

“There is a misunderstanding around Amazon’s profits”

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Ian McLean, gestionnaire de portefeuille et fondateur de McLean Capital (Photo: courtoisie)



PAR STÉPHANE ROLLAND

OPEN PORTFOLIO.

BUSINESS - What is your investment philosophy?

Ian McLean - We invest in very high quality securities. I like to call them "diamonds". I know others say they invest in quality stocks as well, but I really consider myself a purist. The number of companies I would be willing to invest in is limited due to our strict criteria, as I look for companies that have exceptional profitability without needing to employ too much capital. I also want companies whose operations have some predictability in order to make assumptions about their future profitability. It is therefore important to invest in companies that we understand in order to be able to make scenarios and estimate where the company will be in 5 to 10 years. We also want companies that have an excellent management team.

L.A. - Have you made any changes to your portfolio due to the pandemic?

I. M. - We didn't want to react by acting as if we were able to predict the markets in the short term, even if it seemed obvious that the stock market was going to fall in March. We must remain humble. You can't predict where the markets are going in the short term. The market is a machine for anticipating the future, and stock valuations already take into account information that seems obvious. We kept the 17 companies we had in our portfolio and we added two new investments, which brought us to 19 stocks. I also increased our stake in certain securities that we already held.

L.A. - What titles do you find attractive right now?

I. M. - I don't want to comment on an attractive stock right now, but I can say that Amazon is my favorite company. It was our most important position before the outbreak of the crisis. I'm not necessarily making it a buy recommendation right now, as the stock has gone up a lot (the interview was done on April 28). It is still exceptional to have a company that is a leader in two areas of the future: online commerce and cloud computing. We often hear that this is a company that makes little profits, but I think these are misunderstood. In 2019, it posted approximately US\$22 billion of depreciation and amortization on sales of US\$281 billion. In reality, some equipment, such as computers, is depreciated over a shorter period than its useful life. Amazon invests heavily in research and development. Much like Warren Buffett, Jeff Bezos invests for the very long term. If you factor in investments for the future as well as research and development expenses, the profits could be much higher. Of course, there are times when the stock can be a bit too expensive, but it's "not as bad" than you might think if you look at cash flow, growth potential and competitive advantages.

L.A. - Amazon dominates the cloud computing industry, but it faces competition from major players, like Microsoft Azure and Google Cloud. Doesn't this rivalry run the risk of slowing growth?

I. M. - Microsoft is an exceptional company that I have in my portfolio. However, you have to be careful when comparing Amazon Web Services (AWS) figures with those of Azure. Microsoft is going to include a lot of things in Azure like customers migrating to the cloud. I think Amazon has a huge competitive advantage because of the number of its developers and its applications. It is normal that there is competition. Growth may slow down, but cloud computing is expected to be a huge industry. I think the growth potential is still very interesting over a period of 5 to 10 years.

L.A. - Humility and the importance of learning from mistakes is part of your process. What lesson have you learned from your past mistakes?

I. M. - In the past, I made some investment choices based on the "value investing" style. I did some home runs, but other investments disappointed me. Last year, I decided not to make any more "value" choices. It's really interesting to dig to see the intrinsic value of a declining business and try to find a company whose stock is undervalued. On the other hand, you never know when the gap will close. Even if you are lucky enough to get your hands on a company that would be worth \$1 and whose stock is trading for \$0.50, if the intrinsic value of the company is eroding by 5% each year, it is possible that intrinsic value reaches the stock price rather than the other way around. We sleep better during crises when we have a quality business.

An actuary by training, Ian McLean manages approximately \$25 million in assets for his firm McLean Capital in Laval, which he founded in 2014. He obtained his first mandate in 2011: managing the stock portfolio of Gilbert Rousseau, founder of Sports Gilbert Rousseau. He is still a partner of Gilbert Rousseau within Investissements Rousseau McLean, a different entity from McLean Capital.