Knowing when to pull the trigger

By Vince Pezzullo
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Uncertainty creates opportunity for investors, but the best decisions rarely feel comfortable. In this candid interview Vince Pezzullo, Deputy Head of Equities at Perpetual Investments, sits down with Livewire's James Marlay to share his unique insights and lessons learned from investing through the sell-off in March. As a value investor, it was critical to go back to first principles, react quickly and take advantage of opportunities.

Topics discussed:

- Current view on markets
- Sector and stock opportunities
- Can 'value' survive in a wash of stimulus?
- Corporate debt – "the elephant in the room"
- Lessons from the sell off
- Two buckets
- The investment case for flight centre
- REITs - when they just get too cheap

Current view on markets

The market rebounded aggressively in March and we saw markets factoring in normalisation of some sort of the economy. There was a small window of opportunity in March where there was an information vacuum because governments hadn't reacted. A lot of the market went on sale, there were big discounts because it was pretty much indiscriminate selling.

Sector and stock opportunities

The real question today is not the recovery. It is that some sectors will take a lot longer to recover, and that's where the work needs to be done. More importantly though, some sectors may never recover.

Can value survive in a wash of stimulus?

As a value investor, pulling the trigger when you thought things were trading at a 50% discount meant you had to act quickly. So, we're of the view that we'd done enough, in that we've bought the right things at the right time.. There are going to be some structural winners out of this and there will be some structural losers.

Corporate debt – ‘the elephant in the room’

We look at all companies from a balance sheet perspective – a lowly geared balance sheet is preferred and demanded by us. It does tend to keep you out of trouble when events like what we just went through occur. It is interesting - up into February the market was at record highs, companies were doing buybacks, borrowing money to do buybacks, leveraging up. And then once it hit, companies cancelled dividends, stock buybacks, it was a cashflow hit.

Lessons from the sell off

What I learned was to have a plan when things go wrong. That revolves around your investment process and understanding how you are going to act, what companies you are looking at and, when those companies get to valuations that are enough of a discount, knowing when we should pull the trigger.

Two buckets

The first bucket is long term winners that provide a real short-term opportunity to get set, and the second includes some deep cyclicals where you're going to get a recovery because the market was overestimating how bad it was going to be. Examples including Flutter investment, Crown and Oz Minerals

The investment case for flight centre

Flight Centre has always been within our quality universe. We've been looking at it for a while and when the placement came about, it was a great opportunity for us to enter the business because we'd already done the work.

When they just get too cheap

AREITs and property is one of the sectors where everyone had an allocation or parked money. When rates are very low it doesn't give you a lot of room to manoeuvre if something goes wrong.