Glenn Greenberg

Under Construction


Investors can learn an extraordinary amount from other successful value investors. Glenn Greenberg’s investment approach is not covered enough. His firm, Chieftain Capital, has produced returns of 22.5% from 1984 to 2004. His process is one that resonates with me and that I have tried to emulate in my investment philosophy.

Mr. Greenberg is an investor not a trader. His philosophy is simplistic: a person should have an approach that over the long-term will win and will not fail. Investors should not use an approach which can provide both huge returns and huge losses. An investor must figure out an approach that will allow them to be a long-term winner because this is a long-term business. Investors need to win successively because they will be taking profits and reinvesting them continuously over their lifetime.

Mr. Greenberg practices the idea of concentrated investing. His firm is not willing to invest in a business unless they are willing to put at least 5% of their assets into a company. Chieftain further concentrates upon their best ideas, similar to the Kelly Criterion. Due to this excess concentration Chieftain typically has less than ten securities in their portfolio. The most securities Chieftain has held is twelve and the least, six, while maintaining a 30% cash position. For instance, as of their last 13F-HR filing with the SEC, their largest position made up 37.5% of their total assets (note form 13F-HR does not include their cash balances). Chieftain monitors these concentrated positions daily and adjusts them up or down according to what they know about the business and its current market price.

Chieftain predominantly avoids equities outside the United States. Mr. Greenberg believes they can not understand the politics, language, and accounting with the same degree of confidence as in the United States. There are enough companies in the United States that Chieftain wants to be ready to strike when opportunities arise. Traditional Wall Street research is superficial, and they want to really understand the economics of the businesses they invest in.

There is only one investment approach which makes sense to Mr. Greenberg, an approach that will not blow up an investor. Over fifty years one’s investment approach must be able to withstand all sorts of business environments. To never blow up as investor one needs to buy good businesses. Good businesses are: reasonably predictable, have zero to few competitors, enjoy high returns on invested capital, are necessary businesses, enjoy high profit margins, are unchallenged by new entrants, have growing earnings, and do not have really high rates of change.

After investors identify a good business, one must be able to figure out whether they are paying a price that undervalues that particular business relative to its long-term prospects. Chieftain
does not perform relative valuations; they rely strictly on discounted cash flow analysis. When using a discounted cash flow model so much of one’s return is based on the terminal value, that an investor is putting a lot of faith in the longevity of the business. General Electric is the only one of twelve companies remaining in the Dow Jones Industrial average since its beginning in 1896. If an investor went through their portfolio today how much certainty would they have that the companies they owned would exist in fifty years?

What investors are really doing is buying the stream of free cash flows over the life of the business. When assessing this stream of free cash flow, Chieftain uses a hurdle rate of 14-15% (Columbia Lecture March 2006). Their hurdle rate was 20% but they adjusted it lower for the current interest rate environment. If they had not adjusted their hurdle rate lower for the present environment, little to no investments would have been made. They know their modeling is faulty and they will make errors, therefore this 14-15% discount rate gives them a “margin of safety,” as prescribed by Benjamin Graham in The Intelligent Investor.

I encourage other investors to copy Mr. Greenberg’s investment philosophy. Begin by only looking at good businesses. Bad to marginal businesses can be weeded out in a matter of minutes by using the criteria for good businesses listed above. Once you have found a good business do extensive research on the company. Next, create a discounted cash flow model for the company. Finally, only purchase large concentrated positions in companies when you have a large “margin of safety” from your discounted cash flow model and your understanding of the business. At all costs avoid situations which could blow you up and you will have a successful career.

Information in this article is from by Bruce Greenwald (chapter 11 covers Mr. Greenberg), a class presentation by Mr. Greenberg at Columbia, and a 2005 presentation to Wharton students.

Books about Glenn Greenberg

The book devotes a whole chapter to Glenn Greenberg and his investment style. Value Investing: From Graham to Buffett and Beyond

by Bruce Greenwald

Videos of Glenn Greenberg

Look at link under Glenn Greenberg for guest lecture he gave at Bruce Greenwald's class in Columbia University

Glenn Greenberg Guest Lecture