

The Past & Future of Investing

Software—the Internet—the Market

Handout is available on my site:

“CLASS HANDOUTS”

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New website address: www.bob-adams.net

In the beginning:

- From George Nicholson’s writings...
- 1940 –
 - George Nicholson had an investment idea
 - “Inexperienced investors could be successful”
 - Treated as a Harvard Business School case study
- 1952: The idea became NAIC—now BI

In the beginning:

George Nicholson’s admonitions

- Three principles for safety in investing:
 1. Buy Growth Stocks
 2. Invest Regularly
 - And don’t try to outguess the market
 3. Reinvest Dividends

In the beginning:

- Recognize growth stocks fall faster but recover further as bear markets turn to bull
- When stocks go down—expect growth stocks to fall further than the DOW

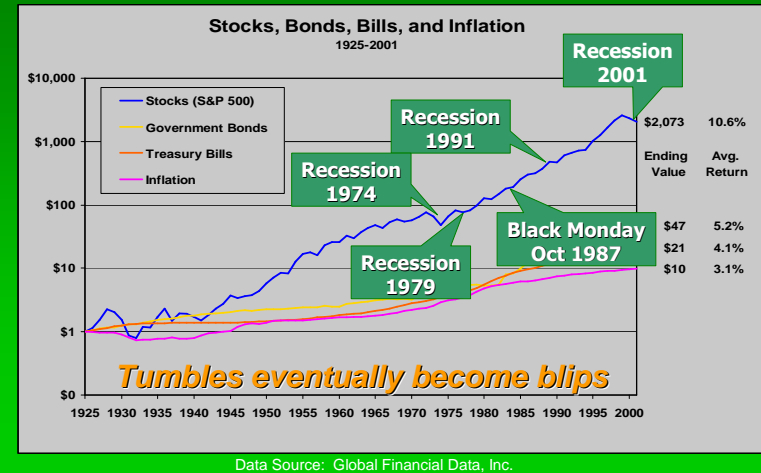
A key: Always compare your results with market averages annually

see *Analyze Your Portfolio* on my website
(Simple and Detailed forms available)

In the beginning:

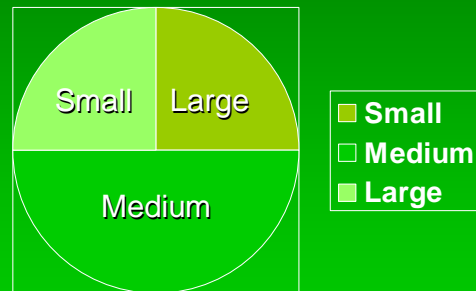
- Is the management good—management, management, management
 - Warren Buffett agrees
- Be prepared to buy when the market sentiment is low—a psychological problem

Where are those downturns?



In the beginning:

- Diversify by company size



In the beginning

- Pay attention to the Upside/Downside Ratio of your portfolio



Mathematics of a bear mkt.

- Stock falls from \$20 to \$10 = 50 % loss
- Stock gains from \$10 to \$20 = 100% gain (love bear markets)
- Same company—same value
 - —upside potential much better in bear market
- Buy at \$20 - at \$40 gain is 100%
- Buy at \$10 - at \$40 gain is 300%

In the beginning

- Patience is an absolute requirement
- Pull weeds from the portfolio
- Use the proceeds to buy flowers

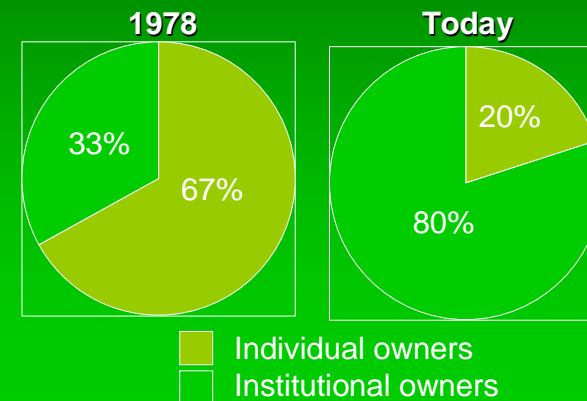
Does this apply today?

You bet!

Stock Ownership

Institutions:

Hedge funds – Retirement accts. (CALPERS) – Private Equity accts.



Stock ownership

- Translation:
 - High volatility
- Hedge funds
- Short term investing mentality
- Short sellers

Today:

- Set goals: (club and individuals)
 - Annually determine if portfolio beat market
 - Annually determine how many years required to double in value
 - Five years or less
- Set a specific month for this

Today:

- Keep brokerage fees low—less than 1% of transaction value
- If the Fee = \$10 – each trade no less than \$1,000 (preferably 2,000 -- buy & sell)

Expectations: 1st year

- Inexperience and broker fees will cut into profits
- Learn the language
- Enroll in local classes & events
- National conferences
 - BINC
 - InvestEd

Expectations: 2nd year

- Will pay too much for well managed companies
- Will buy poorly managed companies
- Use the PEG ratio to determine current value
 - (Projected PE / projected EPS growth)

Expectations: 3rd year

- Experience sufficient to avoid pitfalls
- Concentrate on good companies in the portfolio and get rid of the rest.

Expectations: 4th year

- Beware of speculation in fast moving stocks
- 20% of portfolio is ok for speculation
Money should come from “losers” not those with growing earnings

Expectations: 5th year

Perform this test:

1. Divide the amount paid into the club by two
2. Divide the result into the profit made since year 1

This gives an approximation of the profit percentage on average invested capital

10% to 15% is satisfactory

Better yet—my website

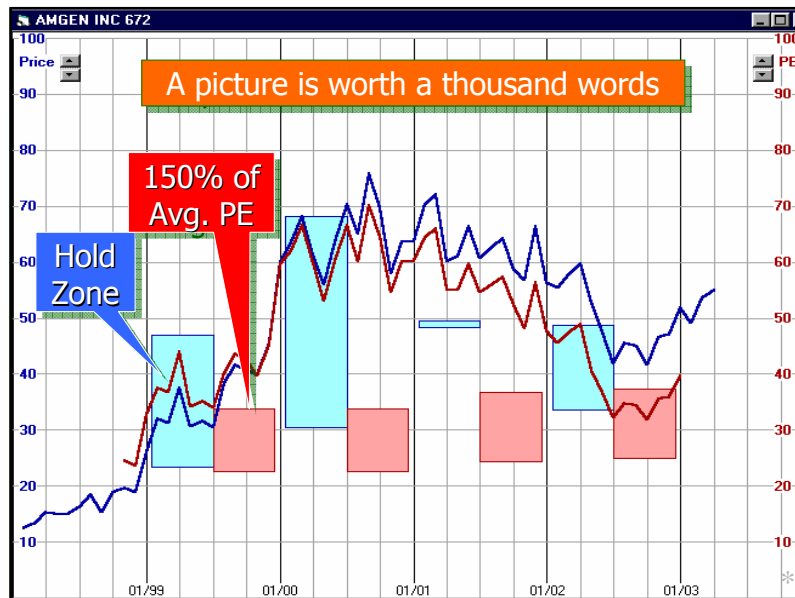
Expectations: 10th year & beyond

- A higher degree of study is required
- Each Investment value in portfolio is increasing--can represent a significant value
- Keep list of securities to about 12
- New purchases should represent 3 to 5% of portfolio resources in new company
- Consider 20%-30% in bonds when market gets "jumpy"

Practice defense: (alerts)

Watch for Sell signals:

- U/D ratio is 1:1 or less
- Is EPS growth rate at or better than expected
- Is Sales growth rate at or better than expected
- Bad news is usually followed by more bad news
- Price is in the sell zone
- Is the P/E greater than 1.5 times the average P/E (PMG)



Today:

- *My website offers analysis tools:*
 - Follow your stocks form
 - Analyzing the Annual Report data form
 - It's replicated on StockCentral.com
 - Determine CLUB annualized return
 - Compared to S&P 500
 - Determine YOUR portfolio annualized return
 - Compared to S&P 500
 - URLs to insert in BI software – one click to critical analysis data (Get organized)

Today:

(available now-take advantage)

- Do you *always* check all sources of information
 1. Analysts EPS growth estimates for next 5 years
 2. ACE – EPS and Sales quarterly estimates
 3. Insider Ownership
 4. Institutional Ownership—(not in SDS data)
 5. Who are competing companies – compare
 6. Industry Averages – Compare your company
 7. Company news
 8. 200 Day Moving Average chart
 9. Morningstar – bull and bear opinion
 10. Value Line 5 year expectations

Today:

- Libraries providing online access to
 - Morningstar
 - Value Line
 - Look under “databases”

The Future??

- The market: Continued volatility
 - Short selling (1929 rule dropped in 1990s)
 - Derivatives (Allowed in 1990s)
 - Uptick Rule (1929 rule dropped in 2007)
[Short sale must be offered at a price higher than the previous sale price]
- Software – the Internet
 - Both offering more help on decisions
 - Will that be better—or confusing?
 - Toolkit 6
 - Only we can provide judgment

The Future:

- Data will become more quickly available – more searchable & easier to use
- Currently analysts spend hours pouring over data to compile reports
- Individual long-term investor still has an advantage

The Future:

- SEC XBRL Interactive data is coming
- XBRL will speed the compilation and perhaps accuracy
- Voluntary at present
- www.sec.gov

U.S. Securities and Exchange Commission

Interactive Data (XBRL)

Webcast: IFRS Roundtable
Mon., 8/4
1:00 pm

The future:

- More help from the Internet
 - www.footnoted.org
 - Help in interpreting AR footnotes
 - Watch the date on the report

footnoted.org

found in the footnotes
Named a Top 10 business blog
by Business Week, CNN and the FT

Search

At the Friday night dump...

JUNE 11, 2007 AT 9:40 AM BY MICHELLE LEDER

Subscribe to Footnoted.org

The future:

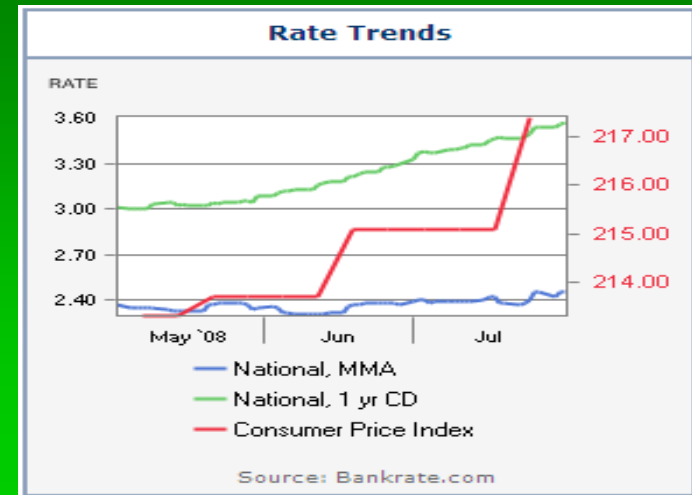
\$ Sitting on the sidelines:

2008: \$3.5 Trillion

2009: \$8.7 Trillion

- Will it stay there?

Money Market: \$3.5 Trillion



However...

- John Vogel
 - Forecast growth for last 10 years: 8%
 - (7% growth + 1% dividend)
 - EPS has grown 8.7%
- John Vogel – Warren Buffett
 - Growth in the next 10 years: ~8%
 - (6% EPS growth + 2% dividend)

A final note:

The future of dating?

...Wanna come up and see my FICA score?

- “The least romantic date”
 - At a certain point in a relationship you should have the “credit report” conversation
 - Each should print out their credit report, bring it to dinner, and share it (Full disclosure)
- By The Way—
 - Your credit scores never co-mingle
 - Only co-signed loans and joint credit cards
 - *Your spouse's score won't impact your credit score—just your life*

Questions?

A revealing thought

- ...a quote from Warren Buffett—

“A financial crisis reveals which players have been swimming naked.”

“We found out that Wall Street has been king of a nudist beach.”

Steve Forbes: the economy today

- Companies today have \$2 Trillion net on their Balance Sheets
 - higher than for half a century
- Problem: Not liquidly – it’s confidence
 - That can reverse very quickly

Steve Forbes: the economy today

- Projected loan losses--something U.S. can afford
- < High tech bubble burst of 2000-2001
- ~ Savings & Loan loss late 80s early 90s

Steve Forbes: the economy today

- What’s Worse?
 - The UNKNOWN!
 - Institutions are just now finding out they own some of the stuff—Mortgage Backed Securities
 - Compare to tomato scare—salmonella
 - Wasn’t true but tomato sales were squashed
- So...what’s the advice?

Steve Forbes: the economy today

- Advice from regulators:
 - Tighten your lending standards
 - Good advice but 3-4 years too late guys!
- Lots of guess work & fear
 - Lenders don't really know what they own
- And media reports it all

This too shall pass
