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# Introduction

- Who am I
- Who is in the audience
- What will we be learning

## What We Won’t Discuss

- Interest rates
- The economy
- Politics
- Apple

# Investing Tips

- Know what you own
- Take a long-term view
- Don’t get too attached

## Owning Part Of A Business

- Stockholders own a percentage of a business
  - What does that mean?
- How to think like a business owner
- Think about market trends in your business

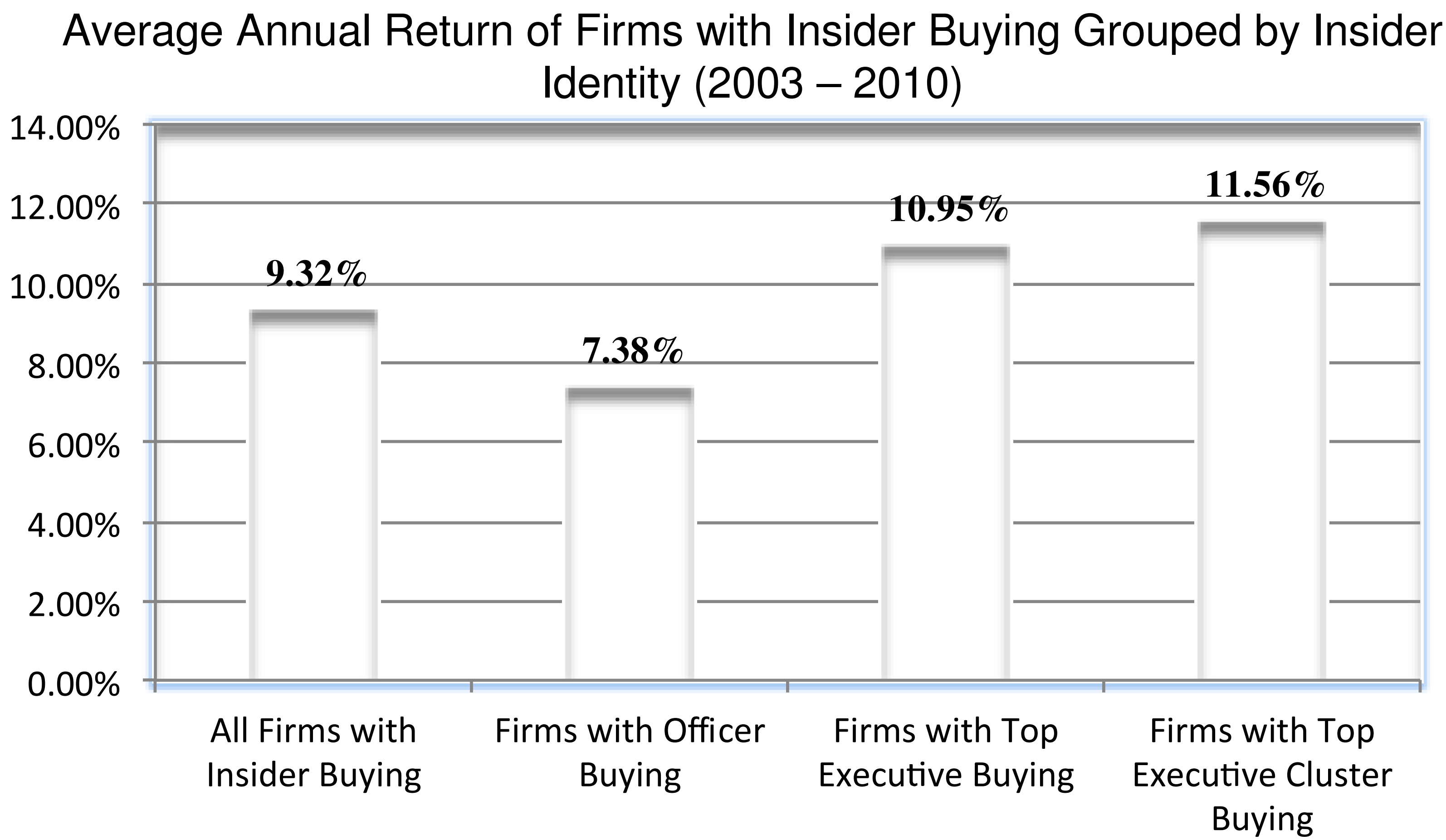
# SEC Filings

- 10K
- 10Q
- Proxy Statement
- 8K
- Form 4
- 13F, 13D

# Interesting Facts

- Company insiders
- Small firm effect
- Magic Formula
- Value vs growth
- Slow growth vs fast growth
- Holding Period

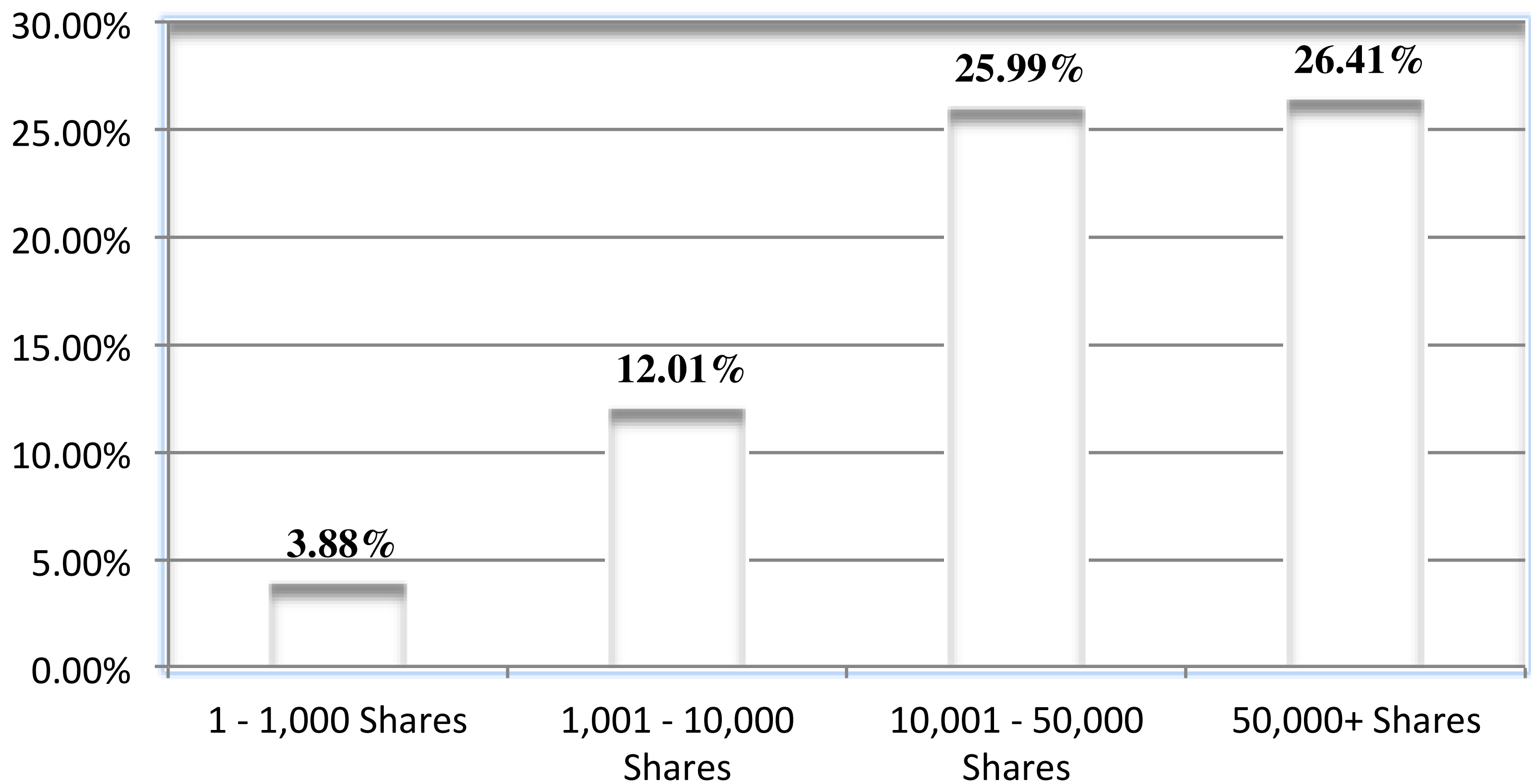
# Top Executives Know Their Company The Best




*Source: Catalyst Mutual Funds*

# Large Purchases Are The Most Meaningful

Average Annual Return of Firms with Top Executive Buying Grouped by Number of Shares Purchased (2003 – 2010)




*Source: Catalyst Mutual Funds*

# Insider Buying Example: Keurig Green Mountain (Ticker: GMCR) *For illustrative purposes only.*

## Insider Signals

1. In the Fall of 2013, multiple insiders purchase over $1.5 million worth of GMCR stock
2. Some of these insiders made very well-timed transactions in the past

## Buying & Selling

1. Buy stock around $65-70/share after insider buying signal
2. Partnership with Coca-Cola announced after market close on February 5th
3. Sell after announcement ($120)

## Chart

Corporate insiders at GMCR buy stock months before deal with Coca-Cola is announced. GMCR insiders have strong track record timing stock.


*For chart above, ^GSPC refers to S&P 500 Index.*

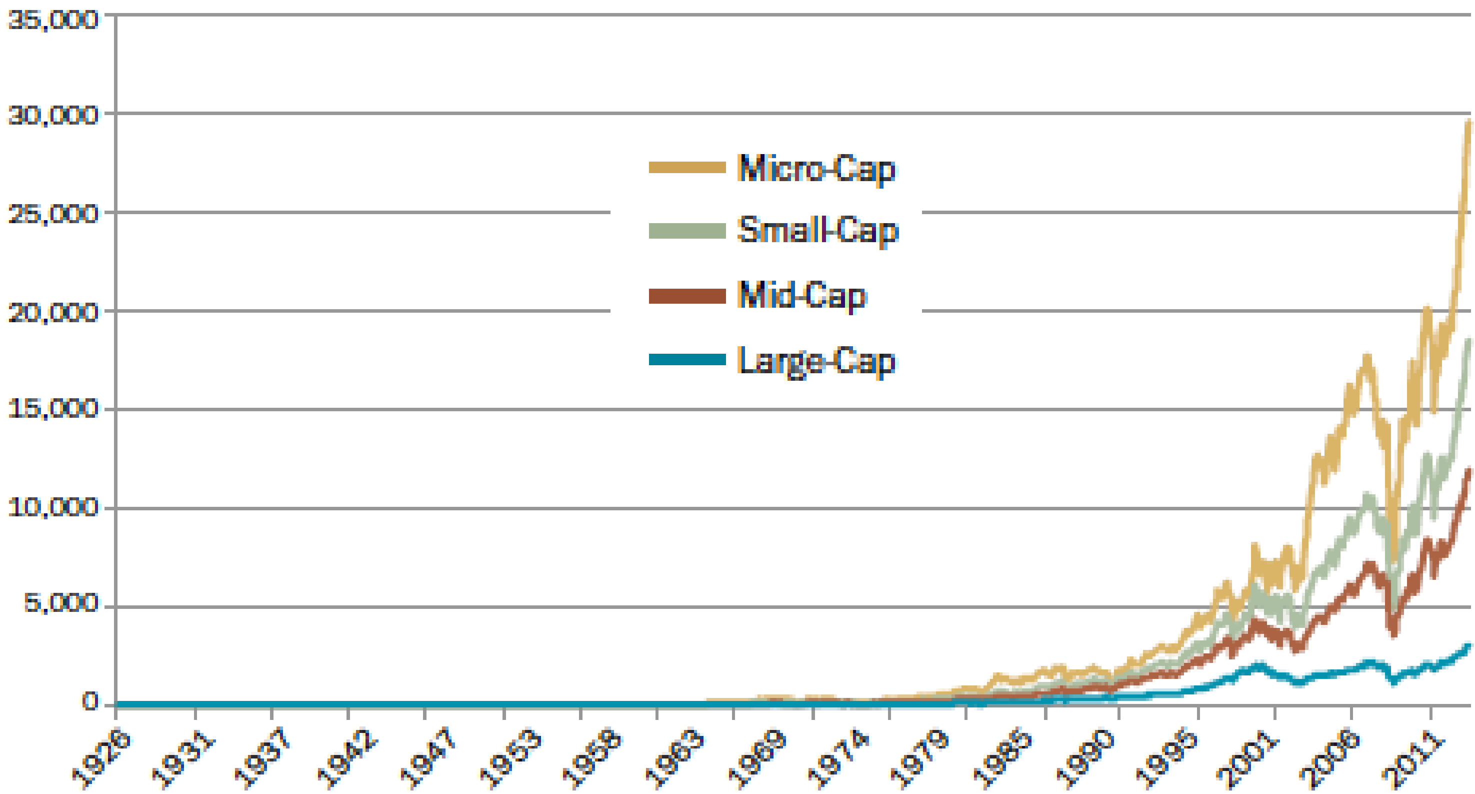
# University of Michigan Insider Buying Study

## U of M Study Finds **3.7%** Market Outperformance

| Year | One-year Returns | | | | |
|---|---|---|---|---|---|
| | Market Following Insider Trading | Following Insider Buying | Net (+/- Market) Following Insider Buying | Following Insider Selling | Net (+/- Market) Following Insider Selling |
| 1975 | 40.8% | 42.6% | 1.8% | 30.0% | -10.8% |
| 1976 | 18.8% | 26.8% | 8.0% | 13.3% | -5.5% |
| 1977 | 27.6% | 34.5% | 6.9% | 25.6% | -2.0% |
| 1978 | 26.7% | 29.2% | 2.5% | 22.5% | -4.2% |
| 1979 | 29.1% | 28.5% | -0.6% | 33.5% | 4.4% |
| 1980 | 26.7% | 30.2% | 3.5% | 25.8% | -0.9% |
| 1981 | 1.4% | 5.8% | 4.4% | -2.2% | -3.6% |
| 1982 | 63.5% | 61.4% | -2.1% | 64.0% | 0.5% |
| 1983 | 1.8% | 5.9% | 4.1% | -9.6% | -11.4% |
| 1984 | 17.8% | 24.6% | 6.8% | 15.5% | -2.3% |
| 1985 | 23.7% | 30.7% | 7.0% | 23.0% | -0.7% |
| 1986 | 13.7% | 11.6% | -2.1% | 9.9% | -3.8% |
| 1987 | -0.2% | 2.9% | 3.1% | -6.9% | -6.7% |
| 1988 | 17.4% | 20.1% | 2.7% | 15.0% | -2.4% |
| 1989 | -9.0% | -9.5% | -0.5% | -5.8% | 3.2% |
| 1990 | 18.8% | 24.4% | 5.6% | 24.1% | 5.3% |
| 1991 | 21.2% | 22.0% | 0.8% | 21.0% | -0.2% |
| 1992 | 21.5% | 35.0% | 13.5% | 17.3% | -4.2% |
| 1993 | 7.8% | 12.8% | 5.0% | 4.2% | -3.6% |
| 1994 | -1.3% | 1.7% | 3.0% | -2.9% | -1.6% |
| **Average** | **18.4%** | **22.1%** | **3.7%** | **15.9%** | **-2.5%** |
| Source: H.Nejat Seyhun, "Investment Intelligence from Insider Trading", The MIT Press, 1998. | | | | | |

# Smaller Can Be Better

## Growth of $1 between 6/30/1926 and 12/31/2013

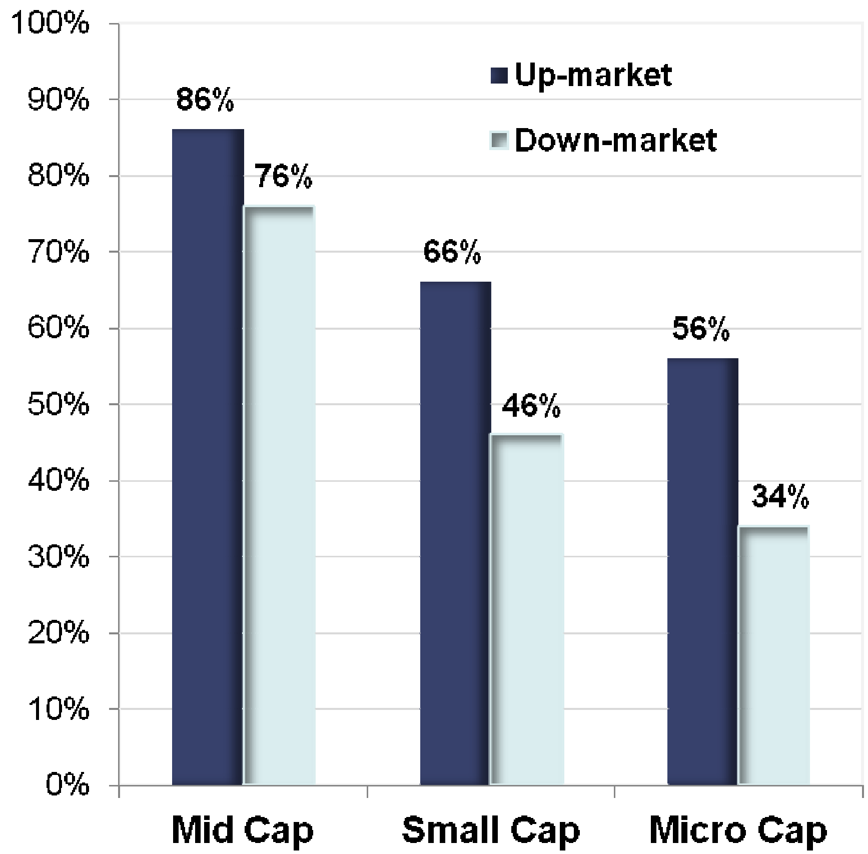



The smallest stocks averaged a 12.9% return vs. 9.8% market average.

Kenneth R. French, ©2014 Center for Research in Security Prices (CRSP), the University of Chicago, Booth School of Business, 6/30/1926 – 12/31/2013

# Diversification Benefits Improve In Down-markets

## Correlation With S&P 500 (1992 – 2010)




Smaller stocks have a lower correlation with the S&P 500. This means that they add diversification benefits to a portfolio of larger stocks. On top of that, in a down market, when most stock prices are declining, small stocks provide further capital preservation protection.

Source: Factset, Dow Jones U.S. Micro Cap Index

# Smaller Stocks Have Their Share of Risks

- **Volatility:** Smaller stocks have larger price swings than larger stocks, which is why investors should be ready to buy and hold through a full market cycle. In a portfolio that includes larger stocks, smaller stocks actually decrease overall volatility.

- **Liquidity:** Smaller stocks trade less frequently and in smaller volume. That being said, a study by Roger Ibbotson revealed an average annual return premium of 5.34% for the lowest liquidity quartile of the 3,500 largest US companies stocks over the highest liquidity quartile of the same stocks, from 1972 to 2011.*

- **Fraud:** Investors most perform thorough due diligence in order to avoid pump-and-dumps and companies with no business models in this space.

Liquidity as an Investment Style, Roger Ibbotson, Financial Analysts Journal Volume 69 Number 3 ©2013 CFA Institute
http://www.ibbotson.com/US/documents/MethodologyDocuments/ResearchPapers/LiquidityAsAnInvestmentStyle.pdf

## Joel Greenblatt:

- Ivy League professor
- Hedge Fund Manager
- Author

## The Formula:

- Beats the market 96% of the time
- Has averaged +30% returns

## Magic Formula for Investing

1. Establish a minimum market capitalization.
2. Exclude utility and financial stocks.
3. Exclude foreign companies (American Depositary Receipts).
4. Determine company's earnings yield = EBIT / enterprise value.
5. Determine company's return on capital = EBIT / (net fixed assets + working capital).
6. Rank all companies above chosen market