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## Finding Treasure in the Antinarrative

Buying a business in decline is psychologically difficult. It can also be extremely damaging to your finances.

There are exceptions, of course. The RHG example has been talked to death over the years but the mortgage lender was one business that generated wonderful returns for investors despite shrinking into oblivion. More often than not, though, Charlie Munger's words ring true: "It is hard to pay a low enough price for a business in decline".

While we are renowned for investing in unloved and beaten up sectors, we also try and avoid becoming further evidence for Munger's wisdom (see the webinar below for a detailed discussion on narratives and anti-narratives).

Here are a few things to look for when filtering through the rubble of an unloved sector.

1. Is the narrative justified? Look for sectors that are beaten up because other investors are temporarily pessimistic, rather than one where you agree that the problems are real and structural. Good examples might be betting on bricks and mortar retail (we agree that the sector is in a long period of decline and have avoided investing, so far) and betting on oil (we think the problems are cyclical).
2. Is the business what everyone else thinks it is? Look for stocks where the trend is real, but the impact on the business is less significant than others anticipate. That might be because the business has another division that is unaffected or it has the ability to generate alternate revenue streams. [Kevin](#) uses the example of Cable One in the webinar, a US cable company that is losing revenue thanks to cord cutting in the US, but is replacing that revenue selling high-speed internet to the same customers.
3. If it is going to shrink, will you ever see the cash? Value inside a company has little value if shareholders never see it. It is rare for a management team to recognise that their business is in terminal decline. Even if they do, they usually spend shareholders' cash trying to plug the hole. RHG was such a rare opportunity because the cash was all distributed as fully franked dividends.

Keep these few concepts in mind to increase your chances of finding treasures among the trash.