

What My Dad Taught Me About the Stock Market

(amended)

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Executive summary

- Save money.
- Buy and hold quality growth stocks for a long time
- We beat the pros because we are patient
- My father made secretaries into millionaires

Richard R. Cheswick

- Lead navigator in B17s in WW II...DFC
- 55 years helping rich people invest
- at peak, \$1 billion under management



Saving

- First ten percent goes into long-term saving
 - Not touchable
- Second ten percent goes into savings
 - Available for cars, etc.
- Then pay the rent
- Take full advantage of corporate matching grants: free money

Long term

- Compounding is a powerful tool. With savings and reasonable investments, you can build a nest egg
- Don't count on the government to get you through retirement
- My take: aim to have at least \$1 million (excluding real estate) by age 65.

The US stock market
has been the most
reliable source of
growth over the
decades

Yet it goes down about one year for each two years'
growth

How his business worked

- Your money is in a brokerage account (e.g. Merrill Lynch, Schwab, etc.)
- He could trade in your account.
- Withdrawals required a signed letter each time.
- My sister is still doing this.

Some Basics

Rule of 72

- Divide 72 by compound interest rate to get doubling time in years
- E.g. 7% interest will double your money in ~10 years
- 3% real GNP growth doubles real GNP in 24 years

Most expensive stock?

Symbol	Name	Price
AAPL	Apple	115
BRKA	Berkshire Hathaway	205,380
LNKD	LinkedIn	211
MO	Altria	61
T	AT&T	34
TSLA	Tesla Motors	215
XON	Exxon/Mobile	33

You get to know the symbols, and CEO names

- International Flavors and Fragrances (IFF)
 - “stinky”
- Johnson and Johnson (JNJ)
 - “Johnny”

Which stock is most expensive?

Symbol	Price
AAPL	115
BRKA	205,380
LNKD	211
MO	61
T	34
TSLA	215
XOM	84

Most expensive?

Symbol	Price
BRKA*	205,380
TSLA	215
LNKD	211
AAPL	115
XOM	84
MO	61
T	34

- Answer: you can't tell—insufficient data
- What do you get for the price?
- Corollary: stock splits don't mean much, maybe some management confidence.

What do we want from a company?

- Stock price appreciation—growth
- A piece of the action—dividends
- Dividends are optional: we like a growing company to keep investing in itself.

Stock price

- Based on expected earnings and dividends
- Many other factors influence stocks in general
 - world economics
 - politics
 - war and signs of war

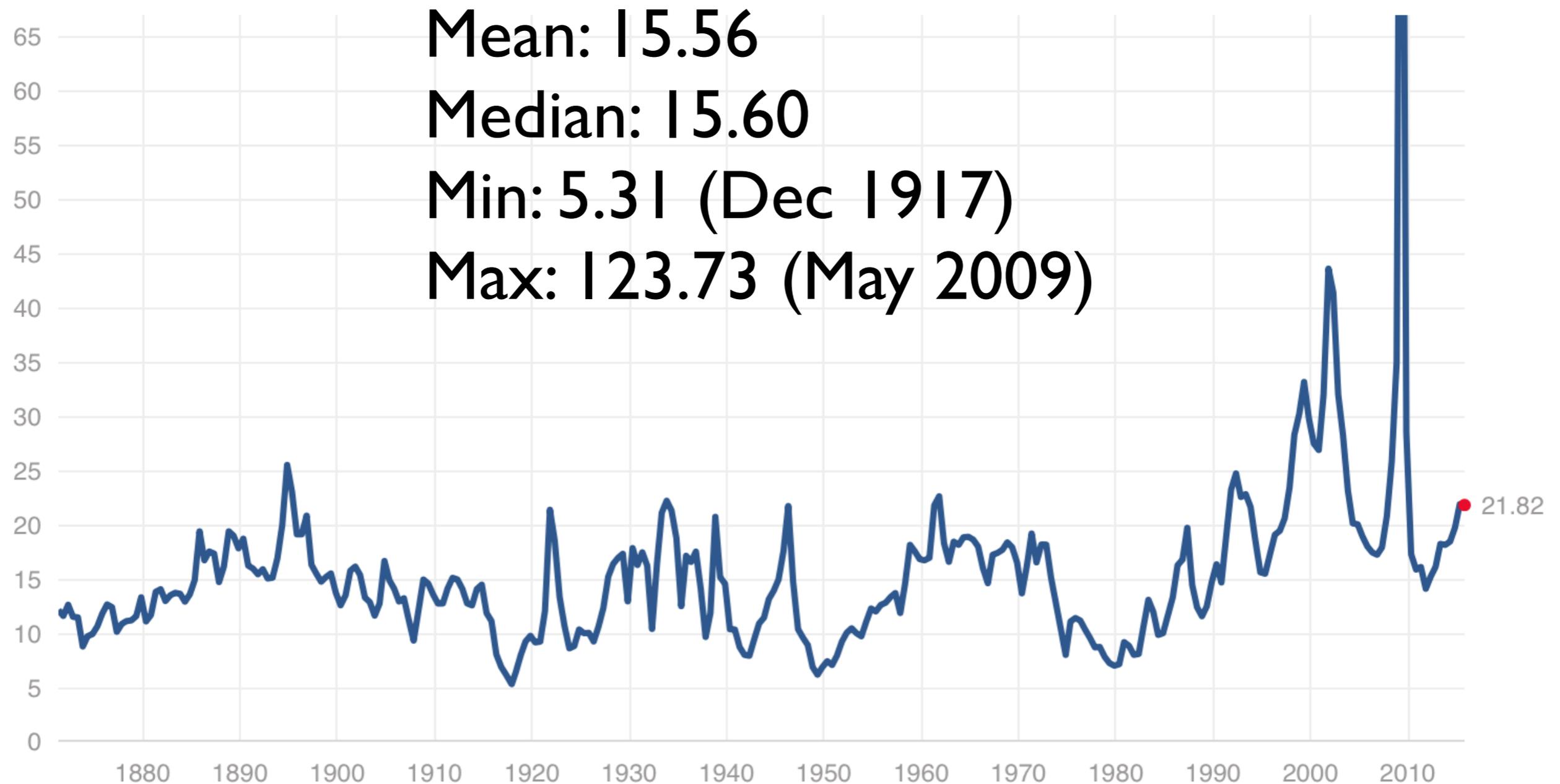
Price/earnings ratio

- A widely-accepted measure of a stock's value
- \$100 stock, \$10 expected earnings per share next year, gives a leading PE of 10
- Historical average might be about 15—18
- Depends on the industry and outlook

Sample PE ratios

- Banks after S&L crisis: 6
- Apple in the bad days: 8
- Tobacco stocks: 6—9, but see MO
- Tech high-fliers 18—100 or more
- Companies losing money: NaN

S&P historical PE



Source: <http://www.multpl.com>

Most expensive?

Symbol	Price	Trailing PE
TSLA	215	N/A
LNKD	211	N/A
T	34	35.43
MO	61	23.75
BRKA	205,380	18.80
XOM	85	17.8
AAPL*	115	13.33

Source: <http://finance.yahoo.com>

Most expensive?

Symbol	Price	Trailing	Div. %
TSLA	215	N/A	0
LNKD	211	N/A	0
BRKA	205,380	18.80	0
AAPL	115	13.33	2.08
MO	61	23.75	3.7
XOM	85	17.8	3.8
T	34	35.43	5.57

Source: <http://finance.yahoo.com>

How do we find promising companies?

“Most stocks are not worth owning”

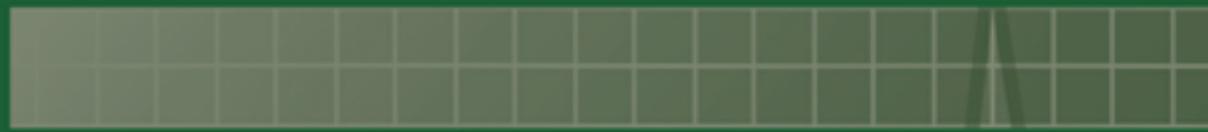


The SRC Blue Book of 12-Year Charts[®]

NYSE, NASDAQ, ADRs & International Companies



www.SrcStockCharts.com



The SRC Green Book[®] of 35-Year Charts.



SRC Securities
Research
Company

Trusted by Investors Since 1933

ChartScreen, by Securities Research

- earnings (not found in most charts)
- dividends
- (the last two are missing from ALL of the other charts)
- counterexamples requested

SRC charts

- Blue book: 12 year NYSE and Amex
- Orange book: 12 year OTC, now combined with the Blue book
- Green book: 35 year NYSE
- First two come out quarterly, \$300/year each
- Libraries have these

SRC vis. notes

- They have been doing it since the 1930s!
- Semi-log, stock/earnings/dividends vs. time
- The longer time the better
- Price plotted at 15 price/earnings ratio
- Summary data on the rest of the chart

AT&T INC (T)

Provides global telecommunication services



Growth Performance Measurement				
Years	Price	Earn.	Div.	Tot Ret
Last 1	-3.4	-4.8	2.2	2.0
Last 5	3.4	1.0	2.3	8.4
Last 10	3.5	4.1	3.8	7.7

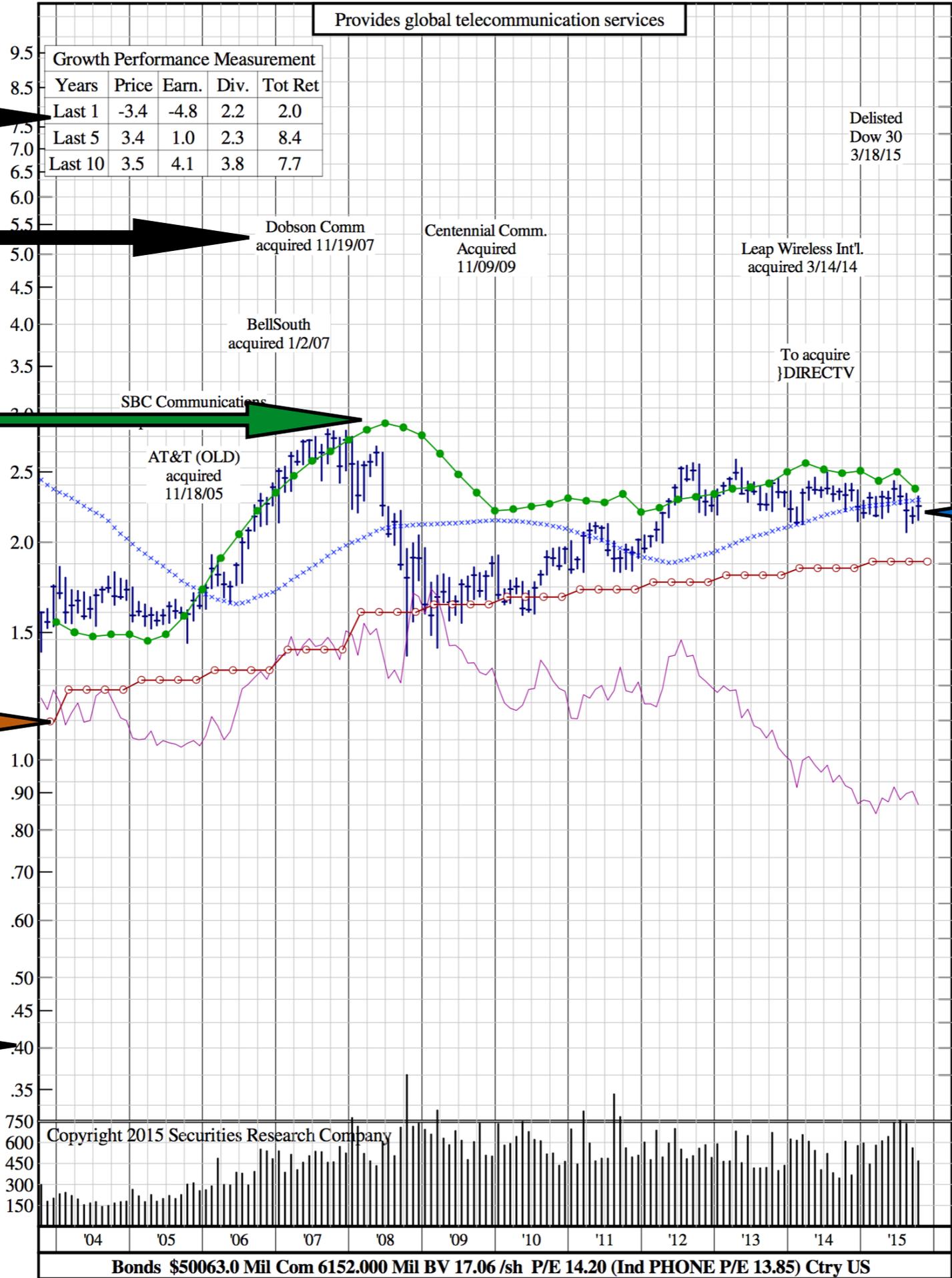
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Bonds \$50063.0 Mil Com 6152.000 Mil BV 17.06 /sh P/E 14.20 (Ind PHONE P/E 13.85) Ctry US

AT&T INC (T)

Provides global telecommunication services

Growth Performance Measurement				
Years	Price	Earn.	Div.	Tot Ret
Last 1	-3.4	-4.8	2.2	2.0
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Bonds \$50063.0 Mil Com 6152.000 Mil BV 17.06 /sh P/E 14.20 (Ind PHONE P/E 13.85) Ctry US

perf.
summary

events

earnings

dividends

Div./
earnings
scale

Share
price

stock price

Volume

Provider

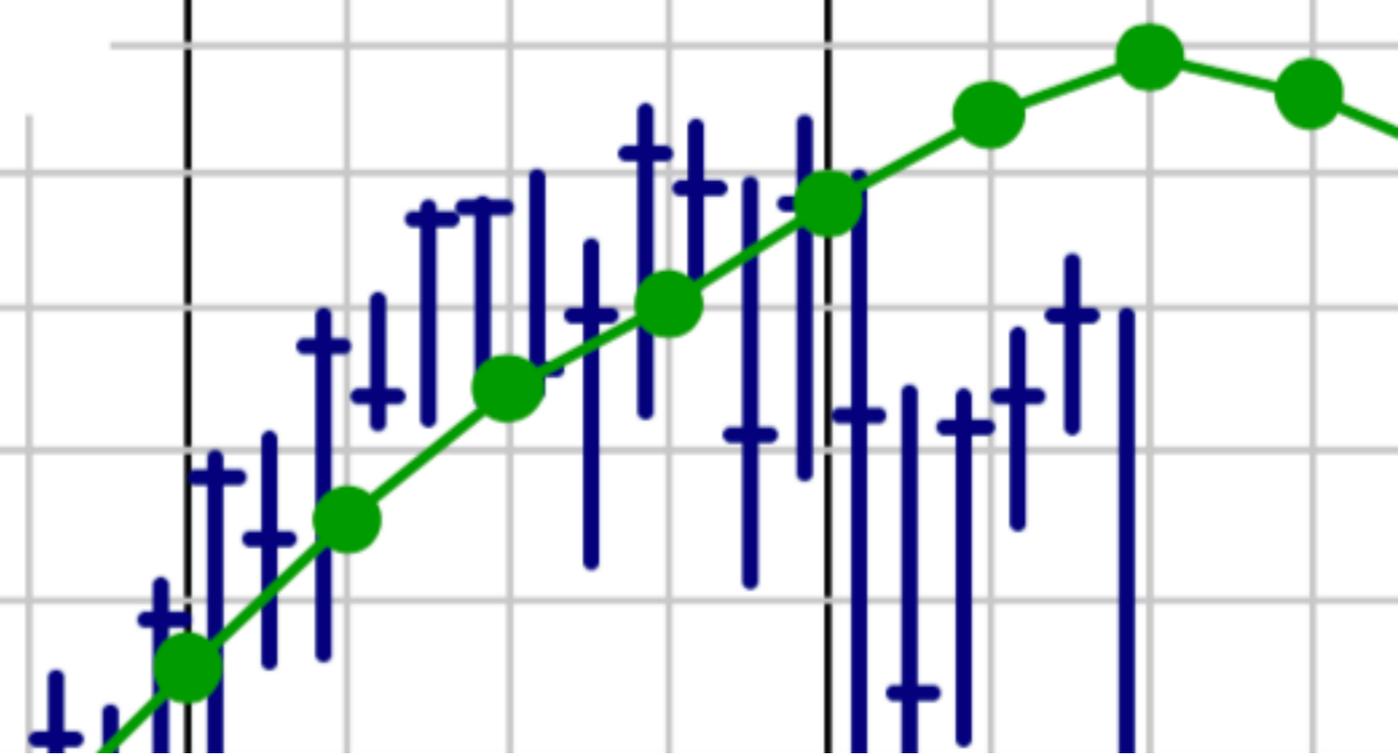
Growth Performance Measurement

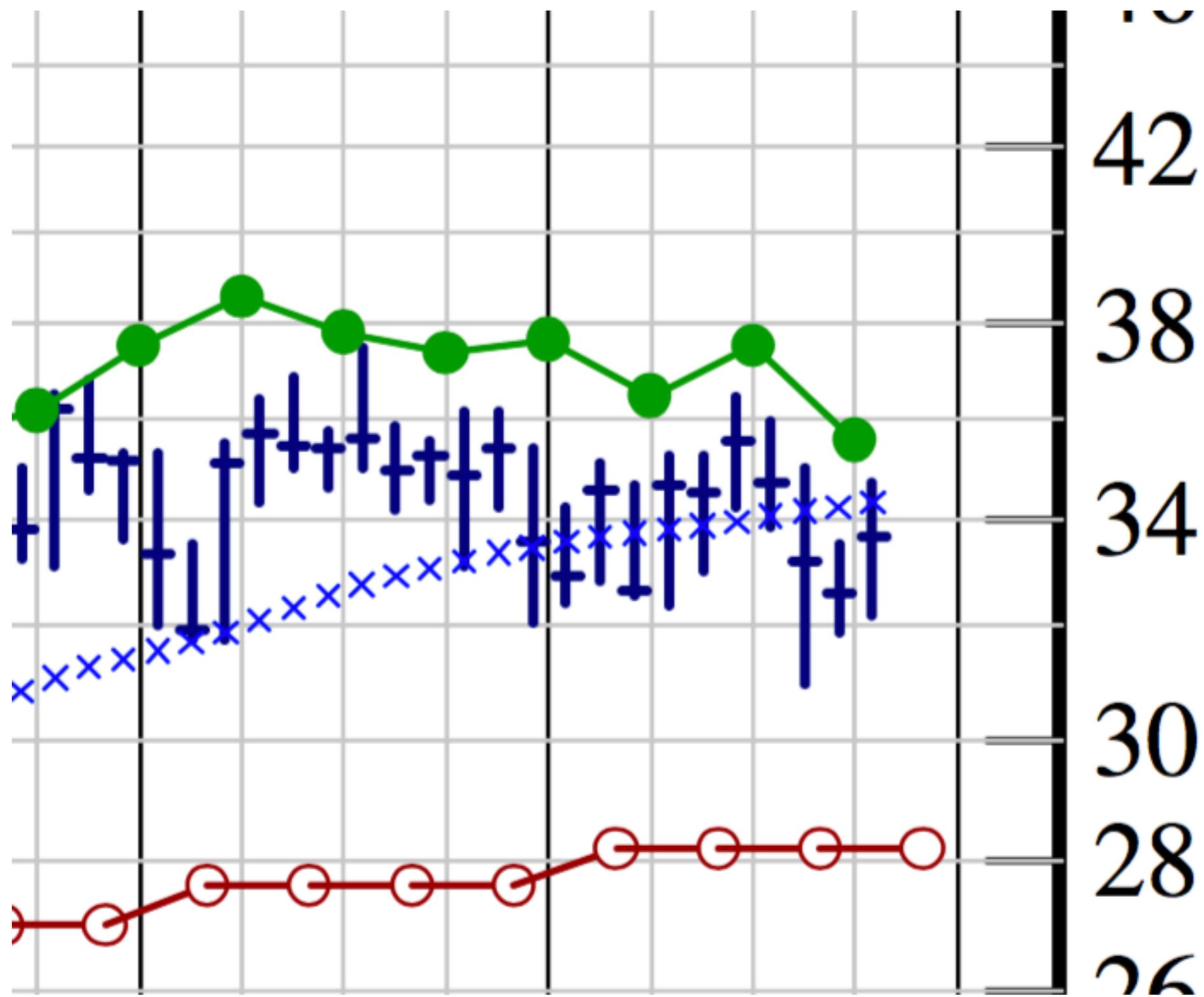
Years	Price	Earn.	Div.	Tot Ret
Last 1	-3.4	-4.8	2.2	2.0
Last 5	3.4	1.0	2.3	8.4
Last 10	3.5	4.1	3.8	7.7

BellSouth
acquired 1/2/07

SBC Communications
prior to 11/18/05

AT&T (OLD)
acquired
11/18/05



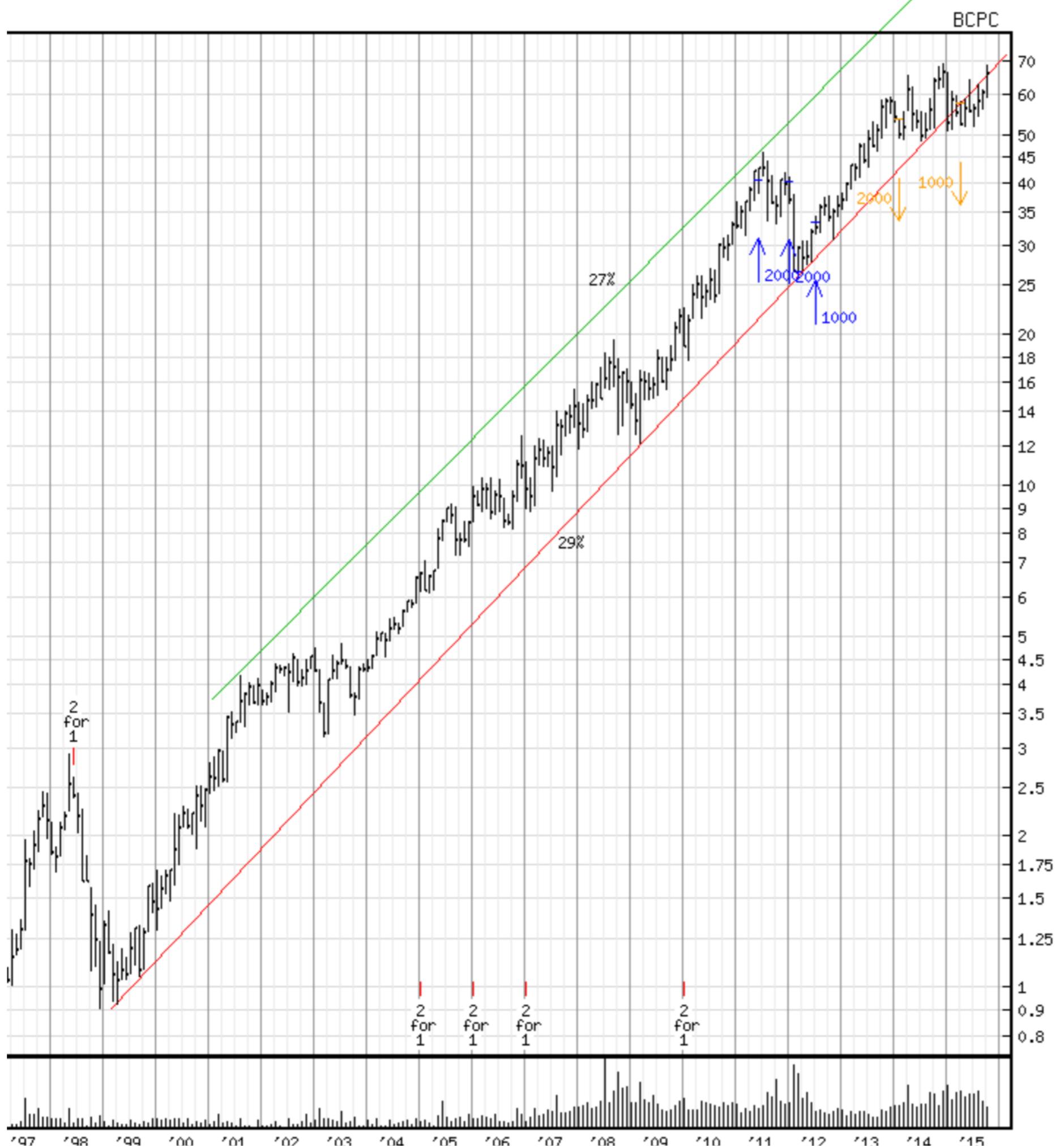


What to look for in the charts

- long term steady earnings growth
- earnings growth in recessions and maybe price strength in recessions

Stocks tend to grow in channels

- Through the top is *bullish*
- Through the bottom is *bearish*



- Balchem Corp (BCPC)
- Makes feed additives
- The vis is my own

Scanning the book(s)

- A six-year old can find promising growth stocks! “Look, Daddy, here’s one!”
- *Looking at the charts is not enough*
 - But it is a great start, a source of ideas

Pick Growth Stocks

- Xerox in the 1960s
 - the “nifty fifty”
- Macdonalds 1970—2000
- Cisco 1985–2000
- Amazon?
- Railroads?

Invest in Companies You Understand

- Buffet: Coke, railroads, etc.
- Me: CSCCO in the 1990s

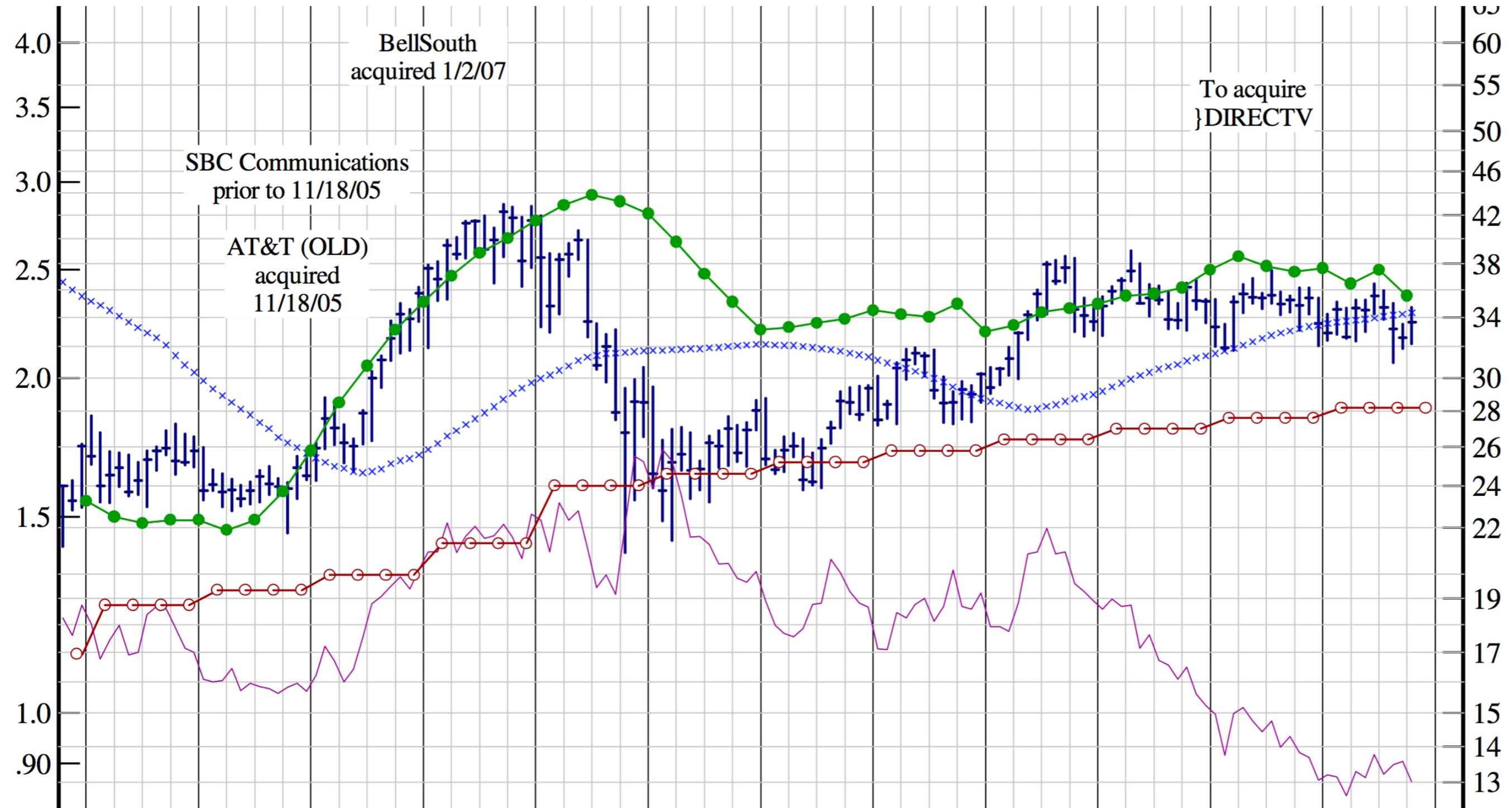
Don't Invest Overseas

- US has the freest, openist market in the world
- Pick great US companies that invest abroad

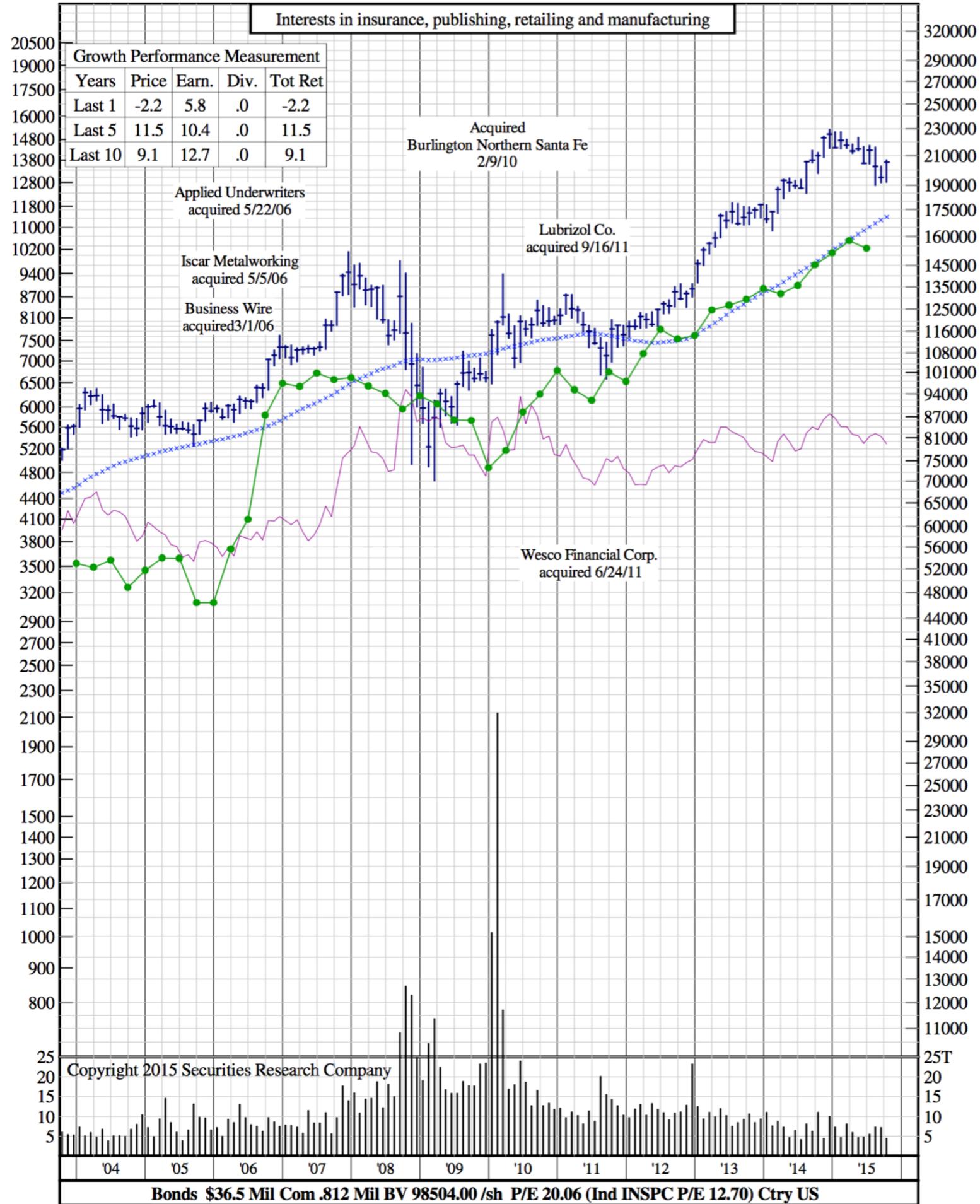
Don't vote with your
proxy, vote with your
feet

- Pick another company

AT&T: a dividend stock



BERKSHIRE HATHAWAY INC DEL (BRKA)

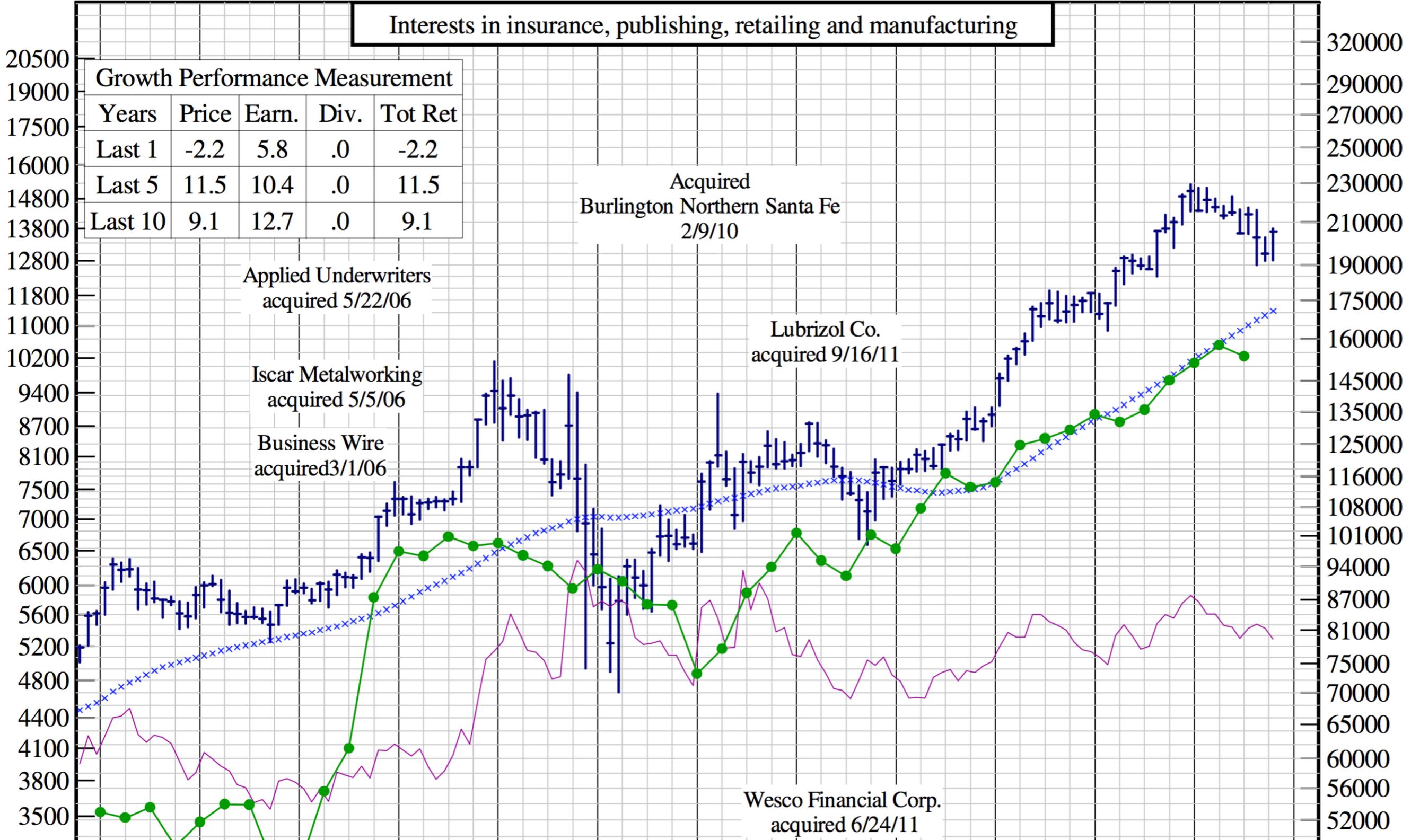


BERKSHIRE HATHAWAY INC DEL (BRKA)

Interests in insurance, publishing, retailing and manufacturing

Growth Performance Measurement

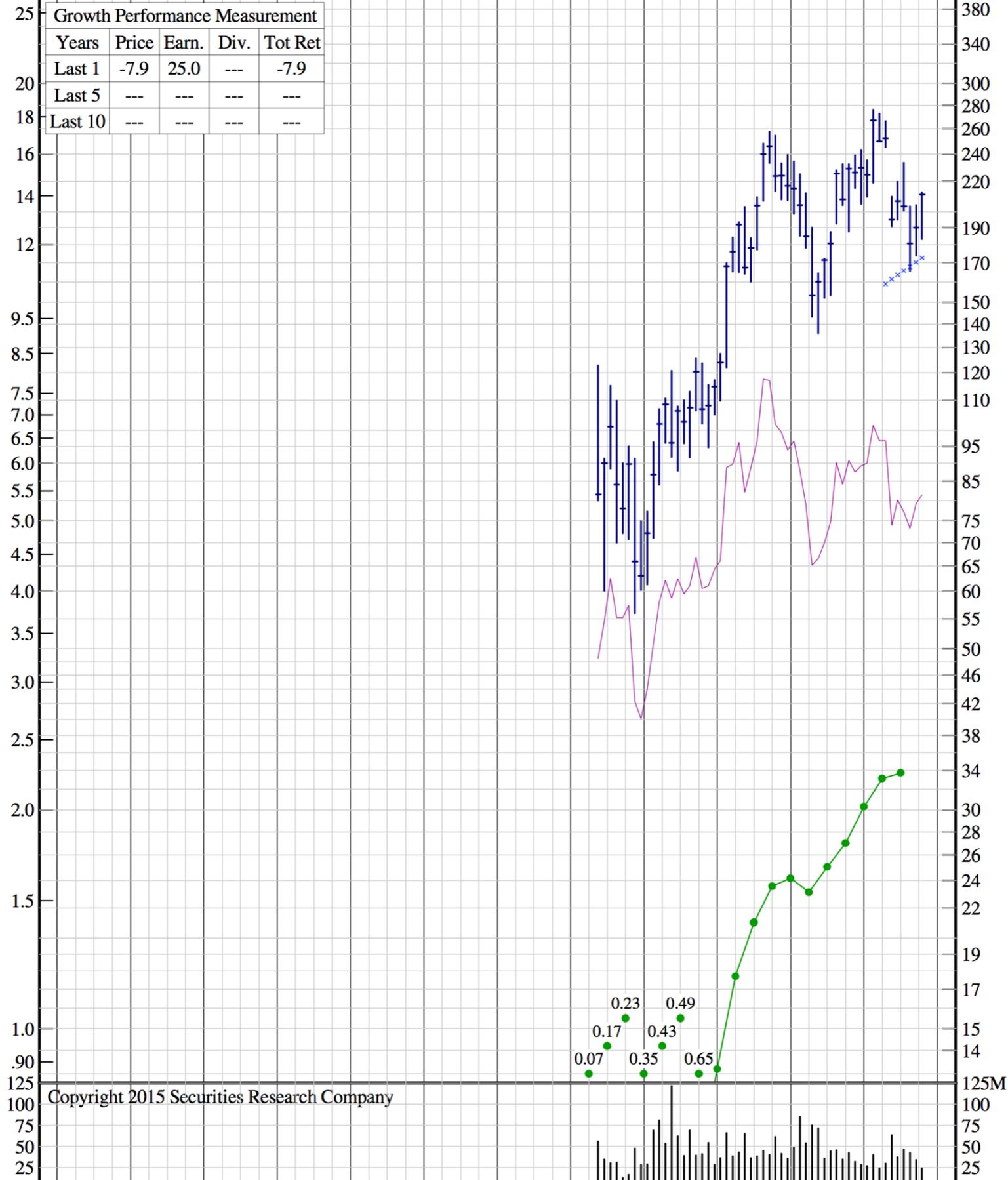
Years	Price	Earn.	Div.	Tot Ret
Last 1	-2.2	5.8	.0	-2.2
Last 5	11.5	10.4	.0	11.5
Last 10	9.1	12.7	.0	9.1



LINKEDIN CORP (LNKD)

Provides a short URL that links a person's personal pages

Growth Performance Measurement				
Years	Price	Earn.	Div.	Tot Ret
Last 1	-7.9	25.0	---	-7.9
Last 5	---	---	---	---
Last 10	---	---	---	---



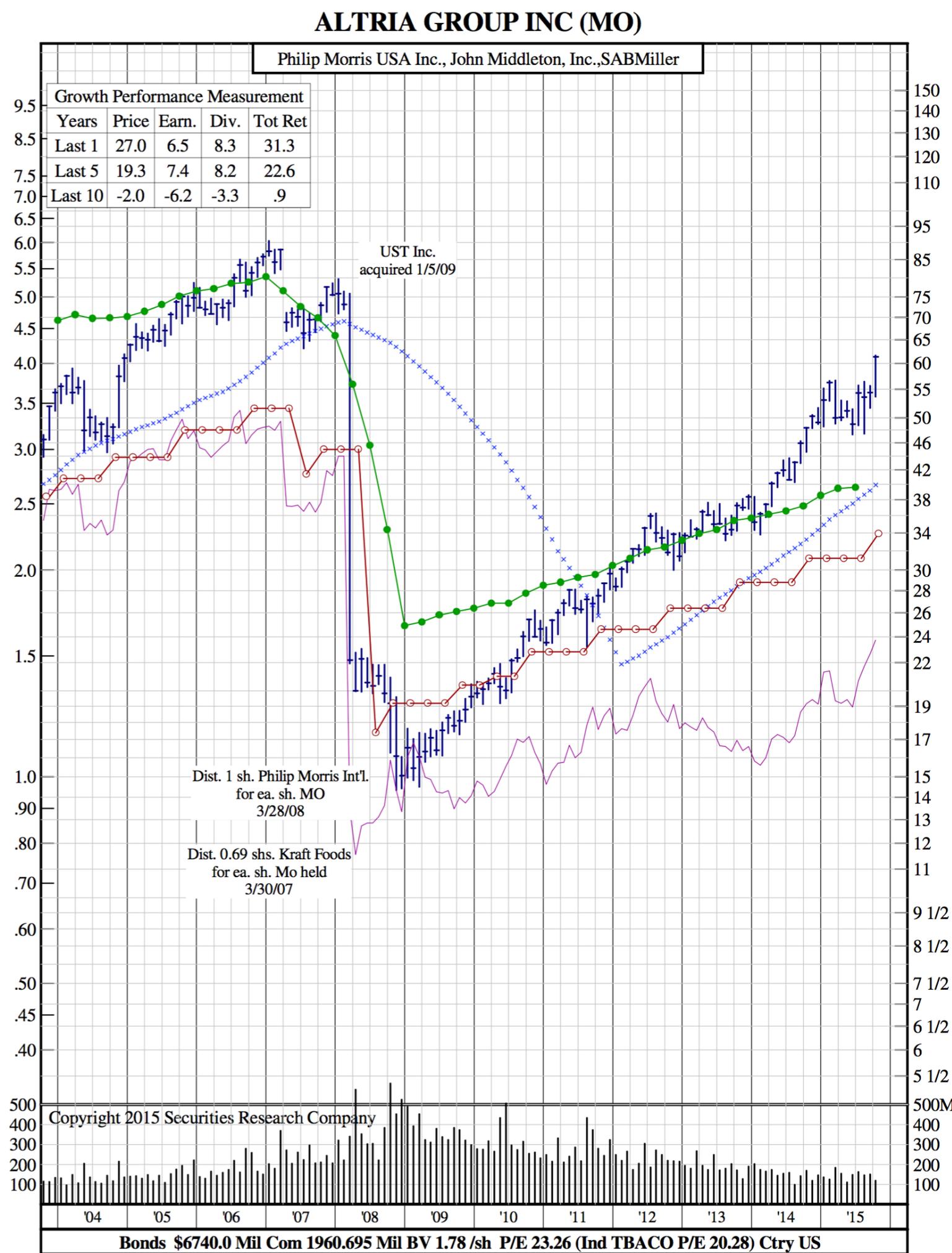
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'04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15

Bonds \$.0 Mil Com 114.708 Mil BV 27.71 /sh P/E 93.73 (Ind ITSO P/E 45.73) Ctry US

Altria, a.k.a Phillip Morris (MO)

“A leprosarium.”

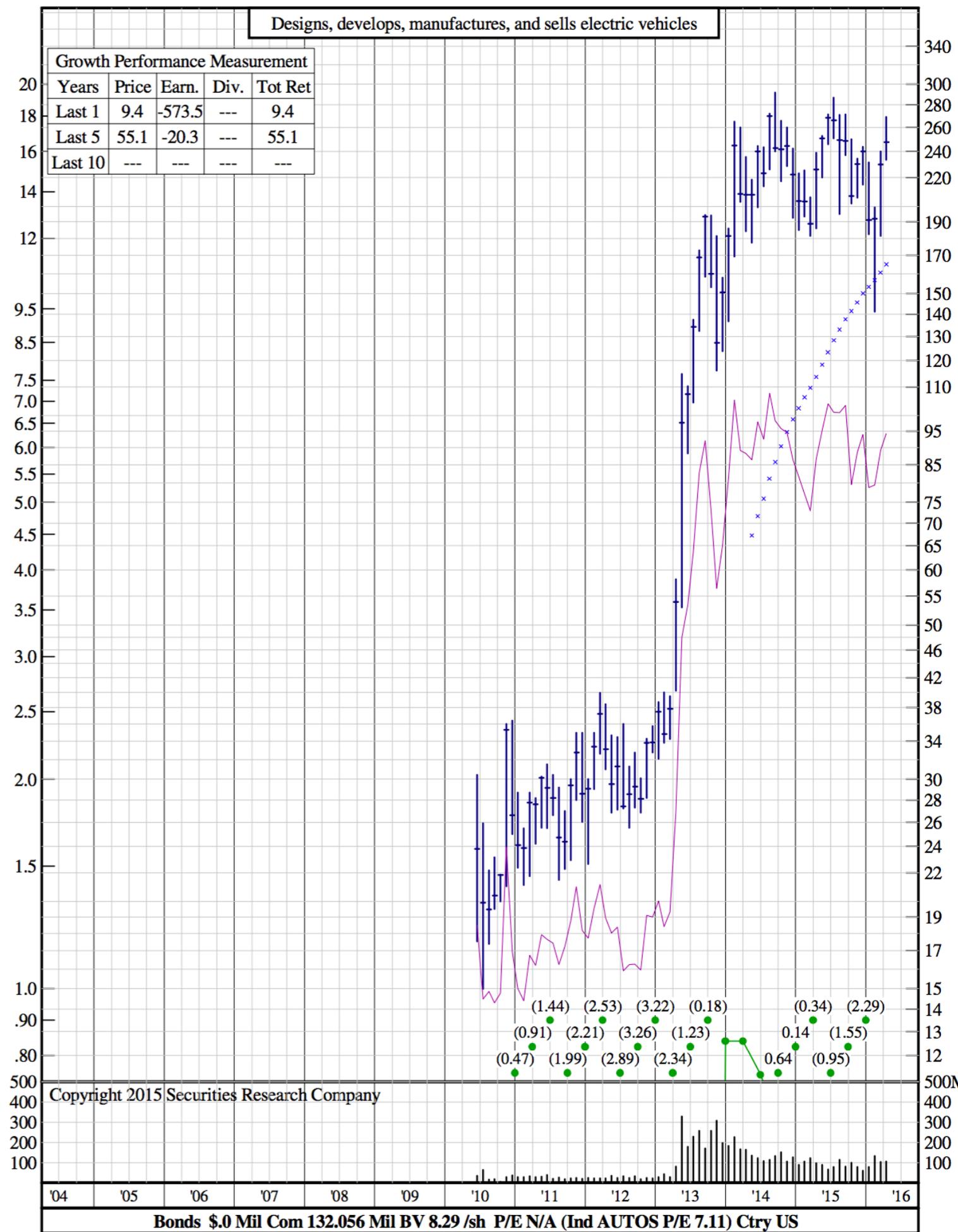


TESLA MOTORS INC (TSLA)

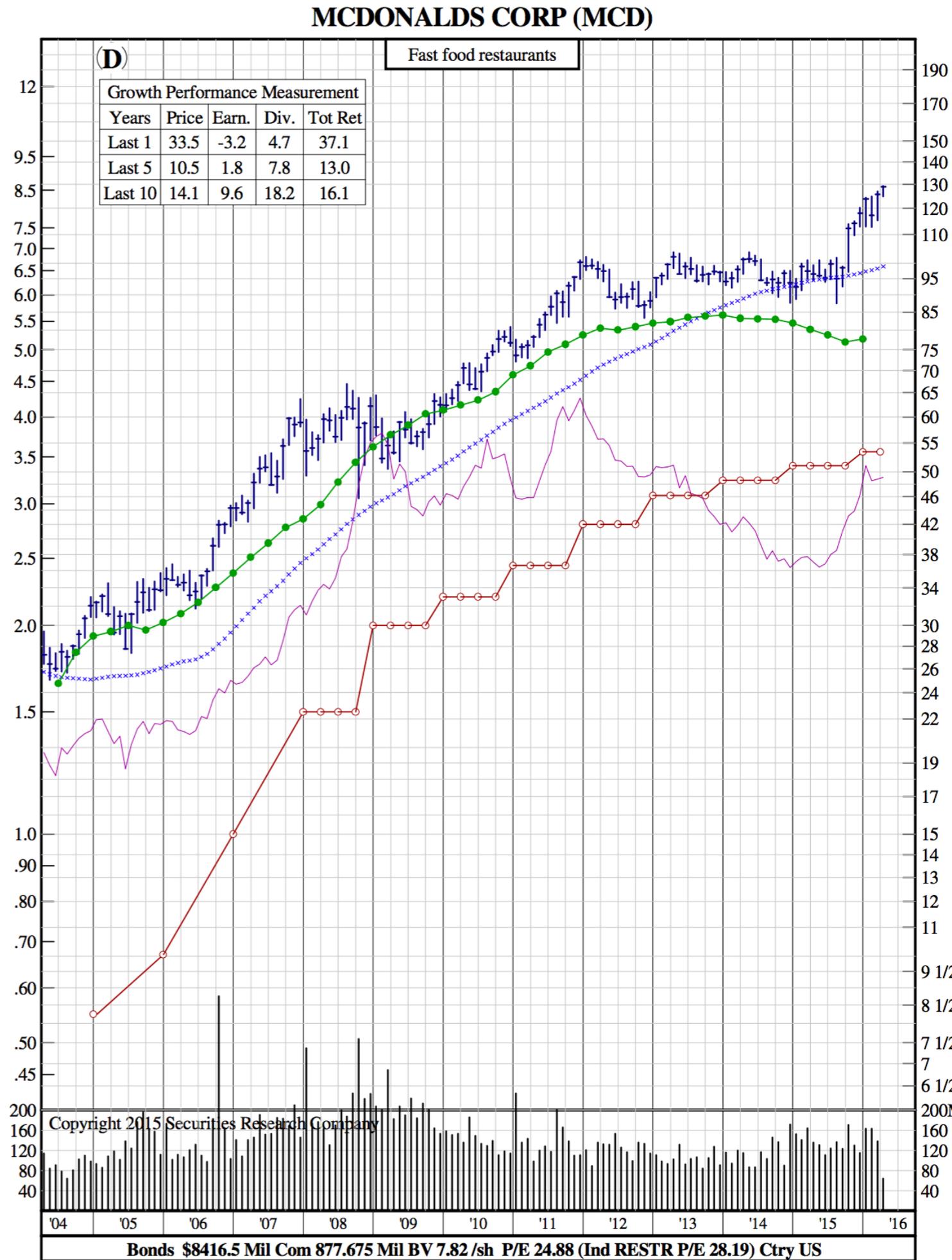
Designs, develops, manufactures, and sells electric vehicles

Growth Performance Measurement				
Years	Price	Earn.	Div.	Tot Ret
Last 1	9.4	-573.5	---	9.4
Last 5	55.1	-20.3	---	55.1
Last 10	---	---	---	---

TSLA
 Tesla: great car
 no earnings yet.
 (Ever?)

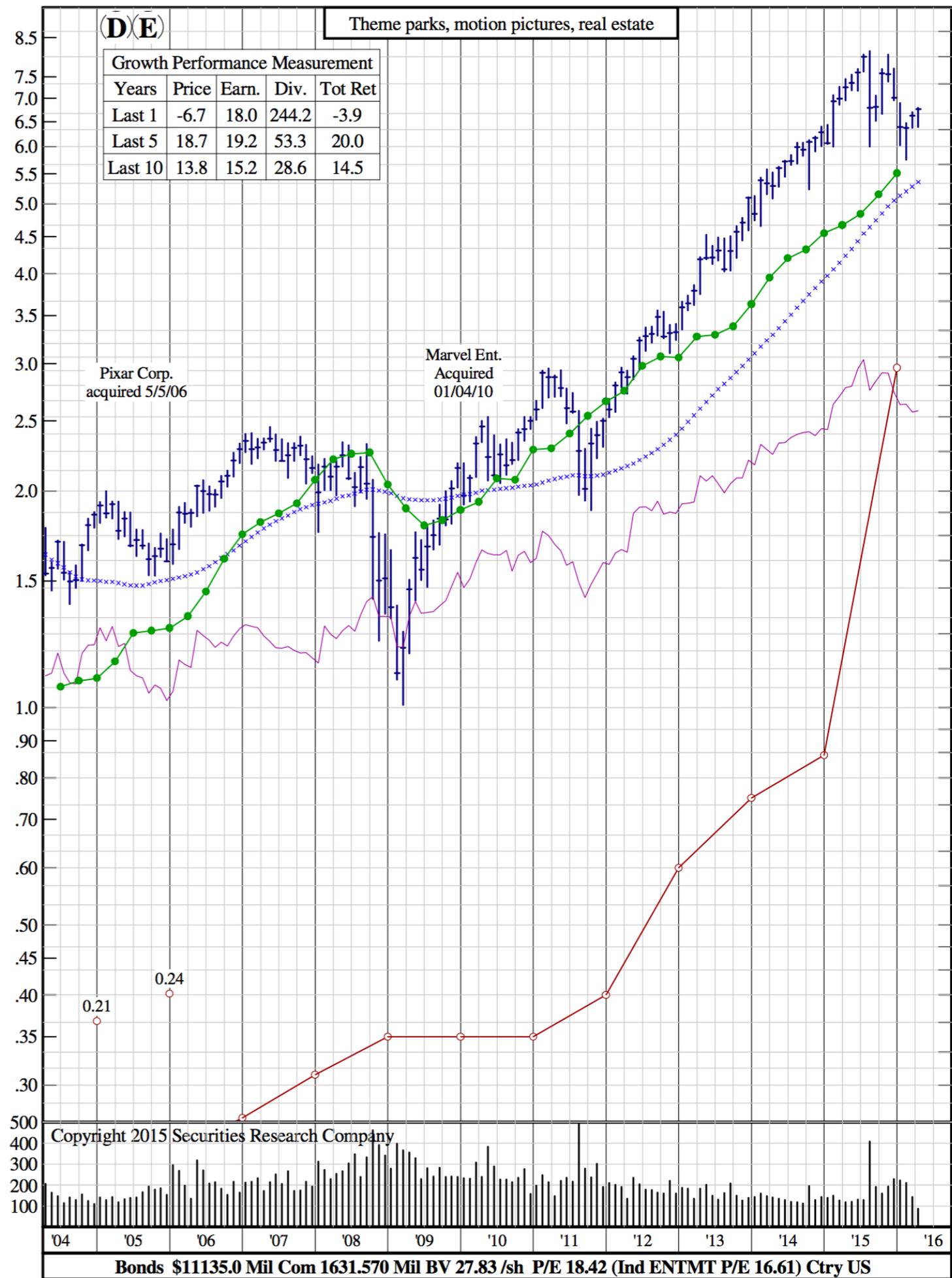


MacDonalds (MCD)



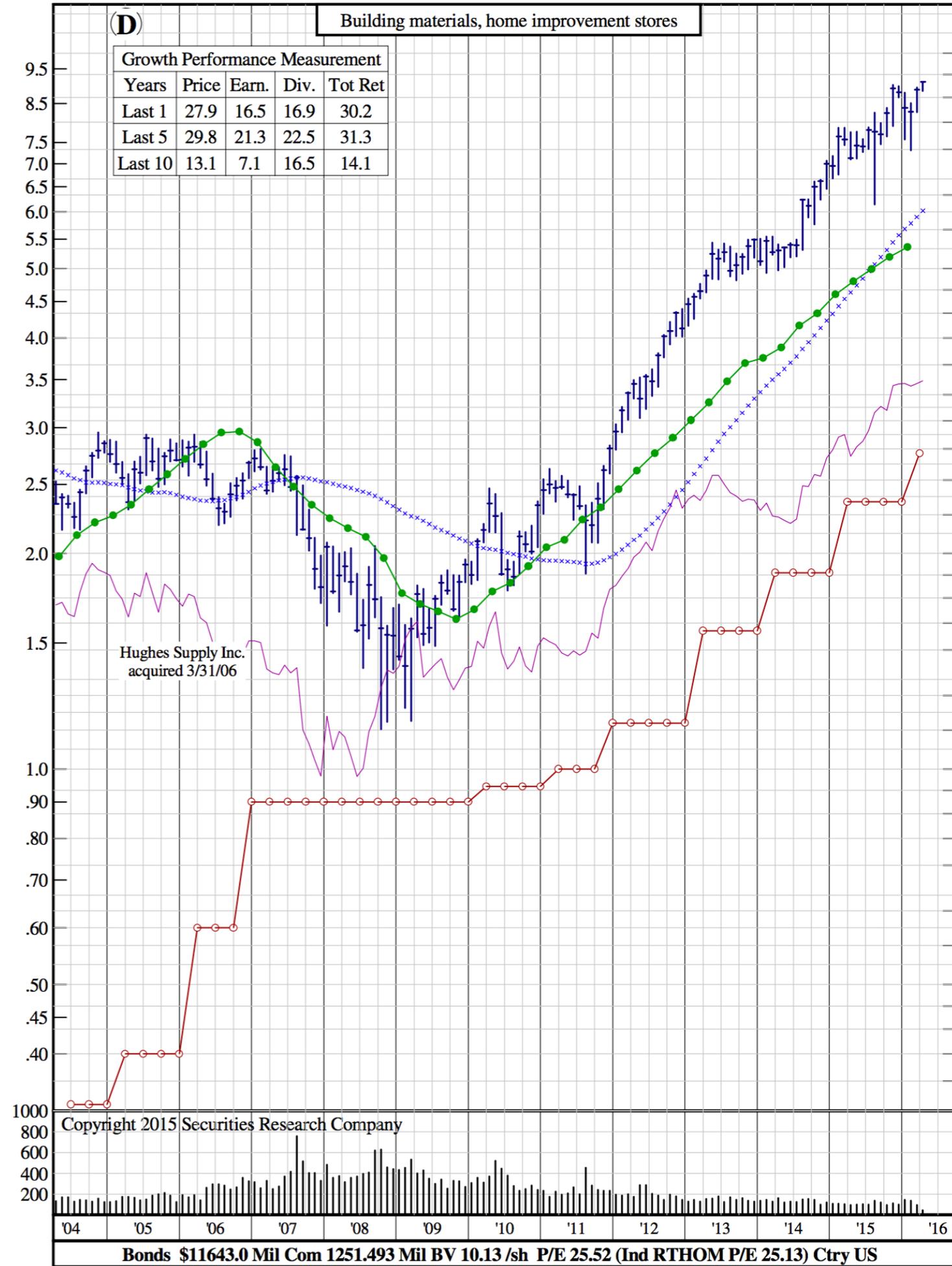
DIS

DISNEY WALT CO (DIS)



HD

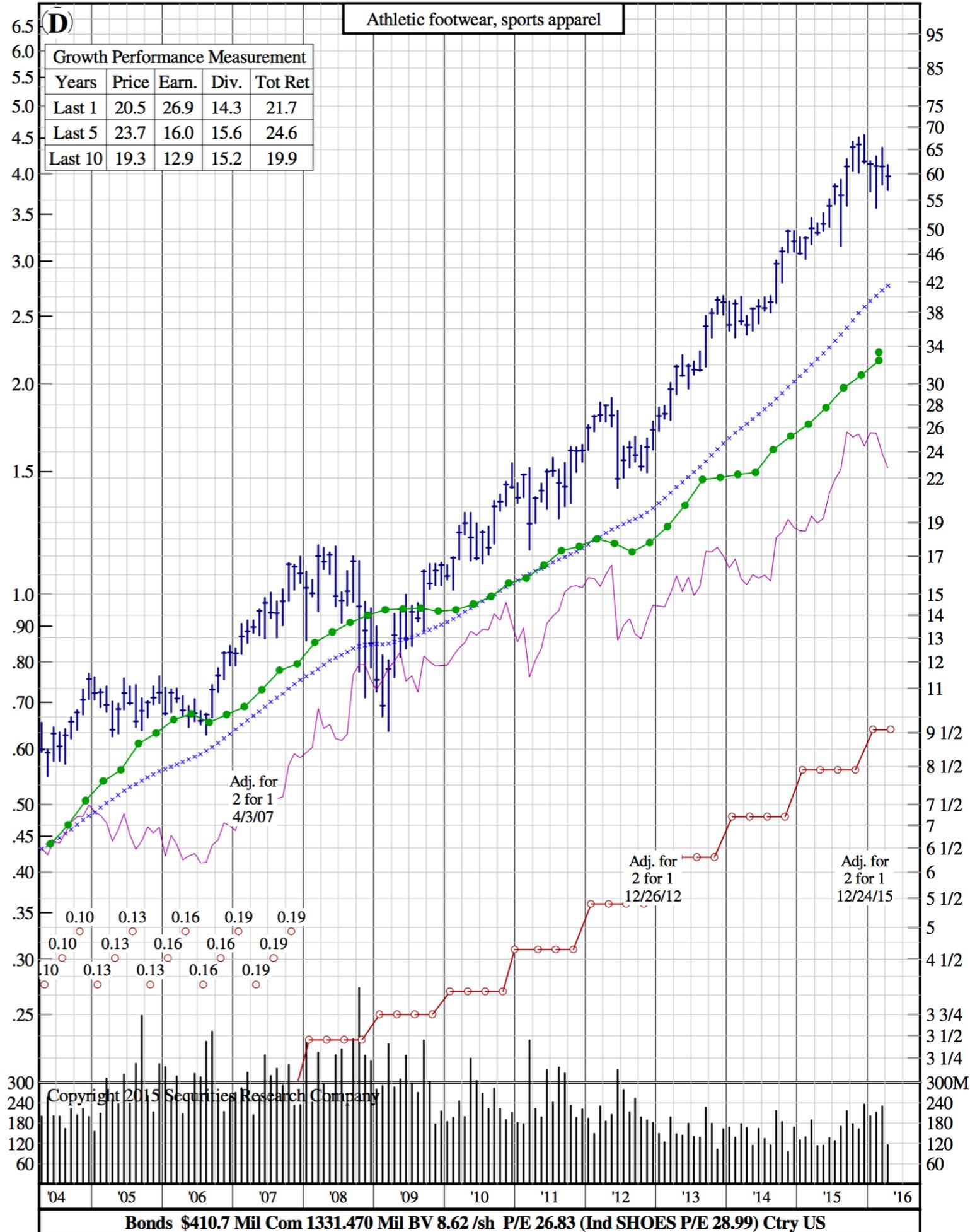
HOME DEPOT INC (HD)



NKE

NIKE INC (NKE)

Athletic footwear, sports apparel



O REILLY AUTOMOTIVE INC NEW (ORLY)

Retail stores selling auto parts, tools, and accessories

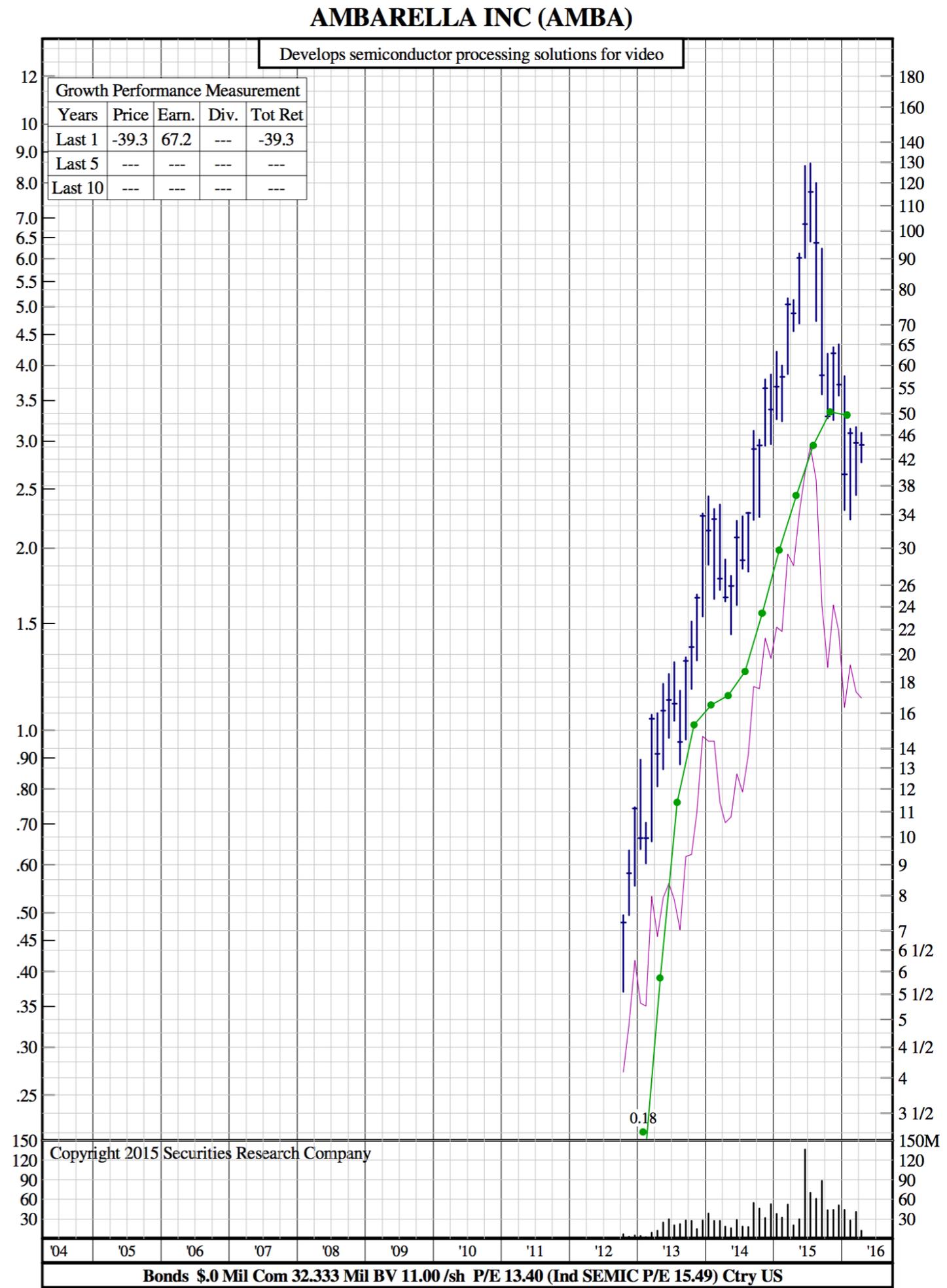
(P/E)

Growth Performance Measurement				
Years	Price	Earn.	Div.	Tot Ret
Last 1	25.3	17.8	---	25.3
Last 5	35.8	23.5	---	35.8
Last 10	23.2	20.2	---	23.2

ORLY



AMBA



AAPL

- Highest market cap in the world
- Very cheap (!)
- Life beyond Steve?

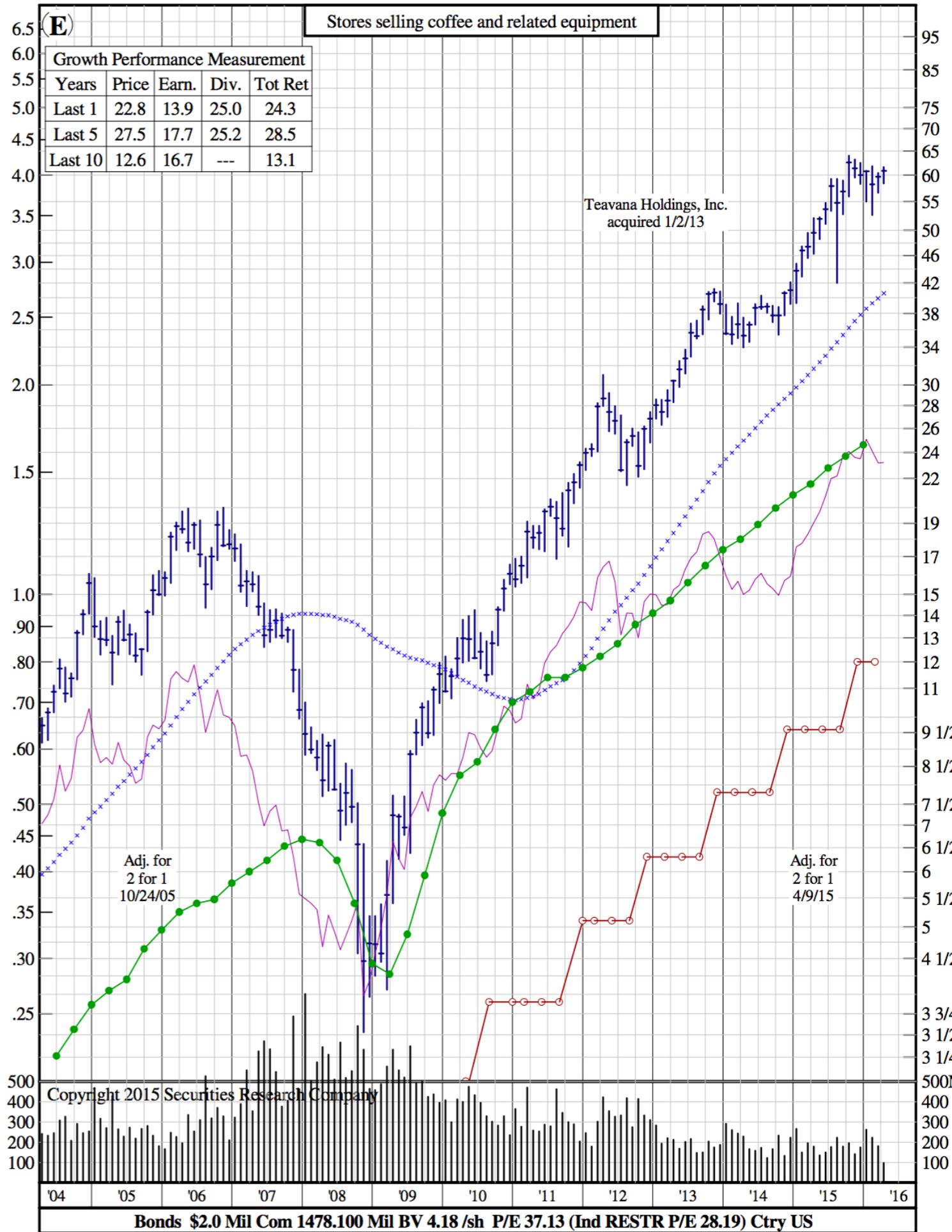


Autnentic Inc.
acquired 10/5/12



SBUX

STARBUCKS CORP (SBUX)



Do *Not* Diversify

- Most stocks are not worth owning.
- "Too much of a good thing is wonderful!" -- Mae West
- Portfolio theory says to diversify
- There are only so many you can keep track

When do you sell?

- Eventually, growth stocks stop growing
- Polaroid, Penn Central, Zenith, Cisco all stopped
- Smart phones?

Market timing

- You won't be good at it
- Don't kill yourself over woulda/coulda/shoulda
- I try to use Investor's Business Daily's (IBD) for some clue at buy points
- Income averaging is a better than average strategy: buy a constant amount each month.

When not invested in stocks

- T-bills
- General obligation state bonds



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Look Up

Thu, Apr 21, 2016, 10:02AM EDT - US Markets close in 5 hrs and 58 mins

Streaming

Report an Issue

Dow -0.20% Nasdaq -0.23%

Ameritrade Pump up your portfolio

Find Out More Scottrade

EXTRADE Seize Opportunity

TRADE FOR \$7.95 GILD Fidelity

More On GILD

QUOTES

Summary

Order Book

Options

Historical Prices

CHARTS

Interactive

NEWS & INFO

Headlines

Press Releases

Company Events

Message Boards

Market Pulse

COMPANY

Profile

Key Statistics

SEC Filings

Competitors

Industry

Components

ANALYST COVERAGE

Analyst Opinion

Analyst Estimates

OWNERSHIP

Major Holders

Insider Transactions

Gilead Sciences Inc. (GILD) - NasdaqGS Watchlist

Like 258

100.67 +0.56 (0.56%) 10:02AM EDT - Nasdaq Real Time Price

Prev Close:	100.11	Day's Range:	99.90 - 100.92
Open:	99.91	52wk Range:	81.89 - 123.37
Bid:	100.62 x 500	Volume:	959,695
Ask:	100.63 x 100	Avg Vol (3m):	12,371,400
1y Target Est:	114.10	Market Cap:	136.37B
Beta:	1.25203	P/E (ttm):	8.45
Next Earnings Date:	28-Apr-16	EPS (ttm):	11.91
		Div & Yield:	1.72 (1.73%)

Gilead Sciences, Inc.



Quotes delayed, except where indicated otherwise. Currency in USD.

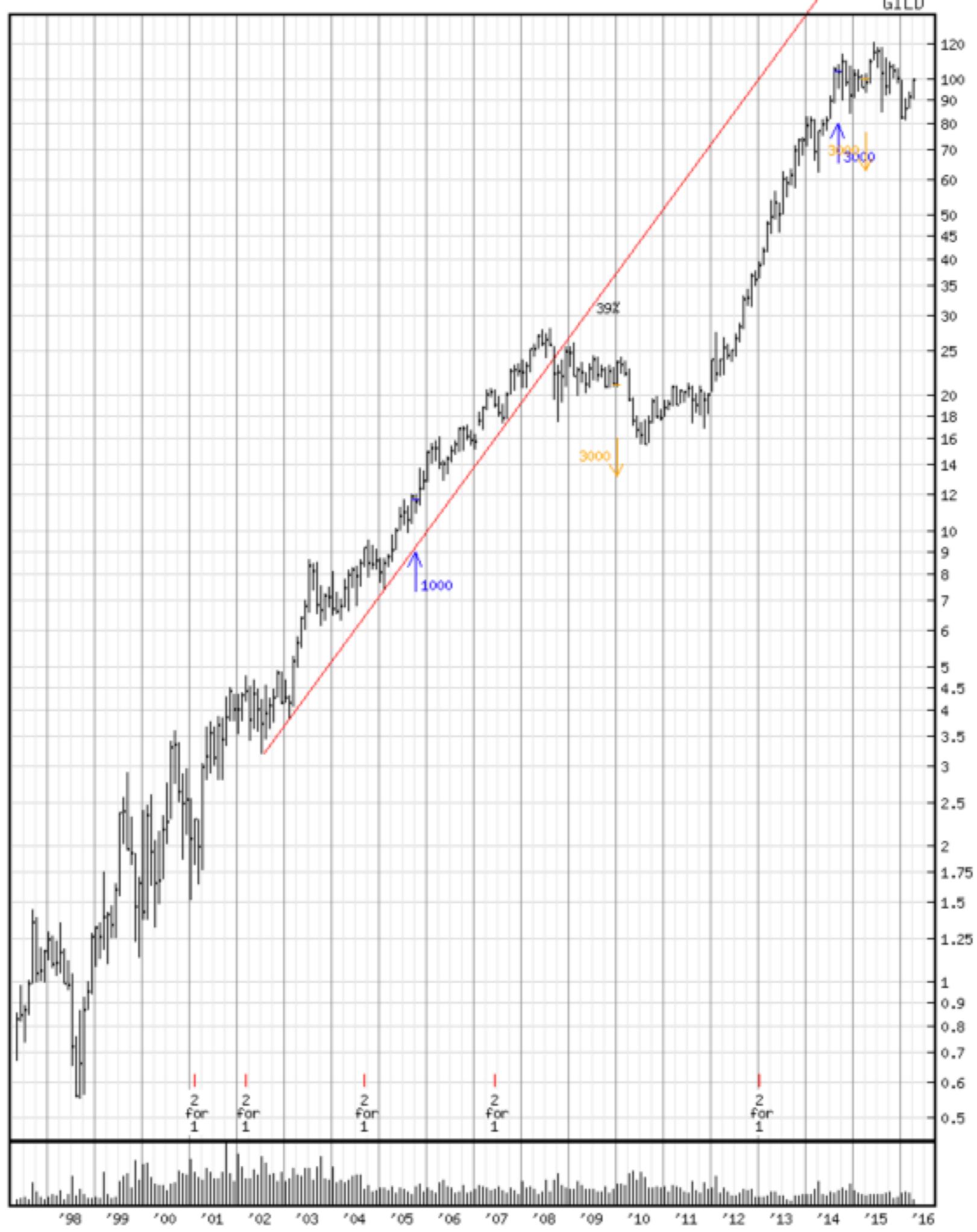
Headlines

- Is Gilead Headed Even Higher? at TheStreet (Thu 7:17AM EDT)
- Biotech Stock Roundup: Medivation Buyout Rumors Resurface, Synta Up on Merger Deal Zacks (Wed, Apr 20)
- Why It May Be Time to Get Bullish on Biotech Yahoo Finance Contributors (Wed, Apr 20)
- 5 Great Dividend Growers to Buy Before Earnings at Forbes (Wed, Apr 20)

AdChoices

Invest in yourself.

Become a Schwab client.





“They don’t ring a bell at the bottom”

“We don’t try to dodge the raindrops.”

Variations

- Margin
- Options
- ETFs
- Mutual funds
- Bonds
- Corporate investment options

Margin

- You borrow money from your broker to invest in more stock
- Your holdings are your collateral
- If you borrow too much, or the value of your holdings goes down, you could get a *margin call*
- Tends to be a very good deal in a bull market with low interest rates

“If you need to borrow money, you probably shouldn’t. If you don’t need to, you probably should.”

Options

- Calls and puts: can make big money on a move, you lose your investment if the move doesn't happen.
- Straddles: moves in either direction
- Sometimes used for portfolio insurance

Others

- ETFs: S&P, gold, many others
 - Very low management charges.
- Mutual funds: someone else picks the stocks, often in a particular category. Watch for high fees, and end-of-the-year tax selling.
- Bonds: T bills and general-obligation state bonds only.
- Corporate investment options: limited and very conservative, but corporate sweeteners should be used

If you don't want to be a stock-picker

- Buy and hold the SP500
 - You will beat most stock pickers
 - Fees are very low

Investors Who Get it Right

- Warren Buffet
- Peter Lynch (old Fidelity Magellan)
- Larry Kudlow
- Motley Fool
- Beware of AWNIDS

Most talking heads on TV are wrong

- AAWNIDS - Always Wrong, Never in Doubt
- Three years of explosive growth followed Greenspan's "irrational exuberance" remark.

Some companies on my watch list

- Alphabet (GOOGL)
- Ambarella (AMBA)
- Amazon (AMZN)
- Amphenol (APH)
- Autozone (AZO)
- Balchem (BCPC)
- Cerner (CERN)
- Canadian National Railways (CNI)
- Church and Dwight (CHD)
- Cognizant Tech (CTSH)
- Disney (DIS)
- Express Scripts (ESRX)
- Giliad Sciences (GILD)

More watchlist

- Humana (HUM)
- Merck (MRK)
- Netflix (NFLX)
- O'reilly Auto (ORLY)
- Priceline (PCLN)
- Proctor and Gamble (PG)
- Stericycle (SRCL)

Advice on withdrawing money

- Tradition rule (and my father's) is limit annual withdrawals to 4%
- 3% is current suggestion, and I think my Dad would agree
- It is okay to take money out for payment of taxes on stock holdings

Retirement use of accounts

- Didn't say much, other than the 4% rule
- Peter Lynch's quants suggest that you do better staying in stocks and invading principle than shifting to bonds, etc., as usually advised
- This is what I am doing.

Improving the SRC charts

- Online access is clumsy
- Show channels (this is a common feature)
- Show my trades
- Show analysts' predictions

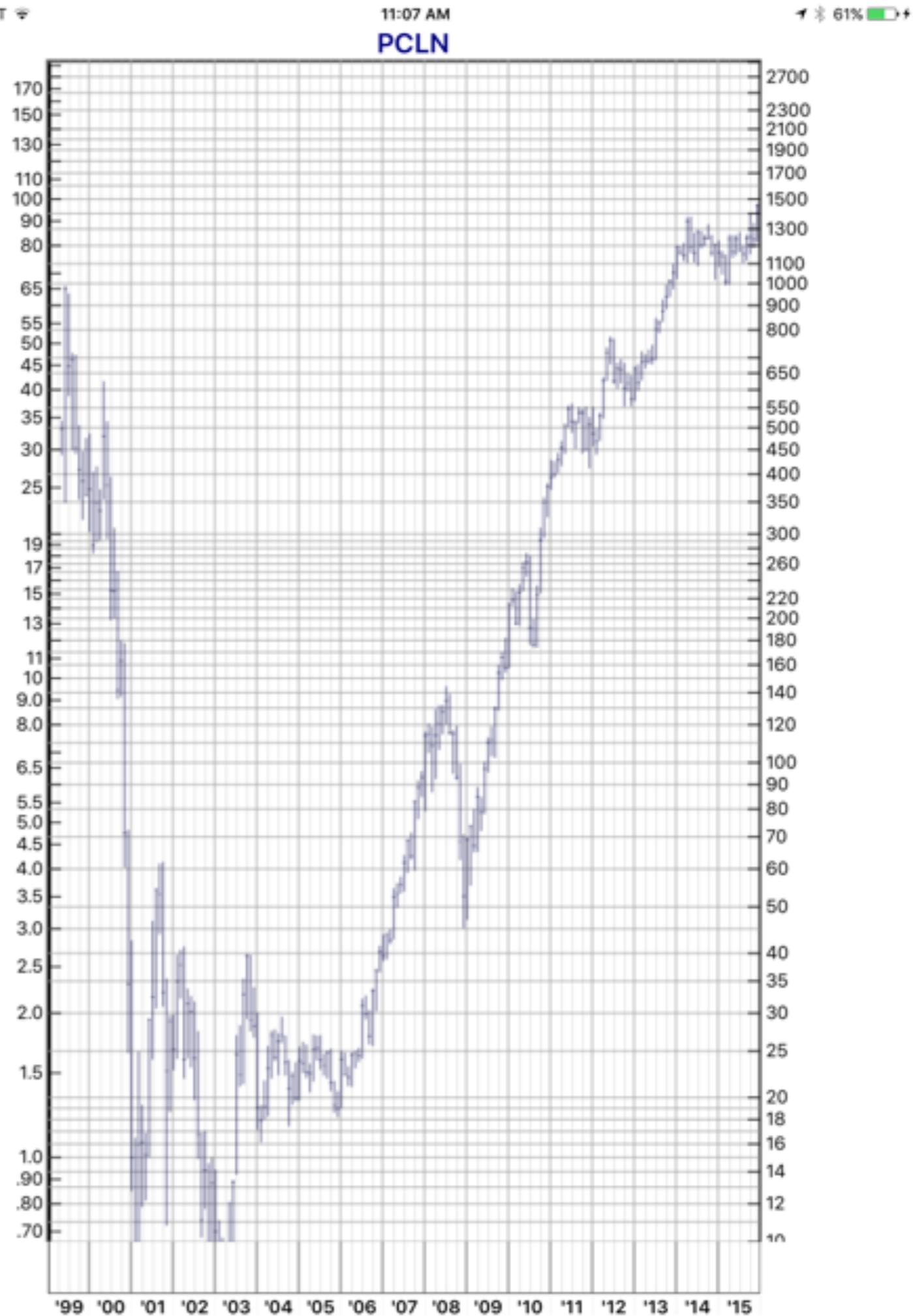
One of my “retirement” projects

- I welcome inquiries from would-be CEOs, partners, etc.

SRC charts redux

- *Nobody* has online stock charts that are good enough!
- An app that brings these great visualization ideas to the masses at a reasonable cost.
- I have done much of the work on a prototype
- Great business idea:
 - got a CEO, CFO, and lawyer handy?

Screen-shot of my prototype



Some condensed wisdom

- “We don’t try to dodge the raindrops.”
- Let the bad times roll
- “You can’t kiss all the girls.”
- (You will miss opportunities.)
- “Most stocks are not worth owning”
- Growth companies tend to make good employers

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