5%	7.5%
31 May	Monthly	$18.13	$13.84	£13.64	£10.46	$13.90	10.3%	13.9%	4.1%
22 May	Weekly	$17.76	$13.44	£13.22	£9.96		8.0%	11.6%	2.0%
15 May	Weekly	$17.42	$13.12	£12.90	£9.74		6.0%	9.4%	0.1%
9 May	Weekly	$16.94	$13.04	£12.51	£9.66		3.1%	6.4%	-2.7%
8 May	Weekly	$16.85	$12.94	£12.44	£9.65		2.5%	5.8%	-3.2%
7 May	Weekly	$16.72	$12.98	£12.33	£9.58		1.7%	5.0%	-4.0%
4 May	Weekly	$16.70	$12.94	£12.34	£9.58		1.6%	4.9%	-4.1%
3 May	Weekly	$16.45	$13.00	£12.12	£9.56		0.1%	3.3%	-5.5%

Suddenly all the Ackman haters (who shall remain nameless) appear a bit flummoxed. However, this positive trend should not be surprising for several reasons. First, one would expect that Ackman's performance should eventually mean-revert. The 2015-2017 period of underperformance should clearly be considered the exception rather than the rule, given Ackman's overall excellent track record since 2004 (as shown above). Second, for better or worse, Ackman is probably one of the most persistent investment managers alive. Witness his five-year battle against HLF, which one noted fund manager likened to the Siege of Stalingrad. In our view, Ackman is the type of person who simply will not tolerate permanent failure; thus, setbacks such as Ackman has recently experienced should only fuel his fire for redemption, which should eventually be reflected in his investment results. A humbled Ackman is a hungry Ackman. Third, the fact that Pershing's assets have declined drastically since mid-2015, while painful for Ackman personally, is actually bullish for PSHZF holders. As Buffett is fond of stating, "size is the enemy of performance" in investing. Ackman's AUM is now much smaller than three years ago, meaning the universe of potential investments he can make is now much larger than then. Finally, Ackman has stated that he is going back to basics as an activist investor and will be avoiding the limelight going forward (see here). So there should be no more public shorts like HLF, no more passive investments made at a full price a la VRX and no more distractions like engaging in a CNBC-broadcast food fight with Carl Icahn. Thus, all signs look good prospectively for an investor betting on Ackman via PSHZF.

Conclusion

An investor seeking an alternative to ETFs and index and mutual funds, yet still wanting to outsource the stock-picking aspect of investing, has just a few options. One could buy shares of BRK.A or IEP and pay a large large premium to the value of the respective underlying investment holdings for the privilege of coattail-riding an Icahn or a Buffett. Conversely, one could buy PSHZF at a massive 22% discount to NAV and cede the decision making to Bill Ackman, who appears poised for a comeback and has put nine-figures of his own money in said investment vehicle, evidencing clear financial alignment with the rest of PSHZF's shareholders. Additionally, Ackman just turned 52 and manages around $8 billion, while Icahn is 82 (managing over $20 billion) and Buffett is about to turn 88 (overseeing about $400 billion). If age and size are the enemy of future performance, the advantage lies with a (relatively) young, hungry and more nimble Ackman, who still has decades of investing ahead of him and has recommitted to the activist investing style that first brought him to prominence. If Ackman regains a significant measure of prior stock-picking glory (which we think he will), PSHZF is likely the vehicle by which he achieves this end. And enterprising investors can currently get aboard for the ride at enviable prices before the train leaves the station. All aboard!

Disclosure: I am/we are long PSHZF.

Comments (51)

Dollar for Fifty Cents
Unless i had the resources of a Carl Icahn, i wouldn't bet against Bill. I've got a very modest position in PSHZF, which i opened about two years ago. I, too, believe he's poised for a comeback.

12 Jun 2018, 02:06 PM

Seven Corners Capital Management, Contributor
Author's reply » PSHZF's largest holding (ADP) was up 3.9% today following their analyst day.

12 Jun 2018, 04:15 PM

Seven Corners Capital Management, Contributor
Author's reply » PSHZF NAV up 21.8% in Q2 thru yesterday - now at $19.39 versus $14.90 stock price. 30% upside if it just gets back to the current NAV.

13 Jun 2018, 05:06 PM

MedTechBio, Contributor
What's historical discount last 2 years?

13 Jun 2018, 10:32 PM

Dollar for Fifty Cents
I think around 10% to 15%. It's been around 20% for a few months now, I think. These things almost always trade at a discount to NAV, but more than 10% might be atypical. I'm looking to add to my position if/when the discount reaches 25% or more.

13 Jun 2018, 11:32 PM

EliasMouawad
What market lists PSHZF and why it isn't in the US ?

16 Jun 2018, 08:36 AM

investor19891
Great article

Totally Agree. Bill and His team are working for free for you as no performance fee are paid now .

Long ..
i also Think they could make more buyback and thereby increase nav

12 Jun 2018, 02:25 PM

Iamfree4lunch
I wouldn't be at all surprised if he takes the whole thing private with 18 months after he has bought back as much as he can at fat discounts.

12 Jun 2018, 02:59 PM

cbinvest1000
I like Mr Botta's entry of $14. Will keep an eye on it and may open a position. Like that it owns burger king. Good article.

12 Jun 2018, 03:02 PM

Koronis
What are the tax implications for a US investor, and should one purchase the LSE or Euronext dollar-denominated shares?

12 Jun 2018, 03:07 PM

Seven Corners Capital Management, Contributor
Author’s reply » Koronis - no idea, but you might want to look in the PSH annual report (there may be some disclosure there).

12 Jun 2018, 04:13 PM

Iamfree4lunch
I’ve found good liquidity in Amsterdam PSH-NL trades in U$

12 Jun 2018, 11:06 PM

Fulhamite
Thanks for bringing this fund to my attention. I will definitely be researching it on the back of this article.

12 Jun 2018, 03:09 PM

MedTechBio, Contributor
You'd have to be insane to back him after his massive bombs. HLF, VRX, etc. If I have to do some powerpoints, I might hire him for $35 per hour.

12 Jun 2018, 04:14 PM

HunterKiller89
SUNE comes to mind as well.
I think he's currently very bullish on Brighthouse financial (BHF?), against a seeming consensus that it is very likely to under perform, and get hammered in a market downturn (and we're certainly closer to a market top than a bottom).

I'm going to stick to the old thinking that analysts, even very successful ones, tend to under-perform the broad market, and past success is almost never an indicator of an exception in this regard.

12 Jun 2018, 04:26 PM

Seven Corners Capital Management, Contributor
Author’s reply » "SUNE comes to mind as well. I think he's currently very bullish on Brighthouse financial "

You have Ackman confused with Einhorn / Greenlight Capital.

12 Jun 2018, 04:31 PM

HunterKiller89
Shit, that WAS Einhorn. My mistake!

12 Jun 2018, 04:36 PM

Seven Corners Capital Management, Contributor
Author’s reply » MadTech - Ackman is similar to a homerun hitter in baseball. Yes, VRX and HLF were strikeouts, but Ackman is still fully capable of hitting it out of the park. Aaron Judge had 8 strikeouts in a double-header recently (see link below) - does this mean he is a

terrible baseball player? Of course not - he just had a bad day. Ackman had a bad 3 years (out of 14.5 years) - you can't judge a person based on their worst slump, just as you wouldn't judge an elite athlete that way.

abcnews.go.com/...

12 Jun 2018, 04:36 PM

Dollar for Fifty Cents
To invest in PSHZF, you don't have to like Bill, you just have to like his holdings.

If, as a weighted group, I think the portfolio (which is a little easier to value when it's all long positions) at market prices is trading at 75 cents on the dollar, then I'm really buying those companies at about 60 cents on the dollar when PSHZF trades at a 20 percent discount to NAV.

Of course it's not quite as simple as this, but generally that's all you have to look at. Naturally if you believe Bill will actually destroy the companies he holds or you think the companies are not undervalued, you will want to avoid PSHZF.

12 Jun 2018, 04:40 PM

MedTechBio, Contributor
It's not so much his slump. It is questioning his chops. In the face of overwhelming information to the contrary, he still fought for buying VRX over $200 and shorting HLF under $30. That's akin to to Aaron Judge stepping up to the plate and facing the umpire while striking out. Strikeouts are understandable, but breakdowns are a major red flag.

12 Jun 2018, 04:41 PM

Seven Corners Capital Management, Contributor
Author's reply » "questioning his chops"

Look at his more recent picks - ADP (way up, bought around $100), LOW (way up, bought around $75), NKE (bought around $50, up 30% when he sold, up even further since then). Even CMG (which he was relentlessly mocked for investing in) is now up substantially from his $400 purchase price.

Seems like he's back on his A-game over the past year.

12 Jun 2018, 04:50 PM

Seven Corners Capital Management, Contributor
Author's reply » "Naturally if you believe Bill will actually destroy the companies he holds or you think the companies are not undervalued, you will want to avoid PSHZF"

Another option is to simply short any holdings you think are overvalued or questionable. VRX exposure could have been easily hedged this way.

12 Jun 2018, 04:52 PM

Seven Corners Capital Management, Contributor
Author's reply » "To invest in PSHZF, you don't have to like Bill, you just have to like his holdings"

This is EXACTLY what a lot of people miss - they don't like his persona or his reputation for being "arrogant", so they can't invest in PSHZF even if it makes logical sense to do so. This is the inverse of what Munger calls the "loving/liking tendency" (in other words, b/c they don't like Ackman ON A PERSONAL LEVEL, they end up hating anything to do with him, including his investments, even though undervalued stocks tend to go over time up regardless of whether the person who owns them is a nice person or not) - 25cognitivebiases.com/...

12 Jun 2018, 04:56 PM

Dollar for Fifty Cents
Exactly.

12 Jun 2018, 05:00 PM

Seven Corners Capital Management, Contributor

Author's reply » To use another sports analogy, below are Andre Agassi's world rankings by year. Notice how he dropped down to #141 & #110 in the world at his lowest point in 1997 & 1998, respectively. If you had judged Agassi by this temporary slump, he would be considered a mediocre (at best) pro tennis player. But look at his rankings after his mid-career slump - he got back up to #1 or #2 in the world in each of the 5 subsequent years and regained his spot among the all-time great tennis players - MEAN REVERSION, FOLKS. We expect this phenomenon to occur with Ackman as well.

Year High Low Final

1985 613 636 618

1986 89 618 91

1987 24 98 25

1988 3 26 3

1989 3 7 7

1990 4 8 4

1991 4 10 10

1992 6 17 9

1993 7 31 24

1994 2 32 2

1995 1 2 2

1996 1 9 8

1997 8 141 110

1998 4 110 6

1999 1 14 1

2000 1 8 6

2001 2 6 3

2002 2 10 2

2003 1 5 4

2004 4 11 8

2005 5 11 7

2006 7 151 150

2007 150 413 n/r

www.tennis28.com/...

12 Jun 2018, 05:10 PM

Investment Pancake, Contributor

Agreed. This article looks only at Ackman's past results, but fails to consider the black box of how Ackman's thinking generated such results. Whereas Ackman has had great success in the past, his approach to VRX was not simply a matter of bad judgment. I'd argue it went beyond incompetence and strayed into the realm of hubris, or worse. The question is whether Ackman's fundamental thinking is the same as what it was in the past?

It is one thing to be a contrarian investor. Hell, I am. But there is a difference between bucking the crowd (on the one hand) and deciding to hang onto a hissing hand grenade (on the other hand). Ackman's approach to VRX and Herbalife was precisely the "suck your thumb while the hand grenade hisses" approach that signifies a severe lack of judgment - which was not something one could have said of Ackman in the past. In other words, the question is not whether Ackman was once a rock star . The question should be "has something fundamental changed in terms of this guy's ability?" If thumb sucking in the face of not only one but TWO time bombs doesn't answer that question..... well...... go ahead and invest.

Oh, and high water mark aside with the 20% carry, let us not overlook the dramatic impact of a 2% annual fee compounding year in and year out. Have they waived the 2% in addition to the 20% carry? If not, I would commend any reader to research why Warren Buffett famously bet $1m that the S&P500 would outperform ANY hedge fund over a ten year time period.

I'm with Med Tech on this one. I don't simply question his chops. I assert that those chops have, in fact, been chopped. And I think that the law of compounding will ultimately do what it nearly always does: punish those who pay high fees in the expectation of grand returns. If Ackman is waiving the 2%, then I stand corrected.

12 Jun 2018, 05:36 PM

Investment Pancake, Contributor
ADP, NKE - great home runs, but what about the overall game? Not good. It's the portfolio as a whole that counts. You should consider the behavior with the loosing investments, because how a manager deals with losses tells you far more about their skill than how they deal with the home runs. Mike Tyson put it very succinctly when he said the secret to boxing is not getting hit. Well, the secret to managing money is not getting hit (or at least getting out of the way quick when the punches start).

12 Jun 2018, 05:44 PM

Seven Corners Capital Management, Contributor
Author’s reply » Management fee is 1.5%, not 2%. Also, fees have been reduced for the next 8 quarters (see the article).

12 Jun 2018, 05:44 PM

Investment Pancake, Contributor
Reduced or not, those fees are big, and will present a headwind that grows at a compound rate each year.

The other headwind, of course, would be more catastrophic losses on stock picks (or shorts) that ought to have been jettisoned long before they were. Remember: everyone hits home runs in this game - it's the guys that step away from mega losses that stand a chance of outperforming a benchmark on something like a consistent basis.

12 Jun 2018, 05:52 PM

Seven Corners Capital Management, Contributor
Author’s reply » Fees should be offset by the NAV discount closing over time.

12 Jun 2018, 06:09 PM

1luckyschmucky
But his arrogance, even when being blatantly on the wrong side of the trade, dominates his thinking and leans toward bad decision making. I'm not concerned with his arrogance other than it influences his decision making. NFW am I trusting his "instinct".

12 Jun 2018, 10:34 PM

Seven Corners Capital Management, Contributor
Author’s reply » Then don't buy - find something else - problem solved! GLTY.

12 Jun 2018, 10:55 PM

Andy D.
7 corners,
If a prospective employee had a 14.5 year resume and had 2 jobs from which he was fired for poor performance would you hire him?

13 Jun 2018, 02:16 AM

Peter Kaye, Contributor
Comparison to BRK is a little off as you pay Bill a nice management fee and a performance fee above a high water mark, whereas you pay nothing for Buffet. BRK should at least trade at NAV, whereas PSH should always trade below due to the fee burden.

That being said, spread to NAV now is wide enough that if you like the positions its an okay way to hold them.

After trying this once in 2013, I prefer to analyze his positions one at a time and copy them myself and avoid the fee or the potential he puts a VRX in the portfolio on you all of a sudden.

12 Jun 2018, 05:16 PM

Seven Corners Capital Management, Contributor

Author’s reply » BRK basically can't appreciably outperform the S&P over the long term b/c it's simply too large. Buffett is now limited to buying companies with $50B or greater market caps.

12 Jun 2018, 05:45 PM

Investment Pancake, Contributor
Well, Buffett does collect a $100,000 a year salary. But he reimburses the other Berkshire shareholders for any stamps, paper clips and office material that he uses for person purposes.

Bill Ackman doesn't dole out refunds for stamps and paperclips as far as I know. 'Nuff said.

12 Jun 2018, 05:47 PM

Peter Kaye, Contributor
Would you say the same of Google, Microsoft, Amazon etc.? Size does, yes, decrease odds of outperformance, but it does not make it impossible.

12 Jun 2018, 06:02 PM

Seven Corners Capital Management, Contributor
Author’s reply » Yes, unlikely that MSFT & FANG stocks will outperform going forward - market caps are too big.

12 Jun 2018, 06:10 PM

Dollar for Fifty Cents
If you look at some of Bill's bombs, you'll see that they're really not as bad from a "chops" point of view:

Valeant: Bill was not the only elite value investor who got fooled by the rollup game (among other things)--Lou Simpson, Chris Davis, Robert Goldfarb, John Paulson, and Value Act also owned Valeant before it collapsed. But you could say the same about countless value investors who bought companies that turned out to be fool's gold. Hardly anyone mentions that the legendary Marty Whitman was buying MBIA until the very end (which is interesting because Bill was on the other side of that trade). Also, legendary value firm Tweedy, Browne once acknowledged they were fooled by, I believe, the discount to book value, of a diamond company during the boom phase of the gem market.

Herbalife: Bill was right about the business. Charlie Munger was right about Bill being right about the business. But Bill happened to be wrong about the stock. And unfortunately, when you're up against Carl Icahn, funny things can happen.

J.C. Penney and Target: Beware broken retailers. Just ask Warren Buffett. Or Bruce Berkowitz and Francis Chou. I think all will think thrice about investing in broken retailers in the future.

12 Jun 2018, 06:21 PM

Bryant24
Comparing the book value of Berkshire to the book value of Pershing isn't an apples to apples comparison. This is because of the wholly owned subs that Berkshire holds and the way they are treated for accounting purposes. When people do a parts of the whole analysis of Berkshire they generally conclude that it sells at a discount to intrinsic value. Obviously this requires you to make some assumptions on the intrinsic value of the wholly owned subs in absence of market NAV.

13 Jun 2018, 12:08 AM

Seven Corners Capital Management, Contributor
Author’s reply » Disagree - Ackman's holdings also have an intrinsic value that's not necessarily reflected in their stock prices.

13 Jun 2018, 05:13 PM

Bryant24
Well markets are not always efficient but markets generally attempt to capture the intrinsic value of a company. We all spend a bunch of time on here looking for companies that are selling either above or below their intrinsic values.

In the case of Berkshire he holds a bunch of companies that have been held for many years and are not traded on any market. Some are clearly worth far far more than book value would suggest and profit more in a year than what they're carried on the books for. So you simply can't make this comparison using book value when one of the entities' assets are all marked to market and the majority of the other entities' assets are not marked to market.

14 Jun 2018, 10:23 AM

George Daugharty, Contributor
Retail investors should not buy PSHZF for on simple reason.

The other shareholders are all smarter, more sophisticated, and better connected.

They have already bought in at the best prices, and will sell at the peaks long before you at your home desk will ever know what's going on.

Someone give a counter argument please

13 Jun 2018, 02:24 AM

Art Rimbaud
That's not how a closed end fund works.

14 Jun 2018, 12:49 PM

Analyst_question
A few questions:

For a fair comparison with S&P 500 and BRKA, wouldn't it be better to take off the fees part? Presumably in the years where there was over performance a part off this the investor never sees (as an investor this is the important number to me, rather than how well the manager has done with AUM), also the annual fee should also be excluded (a low fee for a S&P index fund for instance is a lot lower, and BRKA doesn't have a fee) the compounding impact of this will no doubt be significant.

Does the US have different taxes for active versus passive managed funds, if so this should also be factored in for a more complete comparison.

It says for 2017 and 2018 YTD you have adopted PSHFZ performance rather than Ackman's hedge fund, is this because the hedge fund ceased or did it perform worse than PSHFZ?

I agree it is great that Ackman investing his own money in PSHFZ. Of the $160m what was his actual cash, versus money he is being given to manage PSHFZ, and do we have any idea what percentage of his overall worth doesn't this represent?

While the commitment is for no performance fees until after a 41% increase, will there still be the normal annual fees?

13 Jun 2018, 03:55 AM

Hezron Abu
how to purchase PSH stateside?

11 Jul 2018, 10:34 AM

UncleLongHair
You're using a one month period during a raging bull market as evidence that Ackman has gotten his mojo back? Doesn't that seem ridiculous? A rising tide lifts all boats, even those that are not seaworthy.

If you're looking at Ackman's long term track record you should go back to Gotham Partners , which imploded in a similar fashion to his latest fund. He started out basically picking stocks and moved into concentrated bets on semi-private and offbeat companies which failed and crushed his performance.

He is a good analyst and has had his successes such as General Growth but it is when he gets into the spotlight as an activist and tried to shake things up that he got into trouble. Call it hubris or going off-plan or what have you.

Ackman's next brilliant idea that's going to bring back the profits is investing $1 billion in Lowe's? If investors really think that this is the secret, why don't they just buy that stock themselves and avoid the fees, discount to NAV and drama of Ackman?

This is fundamentally the problem with running a concentrated portfolio of public stocks. Everyone else can see the stocks you buy and can mimic your portfolio without paying your fees. Even if you perform well, investors have no reason to stay with you. This I believe is why Ackman got into activism, private investments, etc. because he needed to justify his existence as a fund manager. We will see if investors stick with him again this time.

13 Jun 2018, 11:11 AM

Seven Corners Capital Management, Contributor
Author’s reply » "you should go back to Gotham Partners"

We likely know way more about Gotham than you do - we've read every single SEC filing he ever made while running Gotham. Have you?

"why don't they just buy that stock themselves and avoid the fees"

By the time word gets out that he's bought, the stock is usually up significantly. You won't know he's building a position until either he files a 13D or word leaks to the press.

13 Jun 2018, 05:11 PM

UncleLongHair
If you know so much about Gotham Partners you should probably have mentioned it in an article about Bill Ackman's investing/career history. It's kind of like neglecting to mention that LeBron James used to play for Miami.

13 Jun 2018, 07:04 PM

Seven Corners Capital Management, Contributor
Author’s reply » The article is not a history of his career. It's about PSHZF.

13 Jun 2018, 08:26 PM

Analyst_question
Seven Corners, the article appears to me to be more about promoting Ackman to increase interest in PSHZF, look at your article title.

I agree with UncleLongHair that for a more complete article it should mention all aspects, perhaps given UncleLongHair comment some assurance that Ackman will not return to activism would give people more assurances?

14 Jun 2018, 02:47 AM