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Book Review: The Investment Zoo by Stephen A. Jarislowsky

By: Andrey Schmidt (with Michael Armstrong and David Papau)

Rating: Four stars – 4/5

Stephen Jarislowsky is an 89-year-old Canadian billionaire who lives in Montreal. He is ranked #53 on Canadian Business' 2015 list of the 100 richest Canadians, with a net worth estimated at $1.75 billion.[1] He made his money by investing and by managing money for others. His 2005 book, *The Investment Zoo*, is a brief but wide ranging survey of his opinions on life, money, investing, corporate governance, politics and philanthropy. It is a worthwhile read, and we would endorse many of his opinions on investing. Our main reason for reviewing the book for our website is to share some of his most useful opinions with clients.

Early on in *The Investment Zoo*, Jarislowsky shares his philosophy of money, saying that it has always been a means to an end for him, and not an end in itself – he sees money as freedom, not as a means to enable reckless spending. These are basic concepts, but worth repeating. We have noticed that many of the ultra-wealthy who have attained their wealth through investments, including Warren Buffett, are acutely sensitive to the value of a dollar and what it can compound to over the long term. A desire for conspicuous consumption never drove them in business.

Jarislowsky's investment style is very similar to ours. He recommends creating diversified portfolios that focus on proven, well-managed, high quality companies that are financially sound. He favours largely non-cyclical growth stocks that have a predictable high rate of earnings and, ideally, dividend growth. Our style is substantially similar, but we are somewhat more inclined towards the contrarian value style, where we often take positions in high quality companies that are temporarily distressed, with the intention of profiting from the return to normal business conditions and stock valuation.

Jarislowsky believes in the value of extensive research, as do we. He is not a fan of junior stocks, stating, "no rational, logical investor that I know, able to calculate odds, would touch them." We endorse this view, as we avoid speculative small companies, and we have included rules in the investment policy statements for our model portfolios that prohibit the purchase of companies with market capitalizations under $200 million. We believe that the odds of success in the junior market are just too low to make investing worthwhile.

It is also worth noting his views on technology investing, real estate and gold. On technology, he states that there are many firms that can do very well over a number of years, but then collapse. This is one reason we tend not to hold too many tech companies, as their competitive advantages can be eroded due to rapid industry change. Residential real estate has become the favorite investment for many Canadians in recent years, but Jarislowsky is opposed to relying on it to create wealth. His main reason for skepticism is the numerous liabilities attached to houses, including mortgage interest, taxes, utilities, repairs, and insurance. He is also not a fan of gold, believing that it has not kept up with inflation over time, and noting that it "goes up and down and produces no income."

His financial psychology is biased towards optimism. He commands us to stay optimistic as long as we are alive, and stay the course of investing in high quality stocks in good times or in bad. We would agree with this advice, for those investors who can bear the risk, as it will likely result in substantial wealth accumulation. Finally, he emphasizes getting an early start in investing, saying "unfortunately, most people do just the opposite. Instead of putting aside money when young, they believe that they will never grow old and can spend what they make and carry whatever debt the bank or leasing company will allow. This is, of course, the road to eventual slavery and a terrible old age. And it can be easily prevented by a little forethought."

The best part of *The Investment Zoo* is a discussion of Jarislowsky's results from investing $2,000 in each of three different companies and holding them for 50 years. Reynolds Metals, a cyclical aluminum producer, had its ups and downs and gave him a relatively modest return. United Airlines, a U.S.-based commercial airline, gave him a more profitable but rocky ride, as it faced significant industry competition and sometimes ran at a loss. Neither Reynolds nor United really fit his ideal of a non-cyclical growth stock with a predictable high rate of earnings growth.

However, the third company, U.S.-based healthcare company Abbott Laboratories (NYSE:ABT), delivered exceptional returns, as his initial $2,000 investment compounded into $1 million. Jarislowsky attributes this result to patience and keeping an eye on the fundamentals rather than luck. Abbott turned out to be a true non-cyclical investment that compounded gains on top of gains, year after year. The demand for its wide array of products such as pharmaceuticals, nutritional supplements and medical devices grew or remained steady over a very long time period.

This real world example with numbers attached is very memorable. Jarislowsky's financial credibility combined with the practical value of this type of observation on investing make *The Investment Zoo* worth reading.

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[1] http://www.canadianbusiness.com/lists-and-rankings/richest-people/top-100-richest-canadians-2015/

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