How To Invest Like Mario Gabelli

By David Goodboy | StreetAuthority Network

Mario Gabelli is the value investor's value investor.

Using a powerful value plus a catalyst stock-picking methodology that has been described as "Benjamin Graham and David Dodd plus Warren Buffett," his fund GAMCO has returned an average return of nearly 12% a year after fees for the past quarter of a century. These solid and steady returns have made Gabelli a billionaire.

Mario Gabelli's Biography

Born in 1942, Mario Gabelli is said to have bought his first share of stock at age 13. Having a passion for the stock market, he launched his own firm in 1977 as a broker-dealer. The company has since expanded into a diversified financial management company with more than $40 billion in assets.

Interestingly, Gabelli designed his business so that he does not receive a salary, bonus or stock options. Rather, he is compensated by a management fee structure. This pay method, unique at the time, first landed him on the Forbes 400 list of the wealthiest Americans in 2006. In 2011, Forbes estimated his net worth at $1 billion.

Mario Gabelli's Investing Strategy And Big Wins

Gabelli's investing philosophy is built upon principles first articulated in the book "Security Analysis" by Benjamin Graham and David Dodd in 1934. Gabelli then adds Warren Buffett's ideas about valuing a business and taking a large stake in portfolio companies.

He uses a research-driven approach to investing, taking into consideration trends in earnings per share and free cash flow minus the expenditures needed to expand the business.

Next he adds his own ideas of private market value (PMV) and a catalyst. PMV is the value an informed entrepreneur would pay to purchase an asset with similar characteristics. It is determined by a study of assets and liabilities (both on and off the balance sheet) and free cash flow. He then compares these numbers with actual transactions in similar businesses as a reality check. In other words, he focuses on companies that appear to be bargains relative to their PMV. This provides Gabelli with upside plus a wide margin of safety.

After determining the stock is undervalued in relation to its PMV, Gabelli looks for a pending catalyst to bring that value to the surface. He advises that this catalyst can take many forms. Examples would be a company or industry specific event, such as a change in management, a spinoff, regulatory changes or industry consolidation.

The goal of this research is to identify companies that have the potential of 50% return over the next 24 months. Once a particular stock reaches its PMV or if an expected catalyst fails to occur, Gabelli sells the stocks. It's all part of a very regimented process at GAMCO.

Gabelli's value-driven approach to investment doesn't lend itself to big wins or big losses like those experienced by speculators. The long-term consistency of returns surpassing his self-imposed 10% benchmark is what has made this money manager famous.

Mario Gabelli's Portfolio: What's He Holding Now

GAMCO holds a total of nearly 800 stocks, with the portfolio's three most heavily weighted sectors being industrials, consumer cyclical and consumer defensive. The fund added 41 new names in the first quarter of 2013 and increased its position in 270 stocks.

Action to Take --> Gabelli's research-driven value investing approach has proved to be a powerful long-term investing method. Following in Gabelli's footsteps by combining value investing principals with his PMV concept and an expected catalyst should help long-term investor's bottom line.

Like most big-time money managers, Mario Gabelli operates multiple funds. He is currently bullish on housing, fracking and commercial aviation. In addition to his pure PMV/catalyst approach to investing, I find the premise to the Gabelli Focus Five Fund (GWSVX) most intriguing, not to mention the simplest to replicate for the savvy investor who wants to invest like Gabelli without investing with Gabelli.

I think of the Focus Five Fund as a collection of high conviction ideas from veteran analysts filtered to represent the Gabelli catalyst/PMV theme. The fund is managed by Dan Miller, who launched the fund as an offshoot to a report in which Miller surveyed top analysts and fund managers for their highest-conviction ideas. The fund uses a similar universe of stock picks then drills down, investing up to 50% of the fund's assets into what Miller names as the top five stocks -- in other words, the best of the best from the top analysts' high-conviction lists.

In order to help limit the number of stocks, Miller applies a four-step process to the high-conviction stock group:

1. Miller would be comfortable owning the entire company for his shareholders
2. There must be clear communication between Miller and the company's management
3. Shares must be trading at 30% to 50% discount to intrinsic value
4. A catalyst to lift shares higher must be projected within 18 months

IMPORTANT INFORMATION

GAMCO Investors, Inc. (NYSE:GBL), through its subsidiaries, manages private advisory accounts (GAMCO Asset Management, Inc.), mutual funds and closed-end funds (Gabelli Funds, LLC), and partnerships and offshore funds (Gabelli Securities, Inc.) and is known for its Private Market Value with a Catalyst ™ style of investment. As of June 30, 2013, GAMCO had $40.5 billion in assets under management.

Performance information quoted in the article represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.

Effective January 1, 2012, the Fund changed its name and investment strategy from "The Gabelli Woodland Small Cap Value Fund" to "The Gabelli Focus Five Fund". Through June 30, 2013, 33.41%, 9.93%, 10.10% and 9.61% are the one year, the five year, the ten year, and life of Fund (12/31/02) average annual returns for The Gabelli Focus Five Fund Class I Shares (GWSIX). Gabelli Funds, LLC, the Advisor reimbursed certain expenses to limit the expense ratio during the period from inception. Had such a limitation not been in place, returns would have been lower. The most recent Gabelli Focus Five Fund prospectus, dated Jan. 28, 2013, shows the total annual fund operating expenses after fee waiver and/or expense reimbursements as 1.46% for Class I shares. The gross expense ratio in the January 28,2013 is 2.16% for the Class I shares. As of June 30, 2013 the expense ratio has decreased to approximately 1.20% due to an increased asset base. There is no guarantee that assets will continue to grow or remain the same and any reduction in asset size generally would lead to an increased expense ratio. Assets and expenses in the Fund may fluctuate which will impact the expense ratio either positively or negatively. The Advisor has contractually agreed to waive its investment advisory fee and/or to reimburse expenses of the Fund to the extent necessary in ordert to limit the Fund's expense ratio at 1.45% for Class I Shares. This arrangement is in effect at least through January 31, 2014. The Fund imposes a 2% redemption fee on shares sold or exchanged in seven days or less after the date of purchase.

Total returns and average annual returns are historical and reflect changes in share price, reinvested dividends and capital gains and are net of expenses. Due to market volatility, current performance may be lower or higher than the figures shown. Investment return and principal value will fluctuate so, upon redemption, shares may be worth more or less than their original cost. Stocks are subject to market, economic and business risks that cause their prices to fluctuate. Consequently, you can lose money by investing in the Fund. Performance pertains to Class I shares only. Other share classes may have different performance characteristics. Class I Shares are available solely to certain institutions, directly through G.distributors, the Fund's Distributor or brokers that have entered into selling agreements specifically with respect to Class I Shares. Past performance of stocks highlighted in The Focus Five (published quarterly from January 2006 through November 2011), a research report published by G.research, does not represent historical performance of and is not indicative of the performance of The Gabelli Focus Five Fund. The investment strategy of the Fund is different than the stock selection process of the research report. To obtain the most recent month-end performance information and a prospectus, please call 800-GABELLI or visit www.gabelli.com.

The Fund is classified as a "non-diversified" mutual fund, which means that a greater proportion of its assets may be invested in the securities of a single issuer than a "diversified" mutual fund. As a non-diversified mutual fund, more of the Fund's assets may be focused in the common stocks of a small number of issuers, which may make the value of the Fund's shares more sensitive to changes in the market value of a single issuer or industry than shares of a diversified mutual fund. The ability to invest in a more limited number of securities may increase the volatility of the Fund's investment performance, as the Fund may be more susceptible to risks associated with a single economic, political, or regulatory event than a diversified fund. If the securities in which the Fund invests perform poorly, the Fund could incur greater losses than it would have had if it had been invested in a greater number of securities.

Investors should consider the investment objectives, risks, sales charges and expense of the fund carefully before investing. The prospectus contains more information on this and other matters. Please read the prospectus carefully before investing. Prospective investors considering an investment in The Gabelli Focus Fast Five Fund (the "Fund") should consider the investment objectives, risks and expenses of the Fund carefully before investing. This information and other information about the Fund are available in the Fund's filings with the Securities and Exchange Commission ("SEC"). Copies are available on the SEC's website at www.sec.gov and the Fund's website at www.gabelli.com. Prospective investors should read these materials carefully before investing.

Forward-Looking Statements: This article may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on estimates, projections, beliefs and assumptions of management of the Fund at the time of such statements and are not guarantees of future performance. Forward-looking statements involve risks and uncertainties in predicting future results and conditions. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act or Section 21E of the Securities Exchange Act. Actual results could differ materially from those projected in these forward-looking statements due to a variety of factors, including, without limitation, changes in general economic conditions or changes in the conditions of the industries in which the Fund makes investments, risks associated with the availability and terms of financing, changes in interest rates, availability of transactions, and regulatory changes. Certain factors that could cause actual results to differ materially from those contained in the forward-looking statements are included in the "Risks" section of the Fund's prospectus dated [January 28, 2013] and the Fund's subsequent periodic filings with the SEC. Copies are available on the SEC's website at www.sec.gov and the Fund's website at www.gabelli.com. Forward-looking statements are made as of the date of this press release, and are subject to change without notice. The Fund has no duty and does not undertake any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.