



# Capital Returns: Investing Through the Capital Cycle: A Money Manager's Reports 2002-15

*Edward Chancellor (Editor)*

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We live in an age of serial asset bubbles and spectacular busts. Economists, policymakers, central bankers and most people in the financial world have been blindsided by these busts, while investors have lost trillions.

Economists argue that bubbles can only be spotted after they burst and that market moves are unpredictable. Yet Marathon Asset Management, a London-based investment firm managing over \$50 billion of assets has developed a relatively simple method for identifying and potentially avoiding them: follow the money, or rather the trail of investment.

Bubbles – whether they affect a whole economy or merely a single industry, tend to attract a splurge of capital spending. Excessive investment drives down returns and leads inexorably to a bust. This was the case with both the technology bubble at the turn of the century and the US housing bubble which followed shortly after. More recently, vast sums have been invested in mining and energy.

From an investor's perspective, the trick is to avoid investing in sectors, or markets, where investment spending is unduly elevated and competition is fierce, and to put one's money to work where capital expenditure is depressed, competitive conditions are more favourable and, as a result, prospective investment returns are higher.

This capital cycle strategy encourages investors to eschew the simple 'growth' and 'value' dichotomy and identify firms that can deliver superior returns either because capital has been taken out of an industry, or because the business has strong barriers to entry (what Warren Buffett refers to as a 'moat'). Some of Marathon's most successful investments have come from obscure, sometimes niche operations whose businesses are protected from the destructive forces of the capital cycle.

*Capital Returns* is a comprehensive introduction to the theory and practical implementation of the capital cycle approach to investment. Edited and with an introduction by Edward Chancellor, the book brings together 60 of the most insightful reports written between 2002 and 2014 by Marathon portfolio managers. Capital Returns provides key insights into the capital cycle strategy, all supported with real life examples – from global brewers to the semiconductor industry - showing how this approach can be usefully applied to different industry conditions and how, prior to 2008, it helped protect assets from financial catastrophe. This book will be a welcome reference for serious investors who looking to maximise portfolio returns over the long run.

**Capital Returns: Investing Through the Capital Cycle: A Money Manager's Reports 2002-15 Details**

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# **From Reader Review Capital Returns: Investing Through the Capital Cycle: A Money Manager's Reports 2002-15 for online ebook**

## **J says**

Must have for any serious investor: paying attention to the supply-side and capital cycle are crucial.

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## **Javier HG says**

Este es un libro "minoritario", ya que creo que gustará únicamente a aquell@s que estén familiarizad@s con el sector financiero y, en concreto, con el de inversiones. Esto no significa que el libro esté escrito en un lenguaje enrevesado o demasiado técnico, simplemente que para disfrutarlo al 100% hay que estar familiarizad@ con términos como múltiplos, apalancamiento, retorno sobre capital empleado, titulización, o los conflictos de interés que todavía suceden en la industria financiera.

Aun con algunas palabras técnicas aquí y allí, el libro está muy bien escrito. Es una recopilación de las cartas que la gestora estadounidense Marathon envía regularmente a sus inversores. Marathon es una gestora oportunista, y en "Capital returns" se explica detalladamente cómo analizan y deciden invertir. Su estilo es muy similar al de Warren Buffett: "Sé avaricioso cuando los demás tienen miedo, y ten miedo cuando los demás son avariciosos".

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## **Mourisham Jose says**

A must read for serious investors

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## **Zharfan says**

Since I read Capital Returns, I can feel the impulses flowing in and out of my neurons more than ever before it started to normalize back to its mean rate. Therefore, before my return on neuron employed (RONE) falls below my cost of neuron (CON), I need to employ my neurons elsewhere i.e reading books with still abnormally high RONE. I found out that Capital Returns has a predecessor called Capital Account. The problem is that it is very hard to get hold of that book. Anyone can help me?

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## **Duy Nguyen says**

Please do yourself a favor and study this book. Then, never forget that thinking about supply is so much easier and important than thinking about demand (growth). Buffett's style is rested on this premise. Cheap valuation gives you room in case there is no demand growth; moats makes supply growth irrelevant.

Unfortunately, most investors (including institutional) don't give remotely enough focus on supply side.

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### **Saket Saurabh says**

recommended to investors as well as those interested in world of finance...

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### **Yes & Not Yes says**

Awesome book for the serious investor. Lots of great insights and interesting examples. Only bad thing about the book was the last chapter of letters from a fictitious investment banker, which I advise readers skip entirely.

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### **Manan says**

Provides a much needed lens to view, understand and (hopefully) benefit from the cycles playing out across sectors. Just what the doctor ordered.

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### **InvestingByTheBooks.com says**

This is the even more brilliant sequel to the already superb 2004 book Capital Account. Edward Chancellor, the author of the classic Devil Takes the Hindmost, picks and chooses among the 2002 to 2015 Global Investment Reviews written by money manager Marathon Asset Management. The essays are sorted into themes. The benefits for us all of keeping some sort of diary, writing monthly investment letters or in some other way document happenings, the zeitgeist, thoughts and feelings become more than apparent. This wasn't too long ago, but things that shouldn't be forgotten are starting to fade away from ones memory. Here Marathon lets anybody peak into their diary.

Capital Returns has three important sections. The first one is what sets this book apart from its prequel; Edward Chancellor has written a terrific introduction that spot-on describes the main features of Marathon's investment philosophy. The next section presents essays that dive deeper into this philosophy and the final one looks to the buildup of, the crescendo of and the resurrection from the Great Financial Crisis. Although there are several interesting topics in the latter they are pretty well discussed and I will focus on the investment philosophy parts.

As any investment philosophy it contains several components but what differentiates Marathon's thinking is their focus on The Capital Cycle and a number of industry supply factors. Here they clearly stand out. It's been a long time since reading an investment book gave so many impulses like "I should start a time series of this" or "Hmm, perhaps I could build a model of that" etc.

So what is The Capital Cycle? It's really no magic; in good times when returns on investments are impressive and corporate valuations are higher than the replacement cost of the productive assets, industry capacity increases by pooling of new financing – equity and credit - into the area, allowing existing

companies upping investments and new companies entering the market. All earn good money but after a while the added supply and increased competition will overwhelm demand and the cycle will turn. In troubling times productive capacity will be retired, companies will leave the market or simply go bankrupt and eventually the lessened supply and competition will face a demand that is improving and the cycle of over and underinvestment starts anew.

What I see as unique in this is the strong focus on the supply side and how they systematically track a wide number of parameters to understand the cycle on industry, sub-industry and corporate level. Not all industries are capital heavy but you can still get a fair grip of whether industry capacity is increasing or decreasing. True to this analysis, the evaluation of corporate managers and their incentive schemes also zeros in on capital usage. How managers understand the capital cycle and allocate capital is critical for long-term corporate success and then you cannot have incentive schemes that promote myopic profit maximization and “optimal leverage” at any given moment in time.

The book discusses two types of investment cases that follow from the cycle, the franchise stock that can retain a ROIC longer than the market price and the turnaround case that will improve its ROIC more or faster than the market price. Importantly, the turnaround is not necessarily a traditional bottom-up case, but is rather found by a top down analysis first and corporate analysis second. This opens up more investment options.

The writing almost has the same philosophical depth and enjoyable language as that of Howard Marks, the theoretical depth isn't exactly that of a Michael Mauboussin – but not too far away. What comes on top of this, as the cherry on the cake, is the down to earth and vivid discussion on business operations and day-to-day investing.

Buy this book, read it, think hard and reread it.

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### **Karen Zhang says**

It provides a new perspective to look at investment opportunities. I learned 3 things here

1. analysts should focus more on the supply side than the demand analysis of industries; demand side is moving by so many factors, while supply side has less uncertainty

2. on cyclical sectors, we should invest when there is no new capital coming in; one of the articles talked about the cod fishing industry and how the supply changes with new investment coming in

3. if you find management who are good at capital allocation, you should invest with those companies for long time because those management are rare

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### **Tirath says**

How outstanding could memos or letter possibly be? This compilation of letters is outstanding.

The fund's approach to investing is by following the capital cycle - an unusual approach, but I guess it has worked for them. In effect it is a contrarian approach.

The best bits were on the banking industry and China.

But the entire book is a gem - each letter is enlightening and gets the reader/ investor thinking about risk that he may have overlooked.

The fund is inherently cautious in its approach and is hence well suited for value investors.  
Definitely worth a second and 3rd read.

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### **Madhur Rao says**

A very nice book talking about the supply side economics driven by Schumpeter's famous argument around "creative destruction". The book highlights that instead of focusing on Demand (which is subject to narratives and large variations around estimates), one should try and focus on Supply (which can be quantified) depending on what competitors are doing. Prisoner's Dilemma is another thought which leads to generally "tit for tat" behaviour amongst peers. A lot of examples in industries like COD, shipping, mining, banking, testing services, brands etc from a European perspective, but the lessons are applicable globally. A book which I will revisit again for sure.

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### **Thomas Neuhaus says**

An important book for all fundamental investors to read. Explains the causes and ultimate resolution of the capital cycle using clear examples.

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### **Jan Van says**

#### **One of my all time favorites**

Do yourself a favor and enjoy the writing of the Marathon team. Thought provoking as only they can deliver.  
Jan

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### **Justin says**

Intelligent, but mostly over my head (at least at the rate I read this book, which was in turn driven by its seemingly low amount of actionable material). The introduction was quite useful and the rest of the book might be useful to stock pickers, but for a mutual fund user like me the introductory chapters were the only useful ones. That being said, the introductory chapters were more actionable than many of the other money books I've read.

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