Francis Chou Profile

Francis Chou is the President of the Toronto-based Chou Associates Management Inc. Chou immigrated to Canada from Allahabad, India in 1976 and is one of the greatest example of American (or Canadian) rags to riches.

When Chou arrived in Canada, he was 20 years old and had only $200 in his pocket. Chou landed a job with Bell Canada as a telephone repairman. He was quite ambitious and felt that he wanted more from life than being a telephone repairman. Despite having only a 12th grade education, Chou liked to read a lot. He became interested investing after reading books written by Ben Graham, such as “The Intelligent Investor” and “Security Analysis”.

In 1981, Chou started an investment club along with six of his Bell Canada co-workers. The club started with $51,000 and managed to turned into $1.5 million over the next five years.

In 1984, Chou left Bell Canada and became a retail analyst with GW Assets, where he met another notable investor Prem Watsa, who was also an immigrant from India. After 18 months with GW Assets Chou left and joined Prem Watsa at Fairfax Financial Holdings Limited, as one of its original investors.

Watsa is currently the CEO of Fairfax Financial, which manages $31.7 billion in assets. In 1986, Mr. Chou turned the investment club into Chou Associates Fund.

Investment Philosophy

Chou’s investment Philosophy can best be summed up in two words “Buy Bargains”. Of course, buying bargains is no simple matter. Chou can best be categorized as a value investor. Some people have called him a bottom fisher; however, he will typically look for stocks that display the following characteristics:

- Above-average to excellent companies as measured by high ROE in excess of 15 percent sustained over 10 years or more.
- Companies run by skillful managers as measured by good controls maintained on receivables, inventory and fixed assets.
Prudent deployment of capital as measured by a company’s capital expenditures, judicious acquisitions, and timely buybacks of its depressed shares.

A stock price which is far lower than what a knowledgeable rational buyer would pay.

Chou is a highly disciplined investor and would much rather hold onto cash than overpay for a stock. He looks to purchase stocks in companies that fit into one of these three characteristics.

Companies with “Special Situations”. When he says Special Situations he means companies that are facing short term problems that have caused investors to overreact.

Companies whose shares are “CRAP”. These are companies that cannot realize a profit. Chou believes that investors will run from companies that have losses thus leaving the stock undervalued.

Companies that are well run and have the potential for strong earnings growth but for some reason are trading for less than they are worth. This approach is similar to Warren Buffett’s, and is the investing tactic that he uses most often. When using this tactic Chou rolls up his sleeves and does long hours of company research. He will need to know the following about the company:

- Does it have a strong balance sheet?
- What is the company’s cash flow position?
- How well does the company rank when compared to its peers?
- Is the company is run well and does it have good management?
- Why the stock is trading below intrinsic value, and are the problems short term?

Thoughts from Francis Chou

Below are some thoughts from Chou that give an insight into his thoughts on investing.

1. Chou thinks most investors make the mistake of buying a stock because its price is going up instead of buying stocks when they are on sale – the way people like you buy their groceries or other merchandise.

2. Chou wants his investments to be made with a margin of safety. He wants to buy a stock when it is selling for a discount of 40 percent to 50 percent from his estimate of the company’s value.

3. Chou has no problem with making a large bet when he has conviction and a large margin of safety. At one point, he had 16 percent of his fund in Sears Holdings. Chou estimated that the company’s real estate holdings were worth $40 to $50 per share, and Chou was able to buy it at $25 per share.

4. “Chou does not attribute his investing success to having a high IQ.” “George Athanassakos,
professor of finance and the Ben Graham Chair in Value Investing at the Richard Ivey School of Business, thinks that Chou might be right: perhaps he’s not outperforming because of superior intelligence, better connections or charisma. Maybe it’s because Chou’s natural disposition just happens to be a perfect match to the investing style he’s chosen.”

Quotes from Francis Chou

“Find bargains and maintain discipline; if you can’t find bargains stay in cash.” “Stocks are very expensive. You have to be very careful these days,” “But I'm waiting for the market to break, so we can put our cash to work.”

"Be aware of the risks involved, including that of the manager who does not have a long history of investing heavily in that area. Caveat emptor!"

“the first step to getting out of a hole is to stop digging.”

“If you know how to spot a bargain it will make you a good investor”

Francis Chou Educational Videos


Francis Chou Associates Management

Francis Chou (who was selected as the Canadian Fund Manager of the Decade by the Canadian Investment Awards program) runs the Chou Associates Management Firm which manages assets totaling over $1 billion. The firm was first founded in 1986. Over the last 10 years, the flagship fund has produced a cumulative return of 119.9 percent over the S&P500.

Chou works alone and refuses to follow the trends set by other investors. If he thinks that the market is too expensive, he is willing to hold a large percentage of cash assets. He has been known to hold over 40 percent of the firm’s assets in cash. Mr. Chou does not invest in
commodities. He also avoids high tech stocks which he calls “high wrecks” and real estate.

Track record of Francis Chou's various mutual funds:

For Series A units:

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<th>Year</th>
<th>Chou Associates</th>
<th>Chou RRSP</th>
<th>Chou Asia</th>
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What makes this even more impressive, is that not only does Chou manage $1 billion and show fantastic returns across every single asset class, but he also has zero analysts! Chou does all the work himself.

Details about Chou Management's performance, current holdings, and recent buys and sells can be found [here](#).

**Francis Chou's Shareholder letters:**

2010 Chou Funds Annual Report


Chou Funds' Semi-Annual Reports

**Mistakes to Learn From**
There has never been an investment manager that has not made some bad investments. Unfortunately, all investors learn through trial and error. Often times, we learn more from our mistakes than from our successes. Here are a couple of Chou’s investments that did not turn out well.

**McClatchy Company (MNI)** MNI is the largest newspaper company in U.S. based on circulation. The company suffered large losses in 2006, 2007 and 2008. Chou Associates owned 5,571,077 shares, which were sold as follows:

- 793,476 for a 68.5% gain
- 3,000,000 for a 29.3% loss
- 30,600 for a 75.4% loss
- 1,500,000 for a 74.9% loss
- 247,001 for a 63.5% loss

**KSwiss (KSWS)** KSwiss sells athletic apparel and footwear. This company had earnings decline for 5 straight years and suffered losses in 2009 and 2010. Chou Associates owned 472,046 shares, which were sold as follows.

- 454,046 61.7% loss
- 18,674 60% loss

**Office Depot (ODP)** ODP is a retailer of office supplies and suffered large losses in 2008, 2009 and 2010. Chou Associates owned 1,472,053 shares, which were sold as follows.

- 299,550 69 for a 2% loss
- 800,000 for a 66.7% loss

Chou purchased these companies when they were down and out with the belief that they could turn thing around. Even though he remained true to his investment strategy, these stock selections did not work out.

Chou has recently been investing heavily in the banking industry and has picked up shares of Goldman Sachs (GS), Wells Fargo (WFC.WS), JP Morgan & Company and Bank of America Warrants. It will be interesting to see how these investments perform.
In addition to investing in down on their luck banks, Chou Associates Management has been purchasing non-investment grade debt securities.

Chou had this to say about non-investment grade debt securities, “While we agree that investing in non-investment grade securities can be tricky, we have not shied away from them when we believe their prices provide us with an attractive return and adequate margin of safety. Although we have made our share of mistakes, over the long-term, we have been pleased with our results.”

Before purchasing distressed securities, he asks the following questions.

1. What would be left if the company was forced to liquidate?
2. How competent is the management?
3. Is the underlying business strong enough to generate consistent cash flow?
4. Does the company have a strong enough balance sheet to make it worth the risk?

Chou’s strategy when purchasing debt is similar to the strategy he uses when purchasing stocks.

In recent years Chou's investments have not performed very well but the stock market in general has not performed well either. He always invests for the long term and his current investments may well turn out to be big winners.

Chou remains committed to buying battered or out-of-favor stocks. He believes that "If you stick to the principle of value investing, things will work out well for you". Over time, Mr. Chou has proven himself to be one of the great investors.

Latest news:

Articles:

2011

Francis Chou | Mutual Fund Ideas

Prem Watsa: The Indian who bailed out Bank of Ireland

Francis Chou – The Investment Guru That You Never Heard Of: Comment on ABH, WPI, BAC, BRK.A

Francis Chou - An Interesting Way to Invest in Banks (Warrants That were Issued to the U.S. Treasury)

2010

Francis Chou
2009

*Francis Chou’s Best Bargains | Wide Moat Investing*

Lecture Summary - Francis Chou

PREMATURE ACCUMULATION

2008

*Is value dead? - globeandmail.com: Globe Investor Magazine*

Barel Karsan: Lunch with *Francis Chou*

Barel Karsan: *Francis Chou*

2007

globeadvisor.com: He chooses the best of the bargain bin

Fund manager extraodinaire *Francis Chou*

*Francis Chou’s Biggest Bet: Overstock.com - Seeking Alpha*

2006

*It's a bird, it's a plane...no, it's mild-mannered Francis Chou*

Category clutter | Advisor.ca

2005

*A couple of points gleaned from *Francis Chou’s Investing lecture 2005*

2004

Morningstar: *Francis Chou | Chou Associates Management Inc*

Francis Chou flies quietly under the industry’s radar
2004

*Francis Chou flies quietly under the industry's radar*

2003

*Class act of the year*

2002

*Follow the leader*