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SPOTLIGHT Opportunities Abound in Late Stage of Bull Market: Christopher Tsai

Christopher Tsai, president of **Tsai Capital Corporation**, spoke to Bloomberg's Nathaniel Baker about his long-short equity fund and the stocks he's buying to take advantage of the late stage of the bull market and growth of the middle class in China. New York-based Tsai Capital started in 1997.

Q: Tell me about your strategy.

A: We focus on a limited number of high quality growth companies that we prefer to hold for the long term.

Q: What is long term in this instance?

A: In an ideal world we would like to hold our investments indefinitely. Of course the world changes and we will adapt to that. But as long as the fundamentals and the qualitative characteristics of the business remain favorable, we generally stay invested. We believe in placing our client assets in our best ideas so we construct a more focused portfolio than a lot of other managers. Fifteen on the long side. We take a directional approach to our short book. In other words, in bull markets we want to minimize our short exposure and in bear markets we want to maximize it.

Q: The challenge is finding out what the environment is?

A: Well exactly, that's the tricky part and we are not looking to time the market on a short term basis. We think fundamentally, we think bottom-up, but I think Templeton had it right when he said the money is really to be made at the outskirts of market cycles. So we are looking really for the depths of the bear markets and the tops of the bull markets. And they don't come around very often.

Q: This begs the question, what part of the cycle are we at now?

A: We are at the later part of the bull market. The bull market is not over. You get at the end, historically, a burst of euphoria. We just haven't seen that yet. There is so much cash from retail and institutional investors that remains on the sidelines.

Q: What other trends are you seeing?

A: The growth of the middle class in Asia. That really hits me over the head. In 2009, The Organisation for Economic Cooperation and Development came out with a fascinating study. The OECD projects that the middle class population in Asia will increase from 525 million people in 2009 to 3.3 billion by the year 2030. More interesting is that the spending power of that group is projected to soar sixfold, from $5 trillion to $33 trillion. So we are trying to think of businesses that will benefit from that major increase in spending power.

Q: What are some?

A: We own a company called Jardine Matheson. It's a conglomerate that's been around since 1832. We like businesses with long operating histories. They own 5,800 supermarkets, hypermarkets, convenient stores throughout Asia. There are a lot more mouths to feed. People are trading up in terms of what they are eating and Dairy Farm, which is majority owned by Jardine Matheson, has a strong market share throughout the region. They also control the Mandarin Oriental Hotel Group. People are traveling more. And the stock trades at a big discount to our estimate of intrinsic value.

Q: What do you make of the argument that to play China you buy a company like GM that exports to China?

A: There are better ways. For example, there is a company called Precision Castparts. It makes complex parts and components that are used in commercial aircraft: fasteners, cast parts and forged parts. Virtually every aircraft in the sky flies with their parts. The commercial aerospace market doubles every 15 years, but Asia is growing faster than the world as a whole. Airbus came out with projections that by 2032, two-thirds of the population from emerging countries will take a trip a year.

Q: Are there no geopolitical or fiscal concerns in China?

A: There are always concerns about China, but our exposure is not just to China. Jardine Matheson is a well-diversified company with business throughout Asia. Precision Castparts of course benefits from the growth of the aerospace market around the world, China being just one part.

Q: What else?

A: Of stock picks we like Visa. Visa is obviously a very well known name but it is a misunderstood name. Unlike traditional credit card companies, it doesn't extend credit. It's a processor, basically. It facilitates the acceptance, clearance and settlement of a transaction. Last year global consumer spending was $42 trillion, 25 percent of which was still done through cash and checks. Visa is in a great position to benefit from this worldwide shift toward credit and debit and mobile payments. About 30 percent of its business comes from Asia. So that takes us back to the idea of the middle class growing and spending more. And at 20 times earnings we think its valuation is reasonable for a company that's growing at an above-average rate.

AT A GLANCE

Age: 39

Hometown/Residence: Greenwich, Connecticut/New York

Education: Middlebury College

Professional Background: Equity research at Bear Stearns, John A. Levin & Co., Gabelli Asset Management

Family: Married with two children

Hobbies: Art, meditation, travel

Recommended Recent Reading: On China, Henry Kissinger

Favorite Vacation Spot: Phobjikha Valley, Bhutan

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