Investor Panel Discussion on Approach to Investing

Crooker Investment Forum

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Investment Approach

- Investment Horizon
- Idea Sources
- Due Diligence
- Governance Issues
- When to Buy and Sell

Investment Horizon

- Patience and temperament are virtues, because opportunities come infrequently. Be prepared with some cash or have the willingness to raise cash. Then be patient until favorable event or markets occur.
- Focus on long term horizon. Minimum of 3 to 5 years.
- Buffet comment on most investors lifetime punch-card having 10 to 15 tickets.
- Best "market opportunities" were in 1974, 1981-82, 1987-88, 1990-91, 2000-01, 2008-09, 2011 summer.
- Many ideas take time for catalyst(s) to emerge.
- Be concerned with entry price / value, although sometimes companies are cheap for a good reason.

Idea Sources

1. Study other successful investors who manage public money.
    - John Train's 1980's Books: "The Money Masters" & "New Money Masters"
    - Ben Graham's Book: "The Intelligent Investor"
    - Warren Buffet Letters
2. Periodicals such as Barrons, ValueLine, Fortune, S&P
3. Mutual Fund Reports (Tweedy Brown, Fairholme, Third Avenue, Longleaf, among many others)
4. Websites like Seeking Alpha, Motley Fool, DripInvesting.org

Due Diligence

- Financial analysis of financial statements and related other information is an important consideration
  - Investee’s annual and quarterly reports (SEC 10K and 10Q)
  - Company presentations on websites
  - Proxy Statements
  - Other SEC documents (schedule 13 and Form 4 filings)

Due Diligence (cont.)

Invest with a Margin of Safety

- Pick firms with low or no debt outstanding (financial services firms don’t fit this criteria)
- Focus on “free cash flow” as a good measure of value (firms with ability to increase over time selling for low price multiple
- Firms selling for near or below tangible book value

Due Diligence (cont.)

- Invest in firms that make or sell products that you can understand (not banks selling derivatives etc.). Products or services that are:
  - Continuously needed and with expanding market
  - Lowest cost in market
  - Firms having demonstrated pricing power

Governance Issues

- Invest in firms that treat you like a partner with their best interests aligned with yours. Attributes that indicate this relationship include:
  - Managements that own and **<u>maintain</u>** significant stakes in the voting common equity,
  - Firms that have one class of voting common (not other classes that provide super voting rights to a preferred investor),
  - Companies that buy in their stock opportunistically (and not to minimize dilution from employee options),
  - For Mutual funds : those that Eat Their Own Cooking (Tweedy Brown, Longleaf, Fairholme, Goodhaven).

Price Relative to Valuation Matters

I find determining when to buy is easier than when to sell.

Attractive Buying Criteria:

- Single digit multiples of earnings and free cash flow (using average for multiple years)
- Below or near tangible book value (adjusted for intangibles and goodwill)

Price (cont.)

Consider Selling When:

1. A more compelling opportunity occurs,
2. Change in senior management or strategic direction that causes concern
3. Price to earnings or free cash flow multiples increase by 50-60% or more from your purchase level.
4. Price to tangible book rises above 150%.

(Although these are not hard and fast because some investments I view as core long term holding periods)

Things I Wouldn’t Normally Buy

1. IPOs
2. Firms without any financial history in sectors like:
    - Technology,
    - Untested Life or Other Sciences
3. Bonds