



Larry Sarbit on Holding Cash and What He Thinks of the Market Right Now

Description

Larry Sarbit is a money manager for the IA Clarington Sarbit U.S. Equity fund. Two years ago, Sarbit was aggressively loading up on U.S. stocks. But now with American equities hitting all-time highs, he has been pulling back on his U.S. equity exposure.

In part 2 of our interview, Sarbit and I discuss his market outlook and the benefits of holding cash. Below is the transcript of our conversation; it has been lightly edited for clarity. ([Click here](#) if you missed part 1.)

Robert Baillieul: When I was looking at the makeup of your portfolio, I think 40% of your fund is in cash. I'm always hearing about inflation, the Fed, and cash is trash. So why keep such a big holding?

Larry Sarbit: Well, cash is not trash. I don't know if you know anything about my history as an investor in the mutual fund industry over the past 25 years, but I've gone through periods of being pretty close to fully invested to one point being nearly 90% cash during the early part of this decade. And this is an outgrowth of this philosophy and practice.

Business owners, if they're sitting on cash on the balance sheet of their company, they don't feel any pressure if it's a privately held company to put that capital to work. Nobody is holding a gun to their head and saying "buy." But in our business, in the mutual fund industry and I would think in the pension sector and I would suppose in endowments at times, there is a gun. And there are many institutions where holding cash isn't even allowed.

That doesn't make sense. That's anti-business, in my view. You shouldn't be buying something if it doesn't make sense, if there's no visible rate of return. That's not investing.

So cash is not a burden. Cash is not a problem. I sat for years with tons of cash. And certainly through the first half of the decade. And when things fell apart, having the cash was not a problem. It goes from being a point of contention to being the most desirable asset out there. *In a flash* it transitions how it's perceived. So we don't see it as a problem. Businesspeople don't see it as a problem. It is not a burden. It is not a cop-out. It's an asset.

Buffett calls it a call option. I think that's how he views it — as a call option with no expiration date or strike price. It's an asset you hold for an indeterminate amount of time that is waiting for a big return that you could scoop up at your discretion. Not at somebody else's command, but because you see the return. And that's exactly how we've seen it over the years. It is a wonderful thing to have.

The downside is that you could underperform when everyone else is in the market and more money is coming into the market. People are paying higher and higher prices and sometimes they end up paying 2000-2001 prices that are clearly insane, that are clearly outside the realm of rational thought.

I was writing articles in the *Globe and Mail* in 1999 and 2000 talking about the absolute lunacy, the dot-com bubble and just general valuations. I said at that time in various articles that I didn't see how you were going to make a rate of return going forward. And you didn't. It has been more than a decade of basically going nowhere.

When you pay — I think stocks in the beginning of 2000 were trading at 44 times earnings — I don't think anyone can make money when you pay 44 years' worth of current earnings to buy a business. That's not rational.

That's certainly outside the rational behaviour of businesspeople. They don't do that. They don't even come close to that. But here is the investing public rushing in after the market has gone up after 18 years and paying absolutely ridiculous prices for the same business.

I remember **Coca-Cola** trading for 50 times earnings. Nothing had changed in the business. Just the valuation. And when you pay that price, don't be surprised if your returns are not very exciting. It's like buying a bond. If you end up paying \$150 for a coupon that's 4%, the coupon for you is not 4%. And it's the same thing with buying a business.

If you buy it at an overinflated, overvalued price, the cash that the business is generating is not worth it. You're paying a hell of a lot more for it. Your return is going to be lower. It's the really simple math. Sorry if I'm spelling it out so simply.

Baillieul: Well, sometimes it doesn't need to be made any more complicated than it is.

Sarbit: Investing is not complicated. It really is very simple. As Charlie Munger says it's not easy. The idea and the process are simple.

The frustration is just not being able to find ideas when you'd like to. That's our current conundrum. Prices have gone up so much since 2009, it's far outpaced the underlying growth of the businesses as well.

But that can't go on forever. And it doesn't — that I promise you. It never goes on forever. But I can't tell you the date when it will stop and turn around. No one can. You just know whether you're at the

extremes, you really know it.

In 2009 and 2010, you can see that it was obvious. I wrote an article in the *Globe* in 2010 saying you've got to buy the U.S. It's cheap. No one wants it. Everyone is terrified. And because everyone is terrified we're able to pick up bargains. So this is the time to be buying.

And today the shine is starting to come off that wonderful situation that we saw three years ago. So you've got to go with the flow and you've got to go with reality. Keep your eyes wide open and accept the facts.

Baillieul: Don't make your own facts.

Sarbit: Don't try to try to push square pegs into round holes. Just deal with the facts. Deal with the reality. Keep a level head. Have patience. I can't remember, I think it was Pascal who I think said the problems of man are that he doesn't sit in a room quietly alone and basically think.

And that's certainly true with our world. We're so overstimulated with CNN and all of these news stations and business stations we're just bombarded with information. How can you think straight with all of this stuff being thrown at you? One of the good things of being in Winnipeg is there's a little less of that.

Baillieul: I wanted to ask you about that. Do you think being located far away from the action of Bay Street is an advantage?

Sarbit: I think so. It certainly has worked for us. I remember John Templeton was asked about investing in New York and investing in the Bahamas. And he said I've invested in Rockefeller Center and I've invested in the Bahamas. And I've invested better in the Bahamas. So he chose the Bahamas and I chose Winnipeg. Now that's not rational.

But those are the facts. You're away from that noise. I think it's like Omaha. You're just not at the center of all of this. You can sit down quietly without people pounding at your doors. Without going out to lunches. Meeting people in analyst meetings. You sit here and you read. You sit here and you write. You sit here and you try to figure things out in a more quiet setting.

So I think it certainly has helped to be here. Now, I enjoy going to New York and Toronto. But I've always enjoyed the view of the rearview mirror, it's a good one.

Coming up next

In part 3 of my interview with Larry, we discuss the rise of shareholder activism in Canada.

Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article. The Motley Fool owns shares of Coca-Cola.

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