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Need to Know

What Charlie Munger and Grandma Ruth taught this money manager whose portfolio is up 50% this year.

Critical information for the U.S. trading day



The late Berkshire Hathaway Vice Chairman Charlie Munger, who shared some wisdom with third-generation investor Christopher Tsai of Tsai Capital. (AP Photo/Nati Harnik, File) AP

At the start of 2023 and following a tough year, Christopher Tsai, president and chief investment officer of [Tsai Capital](#), didn't think technology would generate a 50% return for his \$110 million portfolio.

The portfolio's bumper 2023 is thanks to investing in the right companies, with the market in agreement, meaning momentum played a part, said Tsai in an interview with MarketWatch on Monday. "But these are businesses that we're planning on owning for many, many years."

Tesla, Apple, Amazon.com and Alphabet are his top four stocks due to "durable competitive advantages," but have also seen rapid growth and were cheap when purchased.

"We own 21 companies and I think it's important to point out that we're not just tech," he said, rattling off other picks like Nike, Visa, Mastercard and Hershey.

And non-tech holdings Accenture and No. 5 stock Costco are both up double digits this year. He owns the latter partly due to insights from Berkshire Hathaway's late vice chairman Charlie Munger, who he dined with in 2018.

Tsai recalls the Costco enthusiast and "mentor" telling him that paying 25 times pretax multiple for the retailer "wasn't unreasonable at all."

Munger also told him this: Sometimes to make money, you need to "sit on your ass." And "you don't want to do too much, but when a good opportunity comes around the corner, you want to swing hard."

"In other words, you want to put a lot of capital to work. That's been our approach," said Tsai, whose portfolio has returned 7.43% annualized net of fees, versus 6.87% for the S&P 500 index since its 2000 inception. And during that rough dot-com start, Tsai made money by investing in "hated old economy" stocks such as auto supplier Genuine Parts and Berkshire Hathaway, which lost half of its value at the time.

He also credits generations of knowledge. From his father — the late Gerald Tsai Jr. who pioneered momentum trading and started Fidelity Investments' first aggressive growth fund in 1958 — he learned to "position yourself with the wind at your back."



Christopher Tsai's grandmother Ruth Tsai pictured in Hong Kong in 1957. CHRISTOPHER TSAI

His grandmother Ruth Tsai, the first woman floor trader on the Shanghai Stock Exchange and who “made a killing” until the arrival of Japanese troops in 1941, passed down wisdom about preserving capital during bear markets. One of her favorite sayings: “When the tide goes out 10 feet, a large boat and a small boat both go out 10 feet.”

He sees Amazon, Alphabet and Microsoft as “equivalent of the railroads during the time of Rockefeller and Cornelius Vanderbilt” by controlling the cloud. Their services operate the infrastructure that enabled the cloud, with lots of data still on those servers. “We are in the early stages of this cloud evolution, so I like those names,” he said.

As for AI, Tsai says he missed out on Nvidia by not being “smart enough to understand that company early on.” But he’s betting on those “selling the picks and shovels” of the AI revolution, like Amazon, Alphabet and Microsoft, who can all “piggyback” on that.

And Tesla is also a leading AI company, thanks to its “data and ability to analyze data over its Dojo computing network. And Tesla’s combining that during a period when the whole world will continue to move toward electric vehicles.”

Tsai also draws parallels between Tesla and Costco, who he notes have both created competitive economic “moats.” And as they gain scale, they increase profit and margins but pass that back to the consumer via lower prices, hence generating demand.

Drawing on Munger and others, he says a big blind spot he sees among investors now is overlooking what they own. “Think about companies that you already know well, let them compound for you, let them work for you, instead of just jumping to the next shiny thing.”

Important Disclosures: Past performance is not indicative of future results. There can be no assurance that any Tsai Capital client achieved positive investment returns over any particular time horizon. While this article includes references to Tsai Capital's performance against stated benchmarks over certain time periods, comparisons using alternative time periods are significantly less favorable and, in some cases, result in material underperformance against those same benchmarks. Similarly, references to the performance of specific investments over certain time periods do not necessarily represent client and/or overall portfolio performance. Some investments have produced less favorable results over time and/or have lost value. For a copy of our most recent performance update, which includes annual performance comparisons after the deduction of advisory fees, please visit our website at <https://tsaicapital.com>.