The Acquirer's Multiple: How the Billionaire Contrarians of Deep Value Beat the Market

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He has broad experience in investment management, business valuation, corporate governance, and corporate law. Before founding the precursor to Carbon Beach in 2010, Tobias was an analyst at an activist hedge fund, general counsel of a company listed on the Australian Stock Exchange, and a corporate advisory lawyer. As a lawyer specializing in mergers and acquisitions, he has advised on deals across a range of industries in the United States, the United Kingdom, China, Australia, Singapore, Bermuda, Papua New Guinea, New Zealand, and Guam.

He is a graduate of the University of Queensland in Australia with degrees in law (2001) and business (management) (1999).

APPENDIX: SIMULATION DETAILS

"A scrutiny so minute as to bring an object under an untrue angle of vision, is a poorer guide to a man's judgment than a sweeping glance which sees things in their true proportion."
—Alexander Kinglake, *The Invasion of the Crimea* (1863)

This appendix contains the details of the simulations. You can live a long and fruitful life without reading this part. But I know there are some who won't be satisfied without it. So here it is.

Assumptions

1. The historical simulation results do not represent the results of actual trading and may not reflect the impact that material economic and market factors may have had on an investor's decision if the investor was actually managing money. The simulated results were achieved through the retroactive application of a model designed with the benefit of hindsight. No investment strategy or risk-management technique can guarantee return or eliminate risk in any market environment.

2. In the simulation, Standard & Poor's Compustat database was used as a source for all information about companies and securities for the entire simulated time period. From 1987 to 2017, Compustat's Snapshot (point-in-time) database was used such that the simulation processed financial data concurrent with the time that the financial data became available to the public. Prior to 1987, the period when the timing of company financial data releases has been less comprehensively cataloged, the simulations assume that financial data was not available to investors until ninety days following the end of the applicable fiscal quarter.

3. The simulations were restricted to nonfinancial companies listed on the NYSE, NASDAQ, and AMEX stock exchanges.

4. Companies in the investable universe were ranked by earnings yield and return on invested capital (ROIC). In each of the simulations, these ranks were combined by a specific weighting of earnings yield and ROIC.

5. To minimize the potential impact, positive or negative, of market timing and to show how an equally weighted thirty-position portfolio might have performed at each point in time, the portfolios were rebalanced monthly to equally weight the thirty securities in each portfolio.

6. The purchase- and sale-prices for a security were the volume-weighted average closing price for the security over the first ten trading days of each month. The simulations assumed a trading cost of $0.01 per share. The simulations also assumed a maximum participation of 10 percent of a target holding's daily volume over the ten-day trading window.

7. The simulation performance does not reflect the

deduction of any investment advisory fees.

8. Simulated performance results have certain inherent limitations. No representation is being made that any model or model mix will achieve performance similar to that shown. Simulated performance and actual prior performance provide no guarantee of future performance.

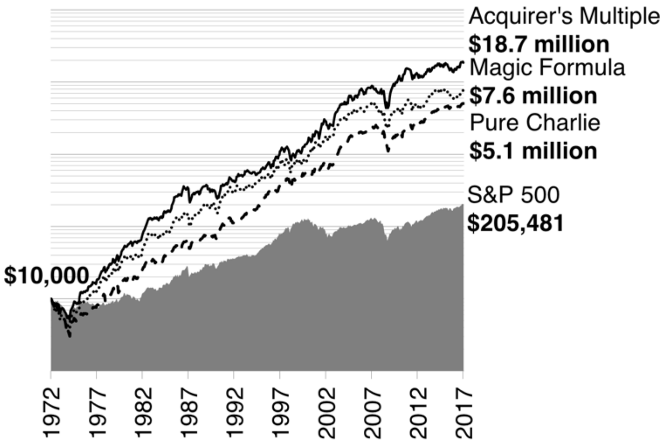
$50 Million and Greater

Yearly Returns (1973 to 2017)

	S&P 500	**Magic Formula**	**Acquirer's Multiple**
1973	–16.8%	–48.6%	–37.0%
1974	–20.3%	–23.6%	–17.2%
1975	31.0%	73.6%	67.0%
1976	1.2%	64.2%	67.7%
1977	–12.5%	24.6%	28.3%
1978	12.0%	33.6%	32.0%
1979	14.2%	43.7%	43.2%
1980	13.5%	43.0%	49.0%
1981	–7.1%	5.1%	17.2%
1982	20.7%	35.3%	41.5%
1983	12.5%	48.0%	46.5%
1984	9.9%	–10.4%	5.7%
1985	17.9%	38.7%	46.7%
1986	29.4%	25.5%	34.7%
1987	–6.2%	–11.5%	–12.6%
1988	15.7%	40.8%	25.5%
1989	10.6%	21.2%	14.0%
1990	4.5%	–5.8%	–24.5%
1991	18.9%	73.9%	59.5%
1992	7.3%	16.8%	23.3%

1993	9.8%	1.1%	17.8%
1994	–2.3%	6.6%	–10.8%
1995	35.2%	20.5%	23.2%
1996	23.6%	32.7%	28.7%
1997	24.7%	13.5%	30.0%
1998	30.5%	1.8%	–5.8%
1999	9.0%	18.4%	22.9%
2000	–2.0%	23.9%	24.8%
2001	–17.3%	32.5%	57.3%
2002	–24.3%	26.1%	4.7%
2003	32.2%	65.4%	84.9%
2004	4.4%	31.5%	36.5%
2005	8.4%	8.0%	3.6%
2006	12.4%	11.6%	25.9%
2007	–4.2%	–1.8%	–11.7%
2008	–40.1%	–40.4%	–29.3%
2009	30.0%	51.6%	91.0%
2010	19.8%	15.8%	44.2%
2011	2.0%	–6.1%	–21.2%
2012	14.1%	3.8%	6.4%
2013	19.0%	50.9%	31.5%
2014	11.9%	6.9%	5.2%
2015	–2.7%	–19.5%	–13.2%
2016	17.5%	22.4%	29.5%
2017 Q1	4.6%	3.1%	–1.0%
Average	**7.1%**	**16.2%**	**18.5%**

$10,000 Invested in S&P 500, Pure Charlie, Magic Formula, and Acquirer's Multiple (1973 to 2017) Log



$50 Million and Greater, Thirty Stocks

$50 Million Sample Statistics (1973 to 2017)

	Pure Charlie	Magic Formula	Acquirer's Multiple	S&P 500 TR
Return	15.1%	16.2%	18.6%	10.3%
Standard Dev.	19.4%	22.6%	23.2%	15.3%
Tracking Error	11.8%	15.0%	16.1%	N/A
Max Drawdown	69.5%	60.7%	51.2%	50.9%
Sharpe Ratio	0.53	0.50	0.59	0.36

Sortino Ratio	0.50	0.50	0.60	0.33
CAPM Alpha	4.3%	4.7%	7.0%	N/A
CAPM Beta	1.02	1.12	1.10	N/A
Correlation w S&P 500 TR	0.80	0.76	0.74	N/A

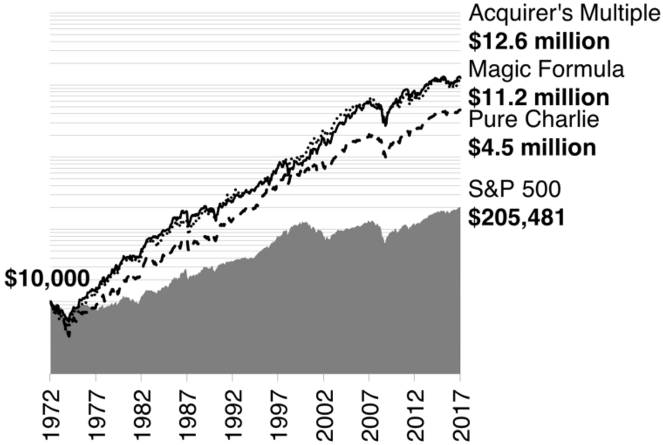
$200 Million and Greater

Yearly Returns (1973 to 2017)

	S&P 500	**Magic Formula**	**Acquirer's Multiple**
1973	–16.8%	–43.7%	–33.2%
1974	–20.3%	–22.6%	–22.2%
1975	31.0%	67.1%	59.2%
1976	1.2%	55.4%	60.5%
1977	–12.5%	20.4%	15.8%
1978	12.0%	32.2%	29.2%
1979	14.2%	47.9%	46.1%
1980	13.5%	42.5%	39.8%
1981	–7.1%	5.2%	4.4%
1982	20.7%	27.1%	28.3%
1983	12.5%	36.0%	40.2%
1984	9.9%	4.2%	15.3%
1985	17.9%	36.5%	33.2%
1986	29.4%	10.8%	22.9%
1987	–6.2%	–14.6%	–15.4%
1988	15.7%	50.2%	34.5%
1989	10.6%	20.0%	16.2%
1990	4.5%	–4.0%	–16.2%

1991	18.9%	64.9%	44.9%
1992	7.3%	32.3%	26.8%
1993	9.8%	–4.6%	13.0%
1994	–2.3%	9.6%	2.1%
1995	35.2%	28.1%	27.4%
1996	23.6%	27.0%	34.9%
1997	24.7%	31.4%	26.9%
1998	30.5%	21.0%	–4.6%
1999	9.0%	11.6%	18.5%
2000	–2.0%	34.9%	20.9%
2001	–17.3%	29.7%	44.1%
2002	–24.3%	20.1%	15.3%
2003	32.2%	60.4%	61.7%
2004	4.4%	32.6%	40.9%
2005	8.4%	7.2%	16.0%
2006	12.4%	12.8%	24.5%
2007	–4.2%	4.7%	–10.0%
2008	–40.1%	–37.3%	–32.1%
2009	30.0%	40.8%	66.2%
2010	19.8%	18.2%	39.4%
2011	2.0%	–2.7%	–11.5%
2012	14.1%	6.7%	14.3%
2013	19.0%	56.9%	42.1%
2014	11.9%	13.7%	1.4%
2015	–2.7%	–15.2%	–6.6%
2016	17.5%	11.8%	21.9%
2017 Q1	4.6%	2.2%	–2.8%
Average	**7.1%**	**17.2%**	**17.5%**

$10,000 Invested in S&P 500, Pure Charlie, Magic Formula, and Acquirer's Multiple (1973 to 2017) Log



$200 Million and Greater, Thirty Stocks (1973 to 2017)

$200 Million Sample Statistics (1973 to 2017)

	Pure Charlie	Magic Formula	Acquirer's Multiple	S&P 500 TR
Return	14.8%	17.2%	17.5%	10.3%
Standard Dev.	19.3%	21.8%	22.4%	15.3%
Tracking Error	11.1%	13.6%	14.4%	N/A
Max Drawdown	66.9%	56.4%	54.5%	50.9%
Sharpe Ratio	0.52	0.57	0.57	0.36

Sortino Ratio	0.47	0.56	0.56	0.33
CAPM Alpha	3.9%	5.6%	5.8%	N/A
CAPM Beta	1.05	1.13	1.15	N/A
Correlation w S&P 500 TR	0.83	0.79	0.78	N/A

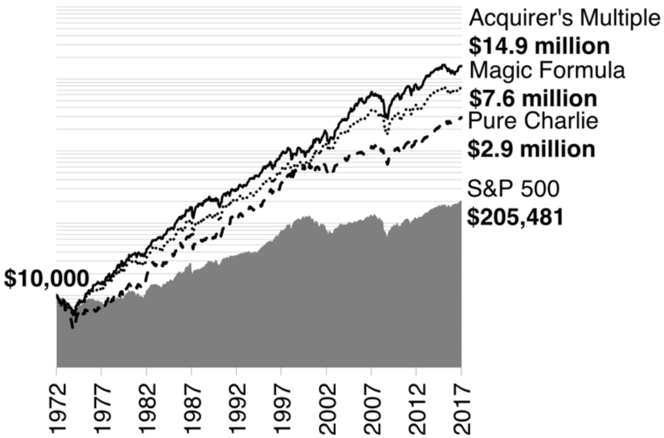
$1 Billion and Greater

Yearly Returns (1973 to 2017)

	S&P 500	**Magic Formula**	**Acquirer's Multiple**
1973	–16.8%	–33.9%	–31.2%
1974	–20.3%	–21.4%	–17.3%
1975	31.0%	53.6%	47.6%
1976	1.2%	52.0%	64.7%
1977	–12.5%	8.7%	11.3%
1978	12.0%	23.3%	19.9%
1979	14.2%	38.3%	47.1%
1980	13.5%	32.2%	29.6%
1981	–7.1%	0.2%	10.6%
1982	20.7%	21.3%	18.6%
1983	12.5%	26.9%	31.0%
1984	9.9%	9.4%	20.7%
1985	17.9%	40.3%	40.4%
1986	29.4%	20.4%	22.5%
1987	–6.2%	–3.1%	7.7%
1988	15.7%	28.0%	37.0%
1989	10.6%	17.2%	16.0%
1990	4.5%	6.0%	–7.9%
1991	18.9%	50.4%	36.9%

1992	7.3%	21.9%	25.3%
1993	9.8%	–0.6%	14.4%
1994	–2.3%	14.5%	15.1%
1995	35.2%	38.5%	36.6%
1996	23.6%	17.8%	18.1%
1997	24.7%	28.4%	28.4%
1998	30.5%	10.3%	–0.3%
1999	9.0%	8.5%	8.9%
2000	–2.0%	18.8%	16.1%
2001	–17.3%	39.1%	34.5%
2002	–24.3%	1.0%	–2.9%
2003	32.2%	51.6%	65.5%
2004	4.4%	25.5%	36.8%
2005	8.4%	19.4%	35.5%
2006	12.4%	19.7%	15.7%
2007	–4.2%	12.7%	8.2%
2008	–40.1%	–43.0%	–44.2%
2009	30.0%	56.7%	77.9%
2010	19.8%	7.5%	14.2%
2011	2.0%	13.0%	5.3%
2012	14.1%	5.6%	19.5%
2013	19.0%	54.2%	47.4%
2014	11.9%	17.4%	17.7%
2015	–2.7%	–8.8%	–11.6%
2016	17.5%	9.3%	15.3%
2017 Q1	4.6%	5.0%	1.0%
Average	**7.1%**	**16.2%**	**17.9%**

$10,000 Invested in S&P 500, Pure Charlie, Magic Formula, and Acquirer's Multiple (1973 to 2017) Log



$1 Billion and Greater, Thirty Stocks

$1 Billion Sample Statistics (1973 to 2017)

	Pure Charlie	Magic Formula	Acquirer's Multiple	S&P 500 TR
Return	13.7%	16.2%	17.9%	10.3%
Standard Dev.	19.6%	20.3%	21.4%	15.3%
Tracking Error	10.0%	11.2%	12.8%	N/A
Max Drawdown	65.2%	54.2%	57.8%	50.9%
Sharpe Ratio	0.45	0.56	0.61	0.36

Sortino Ratio	0.43	0.54	0.61	0.33
CAPM Alpha	2.5%	4.7%	6.3%	N/A
CAPM Beta	1.12	1.13	1.13	N/A
Correlation w S&P 500 TR	0.87	0.85	0.81	N/A