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The Evolution of My Research Process - Part II

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In my previous post I reflected upon the first three phases of research I went through as an evolving value investor. Today's post will be focused on a key stage of my evolution.

Phase IV A – Time Travel Opportunities

I can't remember exactly when the name of Zhang Lei and Hillhouse Capital Management first came to my attention but I own a great debt of gratitude to Mr. Lei for his inspiration.

It was probably in 2015 that I started to notice that there are more and more articles (especially in China media) about Hillhouse and Zhang Lei. It's almost impossible not to notice Hillhouse. Their investments seemed to be at odds with value investing. They chose start ups like Blue Moon and Chinese technology companies like Tencent (TCEHY) and JD.com (NASDAQ:JD). I could rarely find a "value stock" if we use conventional definition of value investing. And Hillhouse is branded as a long-term value-investing platform. What did I miss?

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Well, it turned out Zhang Lei is playing a different game.

One day I read an article and it suddenly clicked with me that Hillhouse is actually practicing one of the highest levels of value investing. They do super deep research on industries that are riding big waves; they then find out the best model and the best companies in the developed nation (mostly in

Performances of the stocks mentioned by Grahamites

| Symbol | Company | Current Price | Change (%) | Gain (%) |
|---------|---------------------------------|---------------|------------|----------|
| AAL | American Airlines Group Inc | \$ 48.60 | - | 7.64% |
| BRK.A | Berkshire Hathaway Inc | \$ 288,000.00 | - | 15.9% |
| BRK.B | Berkshire Hathaway Inc | \$ 191.42 | - | 15.71% |
| CP | Canadian Pacific Railway Ltd | \$ 172.17 | - | 11.84% |
| CSX | CSX Corp | \$ 50.47 | - | -1.71% |
| DAL | Delta Air Lines Inc | \$ 51.23 | - | 12.52% |
| LUV | Southwest Airlines Co | \$ 55.63 | - | -0% |
| NSC | Norfolk Southern Corp | \$ 136.89 | - | 16.44% |
| UAL | United Continental Holdings Inc | \$ 63.37 | - | -8.9% |
| UNP | Union Pacific Corp | \$ 124.86 | - | 11.98% |
| Summary | | | 0.00% | 8.14% |

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Chinese equivalent of Mayo Clinic, so they partnered with Mayo Clinic and created the Chinese version from scratch (Huimei Healthcare). They brought the best from the U.S and planted the seed in China. Since in many areas China is years behind the U.S., and since the business model has already been proven in the U.S., investing in those early-stage China companies is basically a time travel play.

This realization had profound impact on me. I really liked this idea of time travel. I've already spent years studying the best businesses in the U.S. I am Chinese and I have a lot of Indian friends. Why wouldn't I play the same time travel game?

So in 2016, while I was building a circle of competency in health care stocks, I also took on a big project – the global online travel alliance industry. I was interested in Priceline (NASDAQ:PCLN) and Expedia (NASDAQ:EXPE) anyway. China was a few years behind the U.S. in the OTA market, and Ctrip (CTRP) just consolidated the Chinese market. And it looked like India was a few years behind China. It seemed like a perfect industry.

For a few months, I studied the history of the global travel market. I read everything I could read on the OTA industry. I was very interested in learning why Priceline (NASDAQ:PCLN) has been much more successful than Expedia (NASDAQ:EXPE). And then I studied the evolution of the Chinese OTA market, the brutal pricing war, and Ctrip (CTRP)' consolidation of the market in the end.

From my research on the U.S., European (Priceline's bookings.com is mainly a European business), and Chinese OTA market, I came up with what I called the best OTAs playbook. Then I read what I could find on India's OTA market and the major players back then such as MakeMyTrip (NASDAQ:MMYT), Yatra and Go Ibibo. I also reached out to my Indian friends for help. In the end, it was obvious to me that MakeMyTrip was likely to be the Indian version of Ctrip (CTRP) and Priceline (NASDAQ:PCLN). So I invested a good portion of my personal portfolio in MakeMyTrip (NASDAQ:MMYT).

This time travel research process can also explain my personal investments in JD.com (NASDAQ:JD), Hutchison China Meditech (NASDAQ:HCM), Zai Lab (NASDAQ:ZLAB), Lepu Medical (the likely version of China's Medtronics), Aier Eye Hospital, Di'an Diagnostic (the likely version of China's Lab Corp) and a few other companies.

One challenge in this time travel strategy is that many of the likely winners are not publicly traded yet. And if you are not Hillhouse and the like, it would be hard to invest in the Pre-IPO funding rounds. Hillhouse has built a very powerful positive feedback loop in its structure that's extremely difficult to replicate.

My aspiration is to continue to follow this time travel research method and eventually figure out a way to participate in early-stage funding rounds so that I can also be part of the value creation and value connecting process.

Of course a key requirement to carry out this strategy is to have a multi-culture background. Without knowing the Chinese language and culture, it would be impossible to play the Hillhouse time travel game. In this regard I consider myself extremely lucky because of my Chinese background.

As you can probably tell by now, in this phase, the time and effort required is substantially more than the previous phases. But the reward could also be substantially higher.

Disclosure: Long JD, HCM, MMYT, ZLAB, Lepu Medical, Aier Eye Hospitals and Di'an Diagnostics.

About the author:

Grahamites

A global value investor constantly seeking to acquire worldly wisdom. My investment philosophy has been inspired by Warren Buffett, Charlie Munger, Howard Marks, Chuck Akre, Li Lu, Zhang Lei, and Peter Lynch.

JD Price Chart



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Bigzoo - 1 day ago [Report SPAM](#)

Interesting evolution, thank you for sharing.
I am wondering if you could share a couple of thought about HCM. I just had a quick look at the numbers and I see a lot of negative numbers in the financials, yet the company's stock price has increased 150% in a year.
thank you.



Xzhao10 - 3 hours ago

Grahamites,
I think Mr. Zhang Lei is actually a venture capitalist.
Venture capitalists look for emerging markets. The source of the emerging markets could be geophysical (apply new idea from one country to another), transformational (adapt military technologies for civilian use), or best yet, a brand new idea with commercial value that no one else has had on earth.
Just some random thoughts.
All the best,
Xing

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