

Become An Intelligent Investor

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Today's Class

- Answering Questions From Last Week
 - How to Value a Business High Level
 - Understanding Industry Multiples
 - Assessing Management
 - Investing Advice
 - Investing Advice Psychological
 - Bringing It All Together
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Warren Buffet's Plan For His Wife

My widow will not be an expert on stocks. And I want to be sure she gets a decent result. She isn't going to get a sensational result, you know? And since all my Berkshire shares are going to philanthropy, the question becomes what does she do with the cash that's left to her? Part of it goes outright, part of it goes to a trustee. But I've told the trustee to put 90% of it in an S&P 500 index fund and 10% in short-term governments. And the reason for the 10% in short-term governments is that if there's a terrible period in the market and she's withdrawing 3% or 4% a year you take it out of that instead of selling stocks at the wrong time. She'll do fine with that. And anybody will do fine with that. [Example](#)

My Recommendation

- Index Funds
 - 5-8 Equity Positions
 - <http://www.businessinsider.com/dollar-cost-averaging-into-a-stock-crash-2014-2>
 - Old Rule of Thumb: $110 - \text{Age} = \% \text{ of Money in Stock}$
(If You Choose To Buy Bonds)
 - Over 20 years earnings, dividends, and stock prices superimpose
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Valuation

- Liquidation Value
 - Discounted Cash-Flow Value
 - Precedent Transactions
 - Peer Comparisons
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Valuation Using Multiples

- Industry Multiples:

<http://valuationacademy.com/industry-specific-multiples/>

Assessing Management

- Are They Good Operators
 - Are They Good Capital Allocators
 - Are They Trustworthy and Shareholder Friendly
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Investing Tips

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

 - Think Like an Owner of the Business
 - Are The Products Good
 - Are Costs Coming Down
 - Are You Getting a Good Return
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Investing Tips Psychological

- When Are You Most At Risk of Poor Decisions
 - Stocks Might be The Only Thing That Most People Want Less of When The Price Drops
 - Be Humble When You Are Wrong
 - Be Patient
 - There is no Security in Numbers
 - If The Price Goes Down and You Don't Know Why – Don't Sell
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Investor Checklist

- Do I Understand The Company?
 - Is It a Good Business? – Porter's 5 Forces
 - What Are The Industry Dynamics? – Tailwinds, Trends
 - Are You Confident In Management?
 - Is It Selling at a Bargain Price? – Compare To Peers

 - Icing on The Cake – Do You Have an Edge?
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Porter's 5 Forces



Find An Edge

- Informational
 - Analytical
 - Behavioral
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Two Success Stories

- Fireman in Massachusetts - Tambrands
 - The Widow – Low P/E Stable Businesses
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Q&A



Links

- <http://money.cnn.com/2015/02/19/investing/investing-women-men/>
 - <http://www.businessinsider.com/dollar-cost-averaging-into-a-stock-crash-2014-2>
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