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Don't buy stocks going down or sell those going up

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You pay this man for investment advice. But where does he put his own money? And how are his returns?

Karl Siegling recently established **Cadence Asset Management**.

If you were given $20,000 where would you put it?

At the moment, into my listed fund **Cadence** Capital. I am a strong believer in investing in companies where the owner has a big portion of their own wealth in the company and is involved in the day-to-day running of the business.

What was your first investment?

A gold stock. I made every beginner's mistake. I took the broker's advice on what stock to buy and had no idea how the company was performing. I paid 2.5 per cent commission on the way into the trade and 2.5 per cent commission on the way out of the trade. I cut my loss at about 15 per cent and ended up losing around 20 per cent of the initial investment.

What's your investment philosophy?

I spend a lot of time doing bottom-up analysis and meeting with the **management** of a company before investing. I try to understand the competitive environment for a company and the industry it operates in, as well as whether the industry is growing, stagnant or in a state of flux. I then overlay this with trend analysis to prevent buying stocks that are going down and, conversely, selling stocks we own that are going up.

What are your current investments?

My biggest investment over the last two years has been Reckon, the accounting software vendor. I started buying the stock at 15 cents when there was 12 cents of cash in their bank account and they indicated, in a stock exchange announcement, that their cashflow would be 1.5 cents per share for the year. In effect I paid two times cashflow for the business. This position has grown to be the biggest one in my fund and Reckon has just made another profit upgrade announcement to the ASX.

What's your best call?

During the tech wreck of 2000 I was running a technology fund that did not make any investments for two years.

How did you avoid investing in tech stocks in your technology fund?

There was no rush to buy **assets** that were falling in value daily, although there was significant pressure from both the board and shareholders to invest in order to earn my keep. I did fundamental analysis on around 150 business plans and start-up technology businesses and could find nothing with any earnings stream or potential for positive cashflow. The technology index was down 72 per cent that year and we earned 5.5 per cent interest on cash this was the biggest out-performance I have ever achieved, roughly 78 per cent. In the end we gave shareholders their money back as we could not find anything to invest in.

Worst call?

I called the end of the cycle for retail, residential property as well as consumer and domestic discretionary spending 18 months ago and it has continued powering along. How much more debt can the consumer incur and can they keep spending at this rate?

Do you own property?

No, I rent.

So you don't have a mortgage?

No, and I've never had one. I get a higher return investing in the stock market and businesses than I can in residential property. I have no competitive advantage investing in property.

When do you plan on retiring?

I think I can continue doing this until I am 75 to 80 years old provided my mind is still intact.

How's your super looking?

I contribute the maximum under the legislation for someone my age. I run a self-managed super fund and invest the money into my own fund. The super fund is up 58 per cent over the last two years net of fees and is going well.

What's your number one financial tip?

Don't buy stocks going down or sell stocks that are going up. Obey this rule no matter how often your brokers, journalists, fortune tellers, friends, parents and peers tell you not to.