

DOUBLE YOUR MONEY **in America's Finest Companies®**

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CHAPTER 1

Invest Only in America's Finest Companies®

The fact that it's [value investing] so simple makes people reluctant to teach it. If you've gone and gotten a Ph.D. and spent years learning how to do all kinds of tough things mathematically, to have to come back to this is—it's like studying for the priesthood and finding out that the Ten Commandments were all you needed.

—WARREN BUFFETT

POINTS TO REMEMBER

- Stocks provide the finest long-term real returns.
- Doing it yourself is fast and easy.
- America's Finest Companies® (AFC) stocks have higher returns and a greater margin of safety.

Making your money work for you ought to be fun and easy, safe and sure. You don't have to be a professional or spend every waking moment to build funds for your future. You don't have to take a lot of time from your own career and personal life. And you don't have to hand your money over to one of the more than 8,000 mutual funds.

As a money manager, I don't like mutual funds. Never have. Never will. In general, I think they underperform and overcharge. Worse, most of the people who manage mutual funds don't have even

a penny of their money in their own funds. That number is 47 percent for U.S. stock funds and 61 percent for foreign stock funds. The numbers are even worse for bond funds: 66 percent for taxable, 71 percent for balanced and 80 percent for municipals. This is according to a 2008 study from Morningstar. MarketWatch commentator Chuck Jaffe observed, “Ouch. That’s a lot of managers who are going out to eat, rather than eating their own cooking.”

On the other hand, we invest the Staton family money in line with the way we invest for all of our managed accounts. We do eat our own cooking, and we believe that, given enough time, it produces tasty returns.

Investing isn’t voodoo or hocus-pocus. The word “invest” comes from the Latin *investire*, to clothe. Merriam-Webster says to invest is “to commit (money) in order to earn a financial return . . . to make use of for future benefits.” To invest means to put money to work today so that it will earn more money for the future. You invest your money into something to reap a profit.

Investing (as opposed to speculating and taking unnecessary risks) is a process—a series of actions leading to an end. By definition, then, investing is something you should start now, or should have already started, and plan to continue indefinitely. Stocks are the best—and the easiest—asset to invest in. They also can be highly profitable.

For the past 14 years, Thornburg Investment Management® has published “A Study of Real Real Returns.” The Thornburg report covers several classes of U.S. and international stocks, taxable and tax-free bonds, commodities, and residential real estate. Garrett Thornburg, CEO, commented in the latest report, “It is no surprise that over the last 20 years common stocks and municipal bonds [surprise!] were able to provide the best ‘real real returns’” after taking inflation, taxes, and fees (operating expenses) into account.

For all long-term investors, there is only one objective—maximum total return after taxes.

—SIR JOHN MARKS TEMPLETON

During my 38 years as a financial advisor and money manager, I’ve learned that most individuals can get the most from their money just by following a few simple guidelines. My investment program is built around America’s Finest Companies, and shows you how to

Dear Bill,

I've been using your America's Finest Companies editions to build the core of my portfolio. The benefits of using your books have been substantial:

- By adhering to the selection criteria, one is forced into a discipline of maintaining a long-term view, helping the investor avoid fads.
- By retaining a stock over years, you learn how the company responds to crises and downturns. You invest in the company, rather than treating your investments like a casino gamble.
- It reduces the desire to market-time, one of the big mistakes I and other investors make. I don't look at my stocks daily, or sometimes even weekly.

I still have some stocks that I have picked out myself, but with few exceptions the AFC selections have performed better over the long term. I invested in a few "hares" over the AFC "turtles", and these were generally shown to be mistakes in the long run. I invested, unfortunately, in Enron, a company you never would have recommended. The AFC turtles have solidly plodded on, through various economic environments, while the fads have fallen by the wayside.

In sum, the AFC system has aided me in building a solid portfolio, and helped me avoid costly mistakes. I appreciate each edition I receive.

Best regards,

C.C.

New York, 2006

be your own money manager. There is no Wall Street jargon, no complicated rules, no complex formulas, nothing to buy except my annual America's Finest Companies directory published each July.

I'll explain in plain English how the stock market works—why certain principles apply and a lot of others don't. I'll show you that stocks have provided a higher return than any other asset class for more than a hundred years, except for perhaps timberland. Timberland, like stocks, is a natural hedge against inflation.

COMPOUND ANNUAL RETURNS

Professors Jack W. Wilson, PhD, and Charles P. Jones, PhD, at North Carolina State University examined the returns of \$1.00 invested on the last day of 1919 through the end of 2006 (see Table 1.1). With inflation taken out (the cost of living rose nearly ninefold during that

TABLE 1.1 Returns as of 2006 on \$1.00 Invested in 1919

	Small Stocks	Large Stocks	Corp. Bonds	Long-Term Government Bonds	Treasury Bills
\$1 becomes	\$550.08	\$1,751.88	\$18.30	\$9.80	\$3.28
Adjusted annual rate of return	7.52%	9.55%	3.40%	2.66%	1.38%

Source: Jack W. Wilson and Charles P. Jones, North Carolina State University, 2006.

period) and assuming no taxes or transaction costs, that \$1.00 grew to the amounts shown on the first line of the table. Compound annual, inflation-adjusted rates of returns are shown on the bottom line.

The table clearly shows that stocks in general have kept investors well ahead of inflation for close to 90 years. That's been true not only in this country but also in various other countries as well. According to John Authers in *The Financial Times* (June 21, 2008): "In spite of long periods in the doldrums, stocks are a better long-term inflation hedge than anything else. From 1900 to 2007, their real return was more than double that on bonds in every country [academics at the London Business School] surveyed."

I will demonstrate that the stocks of America's Finest Companies ought to do even better. You'll learn what it takes for a firm to be among America's Finest Companies and why these companies have far outdistanced the stock market. You'll also learn the simple process of investing for maximum profits with the lowest risk.

My America's Finest Companies® investment directory is compiled once each year by The Staton Institute® Inc. (www.statoninstitute.com) and is eagerly awaited by investors all over the world and members of the financial media. That's because these companies are the elite of corporate America—the top 2 percent of all public companies—with at least 10 straight years of higher earnings and/or dividends per share.

Most of America's Finest Companies (AFCs) are on the list because of their exemplary dividend records. Dividends are the cash rewards for owning stocks. Dividend-paying enterprises prove their investment mettle year after year after year.

Dividends allow any investor . . . to earn investment returns right from the source: corporate profits shared directly with stockholders. Too much time, energy, and even profits are wasted by the singular pursuit of capital gains [price appreciation]. Dividends offer a different, easier, and vastly superior way to collect returns from a portfolio of stocks.

—MORNINGSTAR.COM, DECEMBER 5, 2007

According to Ned Davis Research, for almost 35 years from January 31, 1972 through September 30, 2007, an initial \$100,000 investment into nondividend-paying (some would label them growth) stocks would have grown to only \$240,000. That's a compound annual return of 2.56 percent, less than you would have safely earned in a bank.

A well diversified portfolio (group) of dividend-paying stocks would have grown to slightly more than \$3.2 million. That's a compound annual return of 10.55 percent, an annual return that would have kept you ahead of both inflation and taxes.

Even better, with a focus on companies featuring rising dividends (even if not every year), the original \$100,000 would have grown to \$4.1 million, an annual return of 11.29 percent (see Table 1.2. Companies in the AFC universe would have been among this group.).

The Standard & Poor's stock market index of 500 companies traces its roots back to the beginning of 1926 and represents roughly 75 percent of the total value of all publicly traded U.S. companies. For the period from January 1, 1988 through the end of 2007, the nondividend payers in the index rose 494 percent, or 9.32 percent per year. However, the dividend payers, with dividends reinvested, climbed at 11.81 percent per annum.

You wouldn't go to the racetrack and bet on the nags, would you? That would be a sure way to lose money. Doesn't it make sense, then, that your hard-earned dollars—the dollars you're accumulating

TABLE 1.2 Compound Annual Returns (January 31, 1972–September 30, 2007)

No Dividends	Dividends	Rising Dividends
2.56%	10.55%	11.29%

Source: Ned Davis Research, 2007.

for your children's college education, a larger home, a second home, another car, retirement, or whatever—should be invested in shares of the finest companies, companies that are proven winners?

MAKING MONEY WITH THE CREAM OF THE CROP

Building and managing your own mini fund picked from America's Finest Companies, takes very little time—one or two hours a year—and should allow you to outperform at least 75 percent of the pros 100 percent of the time. This is the best way I know to reach your financial goals. It's even better than investing in mutual funds because America's Finest Companies historically have delivered consistently superior returns.

Since the end of World War II, U.S. stocks have grown at more than 10+ percent compounded annually. (From 1930 to 2007, the average compound annual return was 9.8 percent, according to Wachovia Securities. From December 31, 1957 through December 31, 2007, the S&P 500 compounded at 10.97 percent per year, according to Standard & Poor's.)

Just by earning the stock market's return each year, you should regularly outperform 75 to 85 percent or more of all professional money managers who try to do that and fail. But you might be able to earn more than that—12 to 15 percent annually—with a diverse portfolio chosen from America's Finest Companies. Maybe that doesn't sound much better than 10 percent, but, assuming you invest as little as \$2,000 per year for 30 years, the 20 to 50 percent improvement will be worth an additional \$154,000 to \$540,000.

I don't want to be a wet blanket, but outperforming a particular market index is not a financial goal and never should be. As one financial planner puts it, "An income you don't outlive in a three-decade retirement full of dignity and independence, now that's a financial goal." I heartily agree.

This book is an easy-to-read-and-understand guide to making money with the cream of American companies. Anyone can dramatically improve his or her financial health with my time-proven, powerful method, which is deceptively simple to implement. There are no gimmicks or tricks. A young person can begin to invest with as little as \$300 and easily become a millionaire (even a multimillionaire) well before retirement.

BUYING HIGHEST-QUALITY SHARES

Florence Gray

Let me share with you the wonderful story of Florence Gray, the proverbial little old lady who amassed an estate worth \$2.5 million. And she never earned more than \$9,000 in any single year.

Florence Gray was a market researcher who passed away at age 89. She accumulated almost her entire fortune by using simple, sane principles of long-term investing, the same ones I emphasize over and over again in these pages. In 1924, Ms. Gray made \$19.27 a week in her first job.

Remembered as a stickler for details, she was a numbers cruncher before computers were born. She had a talent for tracking down information on market and population trends. Her boss talked her into putting money into stocks, and she took the plunge with gusto by speculating (i.e., taking a huge risk) with borrowed money (or buying on margin) just before the Great Depression struck. Learning the hard way a great lesson in how to lose a lot of money, she switched to buying only the highest-quality companies and never again strayed from the course.

Florence Gray didn't go to college, and, unlike most Americans today, she knew exactly where her money went. She didn't spend it unless she had to, but she was fond of traveling to Europe and did so on several occasions. She favored companies with rising dividends, and after retiring she invested all the money from her Social Security and pension checks and lived off her dividends. The bulk of her portfolio at death, not surprisingly, was in America's Finest Companies, including ExxonMobil.

Her attorney, Ed Hack, summed up her winning philosophy very simply: "Over the course of time, she managed to invest in equities for the long haul and stuck with them and rode the winners. She was not supporting an extravagant lifestyle, and it just began to compound." Florence Gray, I wish we'd known you.

One cardinal principle holds true: By buying the shares only of the highest-quality companies, you'll become a successful investor. You'll be part owner of companies that are in sound financial condition, that won't go out of business, and whose earnings and dividends will continue to grow.

A company must earn money to remain in business. Otherwise it eventually goes bankrupt. Part of those earnings can be paid to

investors in the form of cash dividends. The rest is plowed back for research and development to bring new products or services to market, to buy new, more productive equipment, to hire more employees. All earnings put back into the company enhance its value. As the value of the business rises, so does the price of the company's stock. It has to.

Wal-Mart Stores

An excellent example of a company that's done a superior job of enhancing the value of its business—and its share price—is Wal-Mart Stores, one of the brightest lights in America's Finest Companies. Wal-Mart is one of just two American companies with more than 40 consecutive years of increased earnings per share. Through the end of 2007 (January 2008 fiscal year), Wal-Mart had 46 straight years of rising earnings and 33 of higher cash dividends paid out to its stock owners. Since 1985, revenue skyrocketed from about \$8.5 billion to more than \$375 billion. The share price exploded more than twentyfold from \$3 to \$63.90 during that period.

Wal-Mart and its founder, the late Sam Walton, are practically household words, as are a lot of America's Finest Companies, such as Coca-Cola, Clorox, ExxonMobil, Hershey, Johnson & Johnson, PepsiCo. and Pfizer. But there are just as many that are totally unfamiliar to most people, investors or not. For example, there's the Washington Real Estate Investment Trust (Washington REIT). Ever heard of it? Probably not.

Washington REIT

Washington REIT—you guessed it—invests in real estate. It prides itself on being maverick, unorthodox, and conservative. The company mails some of the most interesting annual and quarterly reports to shareholders (which tell how the company is doing). One quarterly noted that the company moved out of its old headquarters (after selling it for a tenfold profit) into the basement of its new WRIT Building. I'd never seen a company press release about abandoning offices with windows for offices without them. But Washington REIT isn't your typical enterprise. When the company burned its last outstanding mortgage in the company stove, toasting a few marshmallows in the process, to be on the safe side they asked the building fire marshal to stand by with a fire extinguisher.

In an unusual move, they also mailed a press release about this extraordinary event.

Your Own Investment Program

If you want to begin your own investment program, you can quickly name 10 or 12 financially sound American companies whose earnings or dividends will continue to grow well into the future. General Electric is an example whose roots stretch back to Thomas Edison in the late 1800s.

How do I know that these companies are ongoing successes? Everywhere I have led a workshop on investing (including more than 20 years teaching high school students through Junior Achievement), I've asked the audience to choose a portfolio of five to eight companies. In every instance to date, they've picked highest-quality companies in a variety of industries. The majority of the companies they always pick are among America's Finest Companies. These are companies with at least 10 years in a row of increasing earnings or dividends per share, establishing them as the top 2 percent of all public companies.

Of course, you may be thinking: "Why should I be in stocks at all? They're too risky. Look how far they fell during the Crash of 1987—23 percent in one day. That was worse than any single day during the Great Depression. Or how about the Great Bear Market of 2000–2002, the worst stock market decline since the 1930s. [Bear markets fall, bull markets rise.] I wouldn't own any stocks. I couldn't sleep at night if I did."

If you're thinking like that, you're not alone. The most frequent comments I hear about stocks and the stock market are negative. (I use the terms "market," "stock market," and "market indexes" interchangeably. They mean the same thing in the investment world.) Here are a few I've heard in my seminars:

"High risk/high reward." (The emphasis is always on high risk.)

"Frothy." (Picture a rabid dog foaming at the mouth.)

"A bottomless pit."

"Extremely volatile."

"A loser's game."

"Only an expert should try it."

“Like walking down a dark alley in a crime-infested neighborhood.”

“I’d rather visit the dentist.”

I do hear positives, too, but they’re normally about as few as friends in a cobra pit. It’s been like this for the close to four decades I’ve been in the investment field.

Let’s suppose you’d been in my office 30 years ago asking me what you should do with your money in the eighties and nineties and on into the current millennium. I would have said,

You should invest all the money you can into stocks, but first there are a few things you ought to know.

An actor will become president of the United States and will preside over the biggest budget deficits in the nation’s history. The deepest recession since the 1930s will occur in 1981–1982. Nearly 20 percent of the workforce will be unemployed at some point during that period. There’ll be another recession in 1990–1991, in which that high percentage will again be without jobs.

The biggest crash in stock market history will occur in fall 1987, followed by a “crashette” of huge proportions two years later. And oh, by the way, there’ll be war in the Middle East with the United States leading the charge. A new plague—AIDS—will crop up around the world, plus there’ll be record droughts and floods and some record-shattering hurricanes, too. There will also be a collapse of the dollar, scattered depressions in various states, a record number of personal, banking, and S&L bankruptcies, alongside numerous criminal convictions on Wall Street.

Crime will appear virtually out of control in many major cities, and a riot in Los Angeles will turn out to be the most expensive in history. Some of the largest corporations in America will lay off employees ten thousand at a time. Various executives from companies like Enron and WorldCom Inc. will serve lengthy prison terms. Oil will soar to more than \$140/barrel, and gold will climb past \$1,000 per ounce, both new all-time highs, and both in 2008.

Then in the early part of 2008, there will be a global financial panic with stocks in general performing worse in January than in any other January going back for decades and that stocks

will be down for five consecutive months (November–March) for first time since 1942. Citigroup, America's largest bank, will slash its dividend 41 percent and get a hefty cash infusion from a number of overseas investors. Because of the dividend cut, it will be eliminated from America's Finest Companies. Then later in 2008 the crisis will knock AFC behemoths Lehman Brothers and American International Group off the list. Lehman will be the first AFC company forced into bankruptcy and AIG barely survives by government bailout and takeover.

Now, do you still want to buy some stocks, America's Finest or otherwise?

Most likely, your answer would have been a resounding “No.” Yet that would have been a bad answer. Stocks on the whole generally outperform all other investments when given enough time, preferably at least 10 years.

The May 19, 2008 *Barron's* had an article by Thomas Healey and Mark Oshida entitled “A Passion for Profit.” The table on page 49 showed the annual total return (price appreciation plus reinvested dividends) from U.S. stocks was 11.0 percent between 1900 and the end of 2005. First-edition books were said to have earned 12.0 percent per year, but the period covered was only 20 years from 1982 to 2002. Next came fine violins at 10.0 percent (1980–2005), artwork at 8.5 percent (1990–2000), Bordeaux wines at 8.0 percent (1986–1996), and lastly collector's stamps at 7.0 percent (2002–2006).

Since these are all highly illiquid markets, I don't know how trustworthy the numbers are. What I do know is that stocks have a very long record of reliable inflation-beating results. There's no close second I'm aware of unless it's raw timberland, but few individuals can invest small amounts of money into timber.

If you picture investing in stocks as buying pieces of paper that go up and down in value every day like yo-yos—and a lot of people unfortunately do—I understand why you might be hesitant about owning shares of any companies. But you don't have to look at them that way. A better viewpoint is that you become part owner of one or more of the finest businesses in this country.

My guess is that if you had enough money, you wouldn't mind owning all of Coca-Cola or Wal-Mart or Tootsie Roll Industries or Colgate-Palmolive or Procter & Gamble or McDonald's. You know they're well established corporations with superior credentials. You also instinctively know that year after year their earnings and dividends

should continue to grow, and you have no reason to suspect they won't remain viable enterprises for as long as you live and even for decades after that.

Although you don't have the billions of dollars it would take to buy a Wal-Mart or PepsiCo and make it your own, you do have enough money to buy a few shares of one, if not both, of these companies. Those shares, or pieces of the business, represent your proportionate ownership of Coca-Cola, McDonald's, or whatever else you buy. They're great businesses to own parts of, and they're bound to increase in value over the long term—the next 5, 10, 15, 20 years, or more—because the values of their businesses are growing every year. That hasn't been the case with companies like a Ford or a General Motors, which never qualified to be in America's Finest.

DOING THE MATH

By assembling a portfolio of at least five companies in America's Finest Companies, each in a different industry, and by adding to the portfolio on a regular basis with as much money as you can and as often as you can, you should consistently—and safely—double your money every five to seven years (approximately 12 to 15 percent compounded annually).

By investing only in corporate thoroughbreds, you can take a lot of worry out of your life. You can quit worrying about inflation, interest rates, government legislation, recessions, and the like, and

TABLE 1.3 Money Doubles Every 5 to 7 Years in AFC

Annual Rate of Return	Initial Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
10%	\$1,000	\$1,100	\$1,210	\$1,331	\$1,464	\$1,610	\$1,771	\$1,948
11%	\$1,000	\$1,110	\$1,232	\$1,368	\$1,518	\$1,685	\$1,870	\$2,076
12%	\$1,000	\$1,120	\$1,254	\$1,404	\$1,572	\$1,761	\$1,972	\$2,209
13%	\$1,000	\$1,130	\$1,277	\$1,443	\$1,631	\$1,843	\$2,083	\$2,354
14%	\$1,000	\$1,140	\$1,300	\$1,482	\$1,689	\$1,925	\$2,195	\$2,502
15%	\$1,000	\$1,150	\$1,323	\$1,521	\$1,749	\$2,011	\$2,313	\$2,660

Source: The Staton Institute® Inc.

about how they will affect your investments. Because you're going to invest only in the finest that American industry has to offer, you can let the companies do the worrying for you.

Think of yourself barreling down a fury of white water like the Gauley River in West Virginia, which has the meanest rapids east of the Mississippi. I've rafted the entire length of this beautiful river three times. You have to cross the world's largest earthen dam to get to the foot of the Gauley. It's extremely intimidating to look well over 100 feet down at the treacherous water gushing through the chutes at the bottom of the dam. The roar is so loud it's hard to hear anyone talk.

I was mildly terrified (all right, I was scared to death) the first time we put our raft into the water, despite the fact I knew we had a reliable guide to get us safely through the roughest parts. Contrary to what I thought, the most dangerous part of white water rafting isn't shuttling through the turbulent rapids. It's people clowning around with the paddles and hitting one another in the face. The next most dangerous thing is trying to stand up in the fast moving shallow water and getting a foot caught under a rock. That's an easy way to drown. Despite the threats, the Gauley River isn't menacing when you know what you're doing.

Buying shares of companies in America's Finest Companies isn't menacing either because these companies know what they're doing and have proven it for at least the past 10 years or longer. They know how to circumnavigate problems in business and the economy and how to take maximum advantage of the opportunities. Placing your money into a portfolio of them is about as sure a bet as you can make. Two hundred plus years of American investment history proves that.

LEARNING THE HARD WAY

As America's Money Coach[®], I am a trainer, an instructor, and an investment guide. I am not a drill sergeant. I coach people to manage their money themselves, to take charge of their financial affairs, and to achieve financial security. I learned what I know the hard way. [I and Mary, my wife and partner, also manage money for individual investors and small businesses through Staton Financial Advisors LLC (www.statonfinancial.com)]. By financial security, I mean having enough money to enjoy life and not outliving your money.

Having graduated from the Wharton School (University of Pennsylvania in Philadelphia) with an MBA in finance in 1971, I toured Europe for 12 weeks with my roommate and then settled down as a freshman analyst with Interstate Securities (now part of Wachovia Corp.) in Charlotte, North Carolina. Interstate had a small equity (stock) research department with a CPA, a nice fellow, as its director. One of the early lessons I learned at Interstate was never to make a CPA the head of your research department. They may know their numbers, but they're usually not the greatest stock pickers.

Since I knew virtually nothing about stocks, the stock market, investing, or the economy, I was immediately assigned to review customer portfolios and make suggestions about what to buy and to sell. I'm glad our customers didn't know how little I knew. At the time, even I didn't realize how little I knew, but somehow I muddled through.

Early in my career, the stock market entered a protracted bear market that wouldn't finish killing investors until December 1974, two years after it began. This bear market was the most savage since the 1930s up to that time. It was my first but certainly not my last. The closing Dow Jones industrial average (the principal market index that major network news now report every night) peaked in early 1973 at 1,052 and finally troughed 20 months later at 578, a 45 percent plunge.

Most of the stocks that my department of analysts and I were recommending did far worse. Some fell 80 percent or more, and that was not particularly atypical. Brokerage houses across America were enduring similar fates. In addition to watching all my recommendations being pounded to the floor, I lost about 75 percent of my personal portfolio (approximately \$300,000) in the carnage. After it was all over, but while I was still thinking the world might end any day, I decided it was time to take a different tack. By then I had been put in charge of the research efforts. Toward the end of 1975 I was officially named research director and an officer of the firm.

I set out on a quest to discover (1) how to keep from losing money and (2) how to make substantial profits investing in companies. I had just entered a three-year program to become a chartered financial analyst (CFA), considered to be The Gold Standard in securities analysis and money management. The most important

thing I learned in the CFA program was about a book called *Security Analysis* by Benjamin Graham and David Dodd. Though this book was no longer used in the CFA program, I thought I needed to own it. So I purchased it and began the slog through more than 600 pages.

Followers of the Graham and Dodd method of investing, as it's called, don't mind down or bear markets because they bring a lot of solid companies formerly selling at so-called fair or even high prices down to a bargain level. You might say we are the Wal-Mart shoppers of Wall Street. We love low prices and will love them every day they're available.

Graham himself and his money management clients suffered greatly during the Great Depression. However, the market took off in 1933. Stocks on the whole rose 67 percent, the second best year ever. (The best was 1915, when stocks were up 82 percent following the July–December market closing at the outset of World War I.) As well as the market did, Graham did better. Even including the 1929–1932 period, between 1929 and 1956, Graham and his partner Gerald Newman produced a compound annual return of 17 percent, a phenomenal record even to this date. During the same period, the Dow Jones industrials eked out a measly 1.8 percent compounded annual return. Graham and his partner beat the Dow average by a 10-to-1 margin!

I uncovered some valuable lessons that Graham developed, particularly margin of safety, and took them to heart. There's more about this in Chapter 3, "Valuable Investing Lessons from Benjamin Graham." Warren Buffett, Graham's best and wealthiest student (he's worth more than \$60 billion) at Columbia, likened margin of safety to building a bridge to accommodate 40 tons when nothing heavier than 10 tons ever crosses it. It's akin to building levees to withstand category 5 hurricanes or 100-year floods that rarely occur or that have a slim chance of happening.

Buffett has said about Ben Graham:

I consider there to be three basic ideas, ideas that if they are really ground into your intellectual framework, I don't see how you could help but do reasonably well in stocks. None of them are complicated. None of them take mathematical talent or anything of the sort.

[Graham] said you should look at stocks as small pieces of the business. Said another way, “It’s far better to own a portion of the Hope diamond than 100 percent of a rhinestone.”

Look at [market] fluctuations as your friend rather than your enemy—profit from folly rather than participate in it.

And in the last chapter [of Graham’s *The Intelligent Investor*], he said the three most important words of investing: “margin of safety.”

I think those ideas, 100 years from now, will still be regarded as the three cornerstones of sound investing.

[Graham] wasn’t about brilliant investments and he wasn’t about fads or fashion. He was about sound investing, and I think sound investing can make you very wealthy if you’re not in too big of a hurry. And it never makes you poor, which is better.

As Interstate’s research director, I urged all the analysts to become students of Benjamin Graham and to adhere strictly to the margin of safety concept. In late 1974, unlike other firms in the industry then and still today, we began keeping records of all our recommendations and how they stacked up against the market indexes. We also told our brokers and customers that when we thought it was time to sell a stock we’d say so in writing. (That’s a rarity on Wall Street and within the financial community.) Margin of safety worked. The research record, published annually, served as a check.

When I left Interstate at the end of 1985, our research department had compiled an 11-year performance record that was the envy of Wall Street. The annual *Stock Trader’s Almanac* has encouraged this sort of diligent record keeping and performance tracking since the first 1968 edition and has provided the simple forms needed to do so. They are available in the printed edition and online at www.stocktradersalmanac.com. A few examples appear in Figure 1.1 on pages 19–22.

STOCKS: THE MOST PROFITABLE INVESTMENT

Stocks have always been, and will continue to be, the most profitable form of investment for most people. The historical evidence is overwhelming, so I’ll show you only a little of it. After that, you’ll learn the value of a simple investment program, and we’ll examine what it takes for a company to become one of America’s Finest.

PORTFOLIO PRICE RECORD 2009 (FIRST HALF)

Place purchase price above stock name and weekly closes below

		STOCK									
		1	2	3	4	5	6	7	8	9	10
Week Ending	2										
	JANUARY	9									
16											
23											
30											
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FEBRUARY	6										
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MARCH	6										
	13										
	20										
	27										
<hr/>											
APRIL	3										
	10										
	17										
	24										
<hr/>											
MAY	1										
	8										
	15										
	22										
	29										
<hr/>											
JUNE	5										
	12										
	19										
	26										

FIGURE 1.1 Stock Trader's Almanac Record Keeping Pages

Source: Yale Hirsch and Jeffrey Hirsch, Stock Trader's Almanac 2009 (Wiley, 2009).

PORTFOLIO PRICE RECORD 2009 (SECOND HALF)

Place purchase price above stock name and weekly closes below

		WEEK									
		1	2	3	4	5	6	7	8	9	10
JULY	3										
	10										
	17										
	24										
	31										
AUGUST	7										
	14										
	21										
	28										
SEPTEMBER	4										
	11										
	18										
	25										
	OCTOBER	2									
9											
16											
23											
30											
NOVEMBER	6										
	13										
	20										
	27										
	DECEMBER	4									
11											
18											
25											

FIGURE 1.1 Continued

WEEKLY INDICATOR DATA 2009 (FIRST HALF)

	Week Ending	Dow Jones Industrial Average	Net Change for Week	Net Change on Friday	Net Change Next Monday	S&P or NASDAQ	NYSE Advances	NYSE Declines	New Highs	New Lows	CBOE Put/Call Ratio	90-Day Treas. Rate	Moody's AAA Rate
JANUARY	2												
	9												
	16												
	23												
	30												
FEBRUARY	6												
	13												
	20												
	27												
MARCH	6												
	13												
	20												
	27												
APRIL	3												
	10												
	17												
	24												
MAY	1												
	8												
	15												
	22												
	29												
JUNE	5												
	12												
	19												
	26												

FIGURE 1.1 Continued

WEEKLY INDICATOR DATA 2009 (SECOND HALF)

	Week Ending	Dow Jones Industrial Average	Net Change for Week	Net Change on Friday	Net Change Next Monday	S&P or NASDAQ	NYSE Advances	NYSE Declines	New Highs	New Lows	CBOE Put/Call Ratio	90-Day Treas. Rate	Moody's AAA Rate
JULY	3												
	10												
	17												
	24												
	31												
AUGUST	7												
	14												
	21												
	28												
SEPTEMBER	4												
	11												
	18												
	25												
OCTOBER	2												
	9												
	16												
	23												
	30												
NOVEMBER	6												
	13												
	20												
	27												
DECEMBER	4												
	11												
	18												
	25												

FIGURE 1.1 Continued

Your own federal government and the state where you live will gladly help you make more money if you'd be interested in deferring taxes for years, if not decades, down the road. Most people don't know how to take advantage of this generosity, but I'll teach you how to make it work for you.

Being your own money manager sounds like a lot of hard work, but really it isn't. Is 60 minutes too much time to spend each year? That's about the length of time many Americans use for lunch each day. I'm asking for only about one hour annually. That's all it takes, and you can become a millionaire if you'll stick with this easy-to-start-and-maintain investment program.

If you don't need the annual cash dividends from your stocks for personal use, I'll show you how to make them make more money. I'll even show you how to buy shares directly and bypass the stockbroker. You can save hundreds if not thousands of dollars on transactions costs—and make tens of thousands from those savings—over a lifetime of investing.

Cannot people realize how large an income is thrift?

— MARCUS TULLIUS CICERO (GREAT ROMAN ORATOR AND
POLITICIAN, 106–43 B.C.)

You have to open your investment account somewhere. The mechanics aren't difficult. I'll show you how to get started the easiest way.

Do you want to start your children on an investment program, as I did with my daughter Gracie in 1978 and son Will in 1989? The earlier they start, the more successful they'll be. What about giving money and securities to your children? We'll look at that option, too.

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