*Daniela Cambone:* I'm thrilled to introduce our next speaker. You know, I don't get star-struck often, but she's really a powerhouse on Wall Street. So, I'm thrilled to be introducing Rupal, who is a first-generation immigrant and woman of color who came to America with no network or net worth. But, through personal grit and professional acumen, broke through the glass ceiling on Wall Street, to become the chief investment officer and portfolio manager of Ariel's multibillion-dollar international and global equity strategies in New York. Rupal has defied the odds in other areas, too. Despite facing multiple headwinds, in recent years, of being an active value contrarian and risk aware money manager when markets were favoring the opposite, passive, passive growth momentum and risk on, the international equity mutual funds she manages have received the coveted five-star ranking from Morningstar. Rupal is the author of her book *Non-Consensus Investing*, and she will be doing book signing during lunch, so be sure to check that out and stop by with your copy, which should be in your swag bag.

So please welcome to the stage Rupal. *[Applause]*

*Rupal J. Bhansali:* If you trace the origins of many breakthroughs, in science, society, Silicon Valley, sports, you will find they came from contrarians who upended the status quo or refused to accept conventional wisdom. Edward Jenner had this contrarian idea to inject the cowpox virus to kill the smallpox virus. No human being has saved more lives, through history, than that courageous unconventional contrarian idea of Edward Jenner. Muhammad Yunus started the Grameen Bank, and he decided, unconventionally, to lend to the poor as opposed to the rich. Hitherto, that was not accepted: banks want to lend to people who already have money, as opposed to those who don't. And Grameen Bank is the only corporate entity, ever, to receive a Nobel Prize.

So, such is the power and payoff of non-consensus investing. And I ask the question, what if we can apply that, of course, to investing, if it's worked in all these other places? And what you'll find is, right in our backyard in Silicon Valley, Steve Jobs, he insisted that the phone could be both simple and smart, making all of us feel like power users as opposed to luddites. And now we call it a smartphone: it made us smart. Billy Beane changed the game and the business of baseball by refusing to accept that you had to pay up for talent and lose money and lose games. He said, "No, you can underpay for talent and you can win games and you can make money."

Well, that's what I wanna do with stocks: I don't wanna pay up for them and I don't wanna lose money; I wanna make money. So how do we apply non-consensus thinking to investing? Because most people tell us the conventional wisdom: if you wanna make higher returns, you have to take higher risk, and if you want lower risk, you have to accept lower returns. I refuse to settle for that status quo. I wanna do both, just like people in all these other domains have done to great success. But why is it so hard to generate higher returns and lower risk? Why is it so hard to beat markets? It's because the sport of investing, the rules of engagement are not just different, they are asymmetric.

If you think Apple is gonna report ten bucks of earnings and it reports ten bucks of earnings, so you're correct in your answer, but everybody else thought Apple would report ten bucks of earnings, you're not gonna make many money. It's already in the price. In most other professions, if you think about it, being correct allows you to win. If you're a lawyer, you cite the right precedent, if you're a doctor, you make the right diagnosis, you're off to the races. You're a student, you give the right answer in the exam, that's great. It does not prepare you for investing. Because even if you get your answer correct, if your correct answer is consensus, there's no money to be made.

So, not only must you be right, you must also prove everybody else's view wrong. By the way, it's a lot of fun doing that, isn't it? But here's where it gets asymmetric: not only must you get your answer correct, and it must be non-consensus, god help you if you get your answer incorrect. Not only do you score no points for being correct, if it's consensus, you actually incur penalty points if you're incorrect. That's the asymmetry. So how does it play out in terms of making money and not losing money?

You get a big payoff for what I call an upset victory. We all know what an upset victory is, it's the unexpected victory, because the odds are in favor of something happening, and you have to pay up a lot if you wanna make those same odds of whoever's gonna win. But if you place a small bet on the team that nobody thinks is gonna win, you get a very big payoff. That's the upset victory, right? That's what you wanna aim for in markets, that upset victory, that big payoff. However, god help you if you're wrong, then there is a big penalty, not a big payoff.

So the fact of the matter is, what does it take to succeed in investing? It's all about research. What is that X factor that's going to allow you to be correct, be non-consensus, and not be incorrect? What is that X factor? You'd be surprised the thing that everybody gets wrong and needs to get right: quality. You meet any money manager, anybody who's trying to pitch you an idea, and they'll say, "Oh, I have a high-quality portfolio, I have this high-quality company, I have this high-quality – high-quality – " they all pitch you quality. "This is a great franchise," that's the other word used. Well, guess what: it can prove to be a boobytrap. How? It could be a false-positive.

In medicine, you all understand the meaning of false-positive and false-negatives? I won't explain it? Imagine if you think something is good but it turns out to be bad, right? That's sort of the opposite, that's your false-positive. On the other hand, the flipside of that very same thing is the false-negative: you think something's bad, but actually it's good. And that's exactly how it is in markets. There are lots of businesses out there masquerading as higher quality. If they turn out to be low quality, you lose a lot of money. On the flipside, imagine if you were able to diagnose quality earlier than everybody else does. Or people have misunderstood that quality, but you understand it better, and you don't have to pay up for it.

Because if it's already identified as quality, you have to pay up for it, right? But if it's not diagnosed as high-quality, in fact, people have misunderstood it to be low-quality, now you can make a lot of money by proving all those people wrong. So enough of all this abstract. Let's get to brass tacks: an idea to put this in practice.

So, you know the tire industry? Everybody knows a tire is sold as part of the car, it's a loss leader, you replace it every couple of years, but it's just a pair of wheels, everybody thinks it's low-tech, commodity product, I mean, tires have been around forever. Who thinks of them as being anything but, you know, something to forget? And of course, if you go to buy a set of tires, nowadays, for your SUVs or your vehicles, it is gonna cost you a pretty penny: high sticker shock, right? Costs you more than a Mac. And generally speaking, historically speaking, if you look at a 15-, 20-year history of this industry, when you study companies, they've actually not generated good returns on invested capital.

And of course, you know, it's a cyclical industry, the auto industry, which is what it sells into, and when the auto industry is in a funk, you can imagine all auto, auto component stocks tend to sell off, like a tire company, which is in the auto components industry. So that's the consensus view, that tire companies are low quality. What if I told you that this was a false-negative? The non-consensus view is that the tire is actually mission critical. Believe it or not, the two things that are very hard to solve for in a tire industry? The tire is very important for fuel efficiency. And you're gonna say, "Rupal, of course I know what. What are you talking about? Of course we know that. That's consensus. That's well-known."

But here's what's not well-known: the tire is also extremely important for safety. You know, the braking distance of a car, which determines the safety rating, is all about how quickly the tire brakes. And again you're gonna say, "But Rupal, everybody knows that. What are you telling me? This is not research. This is not differentiated research." But here is the catch: in order to improve the tire's fuel efficiency, the tire should not grip the ground too much. That hurts fuel efficiency, if you grip it too much. But for safety, you need the tire to grip the ground immediately: that's your braking distance, the moment you brake the car.

So, how do you make a tire that grips the ground and does not grip the ground? That's the mutually exclusive proposition. Just like Apple figured out, before anybody came along, how to make a smartphone simple, which is very hard to do, Billie Beane figured out how do you not overpay for talent and yet win a game? That is a mutually exclusive thing, right? When you can solve for a mutually exclusive proposition, you've got a winning value proposition. And that's what a tire company has to do very effectively: it needs to bake a tire that can do both, and score well on both fuel efficiency without sacrificing safety parameters.

And guess what, in terms of risk, electric vehicles, everybody knows they're going to come around. I don't know when. It's inevitable. The make shift is actually very positive, in the future, for a tire company, because the heavier the car, the bigger the circumference of the tire needs to be. And the bigger the tire, the more profitable the mix, the higher the profit contribution. Believe it or not, an 18-inch tire compared to a 16-inch tire, which is what you have in a compact car, it can be 2x the profitability. So, look at the make shift that has happened over the last decade: when a lot of these tire companies were selling to compact cars, they had competition from the Chinese, the Koreans, you know, the low end of the tire market. That's a bad business to be in.

But worldwide, the trend is towards? SUVs. Worldwide, the trend is towards higher, bigger, larger cars. The larger the car, the larger the tire. There are very few players who can make that bigger-size tire. There are very few companies who can make a tire that serves the electric vehicle market. Because an electric vehicle is even more profitable to sell into than a combustion engine vehicle. Why? Because a battery, which is obviously required in an EV, is heavier than the gasoline engine, and a heavier car needs a heavier, higher-spec tire to support the heavier weight. So these are the ways in which you can do differentiated research of something that sounds very obvious, very conventional, and if you get that research right, here are the companies that were sol doff based on their past, but the whole make shift is going towards these higher-end cars, higher-spec cars, larger-size-tire-diameter cars, and the competition is just not there at that.

This is the kind of money you can make if you have that non-consensus idea: 2x, the benchmark, 2x, right? And this is the power and payoff of non-consensus investing: if you can identify something which is viewed as low quality, viewed as low returns, but actually has far better prospects going forward, you can both have the higher returns and still have low risk. Now, let me give you the opposite, because I told you that there is a boobytrap. Imagine if there are companies that are perceived to be extremely high quality, and you own them and you sleep well at night owning them, thinking, "Gee, this is a great company, it checks off all the boxes, and it makes sense to own in my portfolio." You might end up overstaying your welcome.

Because when all the good news is in the price, there's only downside to look forward to, not upside. And so, beware of low quality masquerading as high quality. Now, you might ask the question how is it that that can happen. I'm gonna show you an example of how it happened to all of us. I think you all remember Blackberry? Who does not? Raise your hand. There you go.

Blackberry was a supersonic success, right? It was actually the first smartphone in the professional market, all professionals, business users, were early adopters, and we all nicknamed our Blackberries the Crackberry: we couldn't be without it, right? And the stock market loved this company, it was viewed as a very high-tech company, it had a great unique user proposition, it was the first one where you could have that quirky keyboard, I mean, all sorts of things that people just loved this company. And the growth expectations – and this was a company which had extremely high profit margins, the sales were growing a lot, all the things that, you know, we think about as being the definition of a success story, contemporaneously.

And people thought it had global growth prospects, right, multiple ways to win: the professional market, then the prosumer market, then ultimately the consumer market. I mean, it was limitless – that's how the stock was priced. We all know what happened – I won't go into it. People conflated and thought of this company as high-tech, when all it was a consumer electronic company. And consumer electronic companies are not an annuity stream; they are a hit-or-mis success story: if the product is a hit, you're great; if it's not, you're toast. And that's exactly what happened to it: what used to be a superior user experience, at one point, became an equivalent user experience. It wasn't inferior, but it was equivalent. That doesn't cut it. And instead of becoming a secular growth story, it became ex growth, and instead of having a competitive advantage, that advantage eroded over time.

And that's how it happens with companies that at one point or the other are viewed as very high quality, the stock market is renowned for doing this to us. You can make a lot of money, and Blackberry made a lot of money \_\_\_\_\_ a lot of people, but then you lost a lot of money, and then some. And today it's practically – who even knows that it exists. You might say, "Well, that's easy." Let me give you a contemporaneous example of what I think in the market is masquerading as a false – it's a false-positive. And this is a non-consensus idea, so bear with me: Apple.

Apple is viewed as a high-tech company. Apple is viewed as someone that is a superior user experience, just like Blackberry once was. Apple is viewed as having superior growth prospects. Apple is viewed as having multiple opportunities, you know, they've sold the hardware, now they have the services, and the other add-ons, you know, ancillary propositions that they hope to cross-sell us all on, because they've got a very large user base. And of course people think that they have multiple opportunities, not just from that, but they are very competitive advantage, because all of us in this room, most of us in this room have an iPhone. I have an iPhone.

And anybody I talk to will say, "I'm not giving up my iPhone." But guess what: even a Blackberry still exists. An iPhone, for a growth company, it does not have to disappear. It just has to disappoint, for the stock to go down. And there's where I'm arguing for the iPhone, the replacement cycle of a smartphone has shrunk to two years, every two years we are replacing it. Imagine if we replace it every three years, or even every four years. For a hardware company that makes most of its money, even today, on the iPhone – the biggest contributor to earnings of Apple is the iPhone. It's not the iPod which is out of existence, it's not the Mac, it's not all the iPads, none of that matters. It's the iPhone.

Imagine if we half the replacement cycle from 2 years to 4 years, that's 50 percent of your revenue is gone in any year. That's how instrumental it is. But because of Covid, and because we are all using more streaming services like Netflix and so on and so forth, and we need more capacity and storage, we have been upgrading at a very fast pace, which all makes sense. But at some point, it stops. By the way, that's exactly what happened to Texas Instruments.

Do you remember the HP calculator? At some point, the performance specs become so good that you don't need to keep upgrading, not at the same rate. We still use calculators, they haven't gone away, but we just don't need to upgrade them as often. So that's the kind of analysis that you have to do, because god forbid you have a company that is perceived as being a franchise-quality company, and did you know Apple has not really grown its earnings for five years. And you might think, "How is that possible? I know its earnings per share has gone up." But guess what, its earnings per share has gone up because it does share buybacks, and because there was a big tax cut.

That's not the core business growing. The core business is suffering. Despite adding more software and services to its mix, as opposed to hardware, the margins keep going down. And this has gone on for five years, go check out the actual numbers. That's the kind of bottoms-up research we do, to check the facts, not the narrative. And the bang for your buck you get from a share buyback diminishes over time. When you were buying your shares when they were at 10 times, 12 times, 13 times earnings, now you have to buy them at 33 times earnings – whole different kettle of fish. And financial engineering should not get a high multiple.

So there you go, false-positives, false-negatives, heyday versus mayday is what I think could happen. Look at Blackberry's price chart and Apple's price chart just about a decade apart, look how similar it looks, and I leave it to your imagination as to what you think I think is gonna happen to the stock price of Apple.

So, I told you that the asymmetry is all about the big penalties, and if I have not explained that to you, yet, in these two case studies about the upset victory and how much money you can lose – hopefully you saw them in the previous slide, I just want to repeat it – look what happened to BlackBerry, the blue line. It's actually trading where it used to trade well before the phone, the Blackberry, actually launched. It gave up all of the gains it made, and then some. And suddenly you know what's happened over the last ten years: the stock market has tripled, for Blackberry stock to go nowhere, I mean, it's just been a dead weight of an investment.

So that's what I mean when I say that if you get an investment idea wrong, it can be very, very costly, and there's a big penalty to incur. But I wanna show it to you how it plays out in a track record and why is it that it is so important, and in fact I would argue more important, to not lose money as opposed to just make money. This is why: imagine if you lose 50 percent, you start out with $100.00 and you lose 50 percent: you're now left with $50.00, right? Imagine, now, if you make 50 percent. Are you back at break-even? No. Why? Because – and if there's nothing else you remember about investing, remember this – you always lose money from a higher number, the $100.00, you only make money from the lower number, $50.00.

You make money from a lower number, you lose money from a higher number. In order to make up for a 50 percent loss, you need 2x gains, 100 percent gain from the $50.00. Better not to lose money in the first place, right? Because it's really hard to come up with 100 percent-plus ideas. Imagine, now, if you only lost 20 percent. We all make mistakes, but you don't wanna make the mistakes \_\_\_\_\_ very costly for you. That's the trick of investing. Imagine if you lose 20 percent, so the $100.00 that you started out with become $80.00. Now, that same 100 percent winning idea that you had, you put money to work there, the $80.00 becomes $160.00.

So, the 100 percent idea did not change. What actually mattered is that you lost less on the losing idea. This is why avoiding losers is actually more important than picking winners. You can have a lot of winners, 100 percent-plus ideas, but if you have a lot of the losers, you actually will come out way behind. Let's see this in a track record. So, here is a track record. If you look at the overall decades returns against the benchmark, it was 2x, almost 7.2 percent compared to 3.2 percent for the benchmark, well out of the benchmark. This would be a very compelling track record for any professional money manager. The outperformance of 400 basis points, roughly, over a decade annualized is off the charts. That's really absolutely top \_\_\_\_\_ performance if we looked at this track record.

But let me show you the same track record in a different way. Remember, 7.2, 3.8, 3.5 percent outperformance, look at the next slide. And the next slide shows you exactly the same number at the bottom end, but look at, now, the intervening period, year in and year out, ten-year track record, the green shaded sections are the years in which the portfolio and this money manager outperformed. The blue shaded sections are when the money manager underperformed. One of the things that you'll notice right off the bat is that this money manager's batting average is terrible. Six out of the ten years, this manager underperformed. How is it that in only four of the ten years they were still able to have this kind of outperformance? That's a headscratcher.

Let me show you how you should always look at performance, always. Never look at the way it's shown on this page. This is how everybody will show it to you, you know, year in and year out, how much did the benchmark do, how did you do. How much did the benchmark do, how did you do? They always focus on relative returns year in and year out, right? Any track record you see, that's what people will show you. It's not the right way to look at a performance track record. The next slide will show you exactly what you want your money manager to show you, which is: Show me, in absolute dollars, how much did you compound my capital? How much did I make, ultimately?

So, always insist on what I call the growth of $100.00. By the way, if you open up any prospectus, the SEC requires all mutual fund prospectuses, for this reason, to always show performances growth of $100.00. If you haven't seen it before, go look it up. I know nobody picks up a prospectus, but there's a reason why it is. And here's why it's so important: because people don't know how to do arithmetic. From a relative standpoint, you can look very good if you outperform in bull markets. But if you underperform in bear markets – remember, losses are more costly than gains? – you can actually end up in a worse place. So now let me show you, in Column C and Column D, the same track record in percentage terms as in dollar terms.

We start out with $100.00, but see what happens after 2 years? Because in year 1 and year 2 the manager has done much better on a relative basis, but in a bear market fell much less, they preserved capital and it only fell to $88.00 after the 2-year period. Whereas, with the benchmark, it fell to $68.00, because the market crashed in 2001-2002. Now look what happens: in year 3, the market is up a whopping 35 percent, and this manager looks like a complete idiot, only up 25 percent, and you're, like, "What? This is crazy, 1,000 basis points of underperformance." That's how you're going to judge this money manager if you only look at Column A and Column B.

But look at Column C: this manager is at $110.00, and the benchmark still sucking wind at $92.00. Why? Because this manager went up 25 percent on $88.00, the benchmark went up 35 percent on $68.00. Then fast-forward to year seven. In year 7, and the reason I'm talking about year 7 is because, again, the managers underperform for many, many years in-between, and look at the yellow-shaded section in Columns C and D. This, by the way, was the peak of the bull market of that cycle. Simplistically, if you think of it as, you know, 2000 to 2007, 2008 the big crash came. But in 2007, despite underperforming that entire bull market of 2003 through 2007, for many, many years, this manager is still ahead at $175.00.

So think about it: the attention to risk management, or not losing money, which in my opinion is one and the same thing, or avoiding the losing ideas, whichever way you wanna think about it, allowed this manager to deliver, ultimately, actually, more returns, not less. So this is the contrarian idea and non-consensus investment philosophy I want to hardwire into your brains, because we've come off – we haven't come off, but we might come off – a secular bull market of either the last decade or the last 40 years, whichever way you wanna think about it, and picking winners is what people think it's all about. Actually, it's always been about avoiding the losers. And even more so, I would argue, in the coming years.

So, here you go, attention to risk management doesn't not have to come at the expense of return management, just like, to achieve higher fuel efficiency, you don't have to sacrifice safety. I want to achieve both: I want the higher returns, but I wanna do it with lower risk. And then look what happens in year eight: it's like game over for the benchmark. It loses you money to $94.00 because it crashes 43 percent, and so the $100.00, instead of your capital compounding, you're under the water by $6.00. You may as well have put money under your mattress or in a checking account: zero percent sounds much better now, right, than minus-six. And look at this manager: still compounded money to the tune of 45 percent on the corpus.

So, I know it seems extremely non-consensus, counterintuitive, but that's the message I wanted to leave with you today: avoiding losers, learn how to do that, not just picking the winners.

So, what are some of the false-positives and false-negatives in the market today? I just wanted to outline them here. I know Tesla is all the news, 100,000 cars being sold to Hertz, coming up on the trillion-dollar market cap, but imagine if it was a false-positive. I know it's all been about semiconductors and chips and physics. I think the next cycle will be much more to do with biology and biotech and healthcare. And I know cash is four-letter word, but remember we talked about not losing money? The only thing that's uncorrelated in a bear market, the only thing that protects you from losing money sometimes can be cash. Do not vilify it. Junk may become the four-letter word that it's not today.

And then, of course, many, many other ideas, but in the interest of time and wanting to take some questions, and I've outlined a lot of my thinking in my book, *Non-Consensus Investing*, and I talk about why active management failed, because people did not do good research. And they did not distinguish between the false-positives and false-negatives. And in fact, if you are able to do so, you can actually benefit from these higher returns and lower risk that we talk about. And I know it's all the rage for a lot of people out there, not for this crowd, I realize: passive investing.

Passive investing is actually active investing: you've just actively decided to own the largest market cap stocks in the benchmark, that's all you've done. It is as active a decision as it gets, even though you think it might be passive. And that X factor of understanding quality: if you don't understand the risk profile of Facebook and Apple and Netflix and Salesforce.com and everything else out there, you might be sitting on a lot of potential losers as opposed to potential winners. Passive may not be a panacea, even though I know a lot of people think it has proven to be, if you just sat and went long the market.

And I also wanted to encourage, all of you, I'm sure, know women, either in your businesses, in your personal lives, as your daughters, nieces, mentees. I've written a special chapter, because I think you know that women are very underrepresented in finance, and I'm very keen to address that. I think, like managing health, you need to understand it, managing wealth, you need to understand it, and women do very poorly on financial literacy. So the last chapter of the book is just advice for other women, if you care to share it. It's also on my LinkedIn post, so you can just digitally share it.

But I will call this session to a close, here, because I know you are waiting to go to your lunch, and I'll take a few questions. And if you have more questions, I'm going to be doing a book signing at the patio, so you can always come and meet up with me one-on-one.

Thank you. *[Applause]*

*[End of Audio]*