

OWNING REAL VALUE

By Donald Pearson

Today anything you buy should be purchased with value being the key component. Always prioritize this and you go far on the road to prosperity. Whenever anyone purchases at the super market the first thing checked is what is on sale this week. Car shopping, and everything else we purchase, is carefully researched too. I don't know of anyone purchasing a home or a business who doesn't check carefully, and even make offers for less than the asking price. Simply said, we are all trying to get what we want and need at the lowest price possible. Whether we're going to live in it, drive it, wear it, eat it, or invest in it. As I say so often, "value is king."

When making investments for one's personal portfolio, this strategy will take you a long way in meeting your immediate and long range goals. It doesn't matter if you are older pursuing income, younger pursuing growth, or somewhere in-between seeking a happy medium. Rather than purchase a handful of mutual funds, where the money is being made first by the fund charging about 6%, either build your own portfolio or have someone like us do it for you. Today this can be done with time, research, and dedication. Warren Buffet's strategy and success is exactly the same as what my father dedicated himself to 55 years ago. Invest the time, do the work, and seek out value. Here are a few examples which show exactly what I mean.

Teco Energy (TE). We own a lot of this and began purchasing at around \$9.00 when it was a real value. Today TE is selling just under \$18.00 and has no growth in their immediate future. Earnings are forecasted to drop 18% this year and rebounding back next year about the same. With a yield of 5% annually, it may remain within many portfolios, but it also becomes one ready to be traded when we find another "must

have" for people without additional funds for the purchase.

A few months ago we found two companies that we labeled must haves and added them to our core list, meaning we would buy for everyone until their share price appreciated high enough that they were no longer a value investment. Almost everyone would get one or the other, and in many cases both. These were Green Mountain Coffee and Questcor. One was forecasted to increase over 30% within a year and the other even more. In the last four months we have moved heavily into both. One has increased over 50% and the other even more. When these were purchased, the key ingredient was value. Our research group has other criteria that a selection must meet, but value is the most important. Without value, it is immediately dropped from our selection process.

Facebook (FB) is another good example of value searching. When this became public some time ago around \$38 we made a decision we would not be purchasing any for clients or for ourselves because value cannot be measured until one knows what a company is worth. Without this information you're betting on a hunch, anticipating performance, and in some ways gambling. We would wait for earnings to come out and then track for a few quarters as we are currently doing. Today FB is just getting back in the neighborhood of their public offering price. We still have not bought any, do not plan to in the immediate future, and will continue to watch closely.

Product superiority, company management, positive long range growth, and earnings projections are needed, but without value we are not purchasing.

Last month I wrote about Rite Aid Drug (RAD) believing this to be another that met the value component that makes it a superior addition

to many portfolios. It doesn't have a 3% yield as QCOR does, but it has all the other components referenced. This was featured last month at \$2.82 and has already climbed to \$3.10 in less than 6 weeks. Do not be surprised to see it added to your portfolio in the near future.

We feature eight stocks per month in our publication, and many of these selected are added to different portfolios to round out diversification, adjusting for risk tolerance, and in many cases replacing something that had been sold because of poor performance or disappointing quarterly earnings. Our ongoing commitment to your portfolio, and to ours, is to continue to monitor for those under performers. When identified as such, they can be removed and replaced. Our long range success has been predicated on this strategy. It has worked in the past, as it does today, and will continue to in the future.

With this article I am trying to let our newer clients know how we do our work and how we find our selections. I'm hoping our older clients will pass this letter on to a friend, neighbor, or relative who deals with a broker, or manages his own account and owns several mutual funds. There is a more cost sensitive way for you, and in many cases generating better returns. To learn more about this requires only a phone call without any obligation. I'd be happy to talk about this with anyone. I'll also give you suggestions to improve your current portfolio whether we end up managing it or not.

For all clients, new and old, I suggest, as my father so often does, that you add money to your account every opportunity you can. Many times a new superior find isn't added to an account because funds are not available for purchase. In this example cash is the king, soon to be converted to value.

DP