

Graham & Buffet Inspired Discounted, Fundamental, Seasonal Analysis
by
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Mission Statement:

Not lose money by buying undervalued, fundamentally strong companies with growth potential, minimizing downside risk and maximizing upside gain taking into account the market trends, as well as everything that could impact the stock price utilizing intuition.

Addendum: To do whatever it takes to minimize losses.

Glen's Simple Truths:

Buffet determines the value of a company by projecting its future cash flows and discounting them back to the present with the rate of long-term U.S. government bonds. We do too.

Focus your portfolio on a few good companies. Concentrating on good stocks is safer than diversifying across mediocre ones. That said, just as a business puts more money into its most successful ventures, you should invest more money in your stocks that are expected to perform well.

Sales are the key to everything. Profits must follow sales.

Stop losses and add more money to winners, pyramiding their gains. Ideally, sell losers and keep winners.

Avoid debt and companies with debt.

A company's value is not defined by what it has done, but what it is able to do. The key to getting bargains is looking ahead, not looking back.

People hate risk when it threatens gains, but they love risk when it could prevent losses. We're odd creatures, so intent on averting loss that we're willing to risk losing even more to do so.

Stocks drop twice as fast as they rise. Loss is painful, on average twice as painful as gain is pleasurable in matters financial.

The basis, or the individual cost of the stock should not affect decision making.

You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets.

Recommended Readings:

Joel Greenblatt

The Little Book that Beats the Market

Mary Buffett

Buffetology

Benjamin Graham

The Intelligent Investor

Security Analysis Co.A. David Dodd

Philip A. Fisher

Common Stocks and Uncommon Profits

Peter Lynch

Beating the Street

One Up on Wall Street

Franses, Philip Hans

Time series models for business and economic forecasting

Introduction to Business Statistics

Technical Strategy:

Step 1: Have some idea of where the economy that you are investing in is headed.

Read the news occasionally and watch some television just to gain an understanding of what is going on.

Step 2: Find potential companies

Scour magazines and internet articles for lists of top companies. Sort out the ones with decreasing net income trends or negative net incomes without justification. There will be times where there are 1-time exceptions.

Step 3: Keep the predictable ones (only linear and semi-log)

Chart their fundamentals and keep the ones that are predictable in nature. Note potential seasonality. Predictability should be charted across company revenues.

Step 4: Read the news and bios and investor opinions on each of the companies.

Give a grade for the probability that the stock will outperform the market and/or actually meet your forecast. Look for weaknesses in cash flows and high debt.

Step 5: Put your money where your mouth is.

Buy the best stocks that you've selected and read the news on that particular stock in order to avoid owning a stock that has taken a turn for the south too long.

Follow industry news and economist forecasts. Understand the business cycle and how interest rates affect business valuations.

In Greatness I Trust:

Joel Greenblatt founded and managed Gotham Capital with average annualized returns of 40% for over twenty years.

Risk is permanent loss of invested capital, and not any measurement of volatility developed by statisticians or academicians.

All investing is value investing and to make a distinction between value and growth is meaningless.

Looking at the numbers best way to learn about management. What have they done with the cash? What are the incentives? Is the salary too high? Is there heavy insider selling? What is their track record?

Special situations are just value investing with a catalyst.

Independent thinking, in-depth research, and the ability to persevere through near-term underperformance, are three keys to being a successful value investor.

Peter Lynch managed the Fidelity Magellan Fund from 1977 to 1990, during which time Lynch reportedly beat the S&P 500 Index benchmark in 11 of those 13 years, achieving an annual average return of 29%.

The person that turns over the most rocks wins the game. And that's always been my philosophy.

I think you have to learn that there's a company behind every stock, and that there's only one real reason why stocks go up. Companies go from doing poorly to doing well or small companies grow to large companies.

I've found that when the market's going down and you buy funds wisely, at some point in the future you will be happy. You won't get there by reading 'Now is the time to buy.'

Jim Cramer paid his dues in the '80s as a Goldman, Sachs & Co. (GS) broker, followed by 14 years at Cramer Berkowitz, his \$450 million hedge fund, where he earned an average return of 24% a year after fees.

Speculation: Making a calculated bet with a limited amount of capital that turns into a monster home run. I believe speculation is not only healthy and terrific, but is vital to true diversification.

Warren Buffett achieved an above-average 20% compounding annual return for the last 30 years placing Buffet as arguably the most successful investor ever

“A public-opinion poll is no substitute for thought.”

Risk comes from not knowing what you're doing.

Al Frank launched the Prudent Speculator in 1977, eight years after he began investing. Hulbert Financial Digest named it the best-performing stock advisory newsletter for the last 20 years with a 19.5% annual return through the end of February this year.

All of the forces of the market aren't conspiring against you. You are conspiring against you.

Martin Zweig wrote the top market advisory for the 15 year period between 1980 and 1995*. Zweig Forecast delivered a 16 percent per annum compounding return, the highest risk-adjusted return of any market advisory service during that time.

When it comes to stock-picking, Martin Zweig screens many fundamental numbers. He gives greatest weight to two parameters - the earnings trend and the pe ratio (price/earnings ratio).

He shares Warren Buffett's wariness of highly indebted companies

Benjamin Graham started his career on Wall Street in 1914 and was a *millionaire* by the age of 35. Benjamin Graham was a seminal figure on Wall Street and is widely acknowledged to be the father of modern security analysis.

"I think we can do it successfully with a few techniques and simple principles. The main point is to have the right general principles and the character to stick to them."

Joseph Piotroski compiled a screen; an investment strategy that buys expected winners and shorts expected losers generates a 23 percent annual return between 1976 and 1996.

Score one point if a stock passes each test and zero if it doesn't. The maximum score is 9.

1. **Net Income:** Bottom line. Score 1 if last year net income is positive.
2. **Operating Cash Flow:** A better earnings gauge. Score 1 if last year cash flow is positive.
3. **Return On Assets:** Measures Profitability. Score 1 if last year ROA exceeds prior-year ROA.
4. **Quality of Earnings:** Warns of Accounting Tricks. Score 1 if last year operating cash flow exceeds net income.
5. **Long-Term Debt vs. Assets:** Is Debt decreasing? Score 1 if the ratio of long-term debt to assets is down from the year-ago value. (If LTD is zero but assets are increasing, score 1 anyway.)

6. **Current Ratio:** Measures increasing working capital. Score 1 if CR has increased from the prior year.
7. **Shares Outstanding:** A Measure of potential dilution. Score 1 if the number of shares outstanding is no greater than the year-ago figure.
8. **Gross Margin:** A measure of improving competitive position. Score 1 if full-year GM exceeds the prior-year GM.
9. **Asset Turnover:** Measures productivity. Score 1 if the percentage increase in sales exceeds the percentage increase in total assets.

William J. Ruane launched Sequoia fund; in the 38 years in which Sequoia has been operational, the fund has averaged a return of approximately 15% versus about 13% for the S&P 500.

People think they have to be doing something when the prudent thing might be to not do anything.

Jesse Livermore shorted the markets and was worth \$3 million and \$100 million after the 1907 and 1929 market crashes, respectively.

Do not trade every day of every year. Trade only when the market is clearly bullish or bearish. Trade in the direction of the general market. If it's rising you should be long, if it's falling you should be short.

Continue with trades that show you a profit, end trades that show a loss.

Markets are never wrong - opinions often are.

Pertinent Information for the Crash of 2008 – December 23, 2008:

Goldman Sachs

The S&P 500 tends to bottom:

- One quarter before the GDP bottoms
- 3 months before the ISM manufacturing survey bottoms
- 7 months before the peak unemployment rate
- 4 months before the largest decline in non-farm payrolls and
- 4 months before the bottom in consumer confidence surveys