“It’s frustrating in the sense that we look dumber than we really are ... We own a lot of unpopular but profitable stocks.” – Donald Yacktman

**Biography**

Age: 70 (as of 2012)

Source of Wealth: Investing, Portfolio Manager, Self Made

Residence: Austin, Texas, United States of America

Country of Citizenship: United States of America

Education: B.S. in Economics, University of Utah, Masters in Business Administration (with distinction), Harvard Business School
Marital Status: Married

Children: 7

Introduction

The simplest way to describe Don Yacktman is to define the investment strategy of buying low and selling high. Yacktman believes in picking smaller stocks after careful study, with the expectation they will grow in value once business operations are established and the company grows. Hence, he usually has a long term strategy in mind which has served him well over the years he has been in business, save for a few nasty occasions.

The Yacktman Funds

Donald Yacktman initiated the The Yacktman Funds in 1992 after a successful stint as a portfolio manager at Vincent Chesley that ended when the company was acquired by Kemper. The following funds are managed by his company of which Yacktman is President and Co-Chief Investment Officer. He also actively co-manages two of the funds. His son, Stephen Yacktman also works as an analyst and manager at the firm. He holds the title of Senior Vice President, Portfolio Manager and Co-Chief Investment Officer and co-manages some of the funds.

The names of the funds managed by the company are:

* The Yacktman Fund Schedule of Investments

* The Yacktman Fund Fact Sheet

* The Yacktman Focused Fund Schedule of Investments

* The Yacktman Focused Fund Fact Sheet

Background

Yacktman joined the corporate world in the late 1960s after graduating with distinction from the Harvard Business School. His father who was a real estate developer offered a him a lucrative job which was refused based on some of the conditions that were part of the bargain.

Yacktman joining the firm Stein Roe and Farnham in 1968 and was a portfolio manager for 14 years; however, the investor recalls his time there as being in vain since he was not able to follow his instincts despite the fact that his portfolio usually outperformed those of other managers.

In 1982, Yacktman was wooed by Vincent Chesley to manage Selected American Shares, a portfolio worth $76 million which he primarily managed using his investment mantra of selecting shares of small companies, referred to as “bargains”. This strategy recorded returns unheard of and the fund was valued at $400 million in 1990. He was subsequently named “Portfolio
Manager of the Year” in 1991 by Morningstar.

Yacktman’s Investment Principles

“Back in 1987, the day of the 500 point decline, I started buying like crazy ... I spent $40 million that day.” – Donald Yacktman

Like most fund managers, Don Yacktman has a stubborn belief in his investment principles that he does not let go off even in the face of strong adversity. The fundamentals that Yacktman has held on to during his career adhere to small stock value investing. He believes that a successful trade is only to be had at a decent price, but blue chip companies are severely overpriced because of lower volatility and increased liquidity.

As a result, Yacktman tries to identify three main aspects of any business which are that the company should have a solid business plan supported by a decent profit margin that is scarcely affected by market turns or preferences and costs should be low. Secondly, the management should be actively striving to increase the gap between costs and profits, thus impacting the margin favorably. Lastly, the shares of the company should be undervalued when compared to the market value. These deep discounts are the major factor that make or break a decision for Yacktman.

Like other investors, Yacktman has made money by swimming against the tide. His strategies have resulted in enormous amounts of returns, often beating the market by several points, but at the same time have been the source of much controversy and concern amongst his clients.

Performance and Strategy over the Years

The saying “what goes up must come down” is very popular amongst pessimists particular those associated with the financial world, since such is the nature of things. Yacktman’s strategy of choosing undervalued, obscure stocks returned heavily fruitful returns till 1991, but the winning streak needed a break.

Company Established

His new company that was set up in 1992 was hugely popular amongst all kinds of investors who were reminisced about the returns that Yacktman had the potential to earn. Media coverage of his company was equally kind and Fortune deemed his funds as one of the ten that had the potential to “shine”. Similarly, US News and World Report termed his fund as one of the five that had would stand different from those of its competitors.

In 1993 however, some unfortunate events resulted in Yacktman’s stocks being out of favor. Almost 20 percent of the portfolio had been invested in pharmaceutical companies which crashed following announcements related to health care reform. As a result, in the year that the S&P 500 index gained 10 percent, Yacktman lost 6.6 percent of its capital. However, despite this performance, Yacktman refused to budge from his investment rationale and proudly proclaimed in a TV interview that this was the only strategy he knew that would make
substantial money.

While his statement drew the ire of some investors, others admired him for his honesty and conviction which was quickly rewarded as his pharma stocks recovered their value and more in 1994 and beat the S&P 500 index. Till 1997, Yacktman’s fund continued on a path of simultaneously losing and winning money.

By 1998, The Yacktman Funds had some serious investors on board and plenty of money was directed towards its accounts despite the fact that the fund was 17 percent behind the reference index. At the start of 1998, Yacktman was holding almost $1 billion in capital and was one of the most recommended funds.

The Storm

However, the bottom was pulled from under him during the first half of 1998; the S&P 500 earned almost 18 percent; unfortunately, Yacktman’s fund massively trailed with a paltry 3.7 percent return. As a result, major investors began to redeem their investments which shook the management of the company to the core and badly damaged its reputation.

It also led to the Board at Yacktman doubting the interests of Don and Stephen Yacktman, followed by an overhaul of the Board Members. Although there were many reasons for the rift, the primary bone of contention was the deviation from the prospectus of the funds and its strategy.

Yacktman had always believed in the relative value of stocks which predominantly belonged to small companies and continued to partake actively in their trading whilst the prospectus advertised that the fund would participate in large cap stocks.

Despite the accusations and many investor redemptions later, Yacktman was able to hold his ground as 90 percent of the remaining shareholders demonstrated their confidence by voting against the Board. However, by 2000, Yacktman Funds had lost almost $70 million of its $1 billion portfolio by investing in small cap stocks.

Recovery

The wavering trend continued till the mid 2000s without respite. The Yacktman Fund consistently made and lost money and the patience of its investors was wearing thin. However, it usually outperformed the market in times of crisis, such as in 2002.

Come 2008, the year of the Financial Collapse, the fund lost money but significantly less than the S&P 500 index and other competitor funds. The market crash in the year provided Yacktman an opportunity to pick and choose securities that were grossly undervalued.

In his words: “When you have a disruptive period, think of it as a fruit tree that is shaking. Some of the fruit will drop to the ground. You can examine the fruit and see which ones you want,”
The Yacktman fund not only outperformed the market during the recession in 2008 and 2009, but also during the dot com burst due to Yacktman’s aversion to technology stocks. The latest performance of his portfolio is evidence of his theory regarding small cap growth stocks that have immense potential but only in the long run. This theory is driven by bond price/yield relationship, which is easy to understand.

If a bond’s price decline, the yield goes up – this is what Yacktman has always wished to cash on. In 2010, for example, the Yacktman fund returned a total of 31.57 percent for twelve months ended in May, and beat the reference index by almost a massive 11 percent.

The Importance of Stock-Picking

Despite the turmoil in the early years of the funds’ establishment, Yacktman’s funds have outperformed the market and its peer funds on more than one occasion particularly in the aftermath of the recession. The funds' strong performance was primarily due to selective stock picking that were bought with a long term view.

Yacktman also keeps his distance from the management of the company he is interested in purchasing the security of because company management always publicizes winning perspectives as opposed to what the stark reality might be. This allows the fund managers to remain neutral and fight the bias that may arise from such interaction.

Example of Yacktman’s Trades

During the financial collapse in 2008, several opportunities arose as securities were trading at rock bottom prices, and for significantly less than their fair and book value. AmeriCredit was one such company that was in fact involved directly with subprime loans, just not the mortgage kind.

This company was engaged in bundling auto loans into the subprime variety and Yacktman believed that when American’s were presented with an opportunity of saving their cars versus their homes, they would opt for the former.

The stock of the company crashed and in one year by July 2008. the shares depreciated almost 75 percent. At this point, the shares were undervalued by almost 50 percent. Yacktman doubled their exposure to this stock at varying prices and by May of next year, the minimum returns recorded were at least 200 percent while the maximum ranged to as much as 500 percent.

Similarly, another pick of Yacktman’s yielded 76 percent returns. The stock belonged to Viacom, a mass media company in the United States. The shares were Class B shares that decreased in value during the tumultuous 2008, from $27.50 to $16.70 when Yacktman began piling up on the stock. By May 2010 the price recovered and was trading at $32.09.

With securities vastly undervalued, Yacktman has also developed a taste for technology stocks which have usually remained overvalued due to their hyped-up nature. While the fund manager refused to budge on his position and invest in tech stocks in the early 1990s, his firm's current major holdings are in the two popular tech companies, namely Microsoft and Cisco Systems.
He explains his new-found interest with the fact that Microsoft lost almost 50 percent in value during the recession while Cisco Systems shares were devalued by about 70 percent, making them attractive for the long run.

Other big companies have also found their way into Yacktman’s portfolio. Some of these are the stocks of renowned companies Coca-Cola, PepsiCo, Johnson & Johnson.

**Aversion to Banks**

Yacktman, like most other fund investors has demonstrated immense aversion to securities issued by banks, particular shares and stocks. This is because banks can create assets with a new policy or with a little lax in regulation from the Federal Reserve and thus present huge challenges at the analysis stage.

Yacktman summarized his choices and said: “They create assets with a stroke of a pen and it takes five years to find out how good the assets are”.

**Donald Yacktman/The Yacktman Fund in the News**

Don Yacktman’s Lonely Crusade


Yacktman Fund Rises When Stock Market Falls


Don Yacktman’s Wild Ride – Fall of a Fund Manager

[http://findarticles.com/p/articles/mi_m1318/is_2_55/ai_69664642/?tag=content;col1](http://findarticles.com/p/articles/mi_m1318/is_2_55/ai_69664642/?tag=content;col1)

Don Yacktman Remains a Value Victim


Struggling Growth Funds Limp From Mediocrity


Growth Stocks Will Lead, But Which Ones Are They?


Don Yacktman Discusses His Strategy
Don Yacktman Likes Viacom, ConocoPhillips

Donald Yacktman Says Largest Shares Offer Best Values

David Dreman and Donald Yacktman on Finding Value in Beaten Down Stocks