

Index-Crushing Fund Buys Fastenal During Sell-Off

The Sequoia mutual fund ([M:SEQUX](#)) is an actively managed portfolio well worth parsing. Over the past 20 years it has obliterated the [S&P 500](#).



[SEQUX Total Return Price](#) data by YCharts

How Sequoia generates those returns is especially interesting: it does pretty well in up markets but its huge value added comes from not losing as much in down markets. Morningstar reports that Sequoia has captured about 77% of the market's upside moves over the past 15 years while managing to suffer just 49% of the downside. Not a bad approach to have at this juncture in a very long bull market.

If Sequoia has flown under your radar, that's because it has spent much of the past few decades either entirely or partially closed to new investors as management has carefully avoided fund bloat. Assets are a relatively puny \$8 billion for one of the rare consistent index beaters.

The fund distinguishes itself with extreme long-term investing. Turnover is 2%. That's not a typo. And this is a concentrated portfolio: Top position Valeant Pharmaceuticals ([VRX](#)) accounts for 17% of assets, Berkshire Hathaway ([BRK.A](#)) and ([BRK.B](#)) another 11% and TJX Companies ([TJX](#)) nearly 7%. Valeant hasn't been added to since 2010, when Sequoia clearly had espied a value opportunity:



VRX data by YCharts

Same story with TJX Companies. it hasn't been added to in years, and is a position that dates back to 2001.

The B shares of Berkshire Hathaway got a slight add in the third quarter. Though Berkshire Hathaway has moved far off the territory where Buffett and Munger said they would consider share repurchases, at 1.4x it's still below it's pre-crisis level.



BRK.B Price to Book Value data by YCharts

(There's also a bit of history with Sequoia and Berkshire. When Buffett closed his investment firm when he took over Berkshire Hathaway, he recommended his investors consider investing in Sequoia, which was then run by one of his Columbia B-school buddies, who also learned at the knee of the legendary Benjamin Graham. Many of Buffett's old clients remain Sequoia investors.)

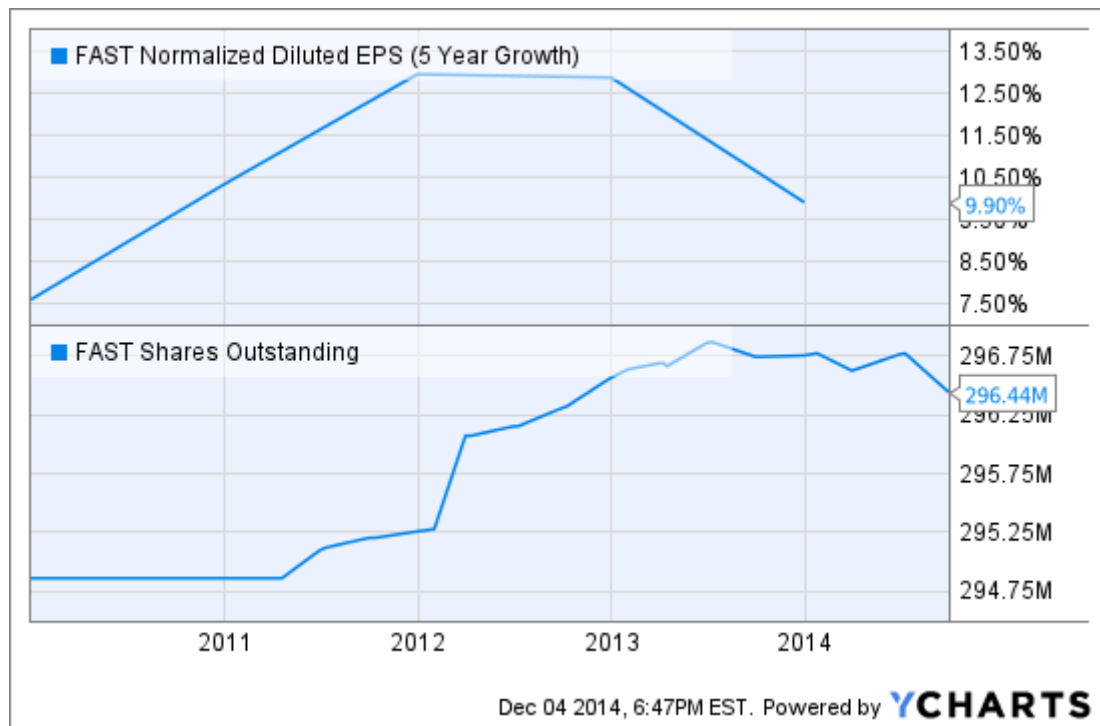
The only significant addition last quarter was a 25% boost in the share count of Fastenal (FAST) the fourth largest position in the fund, at 5% of assets. Sequoia has owned Fastenal since 2001, but this recent addition was the first in seven years.

Fastenal is an industrial supplier; perhaps you've been in, or cruised past, one of its 2,650 or so U.S. stores that supply all forms of manufacturing supplies from nuts and bolts to chemicals and welding equipment. In a world where revenue growth is hard to come by, industrial parts and machinery supplies has proven to be one area where sales are strong, yet the price-to-sales ratio has moderated of late.



FAST Revenue (TTM) data by YCharts

While earnings growth has dipped the past year, at near 10% it's still solid, and it is actual earnings growth, not engineered growth from share reduction.



FAST Normalized Diluted EPS (5 Year Growth) data by YCharts

For a value-focused and patient shop like Sequoia, the stock's fall in the third quarter spelled opportunity as the price slumped more than 10% amid heavy short interest.



FAST data by YCharts

The stock has already retraced about half of that third quarter slide. The recent report of a 15% uptick in November sales sent plenty of shorts running for the exit. That said, YCharts still shows Fastenal trading about 15% below its [historical valuation](#).

