Marlowe Partners - Essay Excerpt

Extreme Overpayment

The concept of "Extreme Overpayment" is often misunderstood. In the world of value investing, we are taught to buy low and sell high. We are taught to look for bargains, for stocks that are trading below their intrinsic value.

But what if the best investments are the ones that appear expensive? What if the market is actually efficient at pricing quality?

Consider a business that is growing at 20% per year, with high returns on capital and a wide moat. Such a business will almost always trade at a high multiple of earnings. A traditional value investor might look at the P/E ratio and conclude that the stock is overvalued. They might wait for a pullback that never comes.

Meanwhile, the business continues to grow and compound value. Over a period of 10 or 20 years, the initial price paid matters far less than the quality of the business. You can "overpay" for a great business and still make a fortune, provided you hold it long enough.

Conversely, you can buy a mediocre business at a "bargain" price and lose money. Time is the friend of the wonderful business, the enemy of the mediocre.

At Marlowe Partners, we are willing to pay a fair price for a great business. We are not looking for cigar butts. We are looking for compounding machines. We understand that quality comes at a price, and we are willing to pay it.