



# Invest in the Best



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**June 8, 2019**  
**AAll Silicon Valley Webinar**  
**Jim Kopas, CFA**

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# Jim Kopas, CFA



- Principal at Pring Turner Investment Management
- Self-described “investing nerd”

**Past AAll Member/Silicon Valley Resident**

**2005 – 2009  
Santa Clara**

**2014 – 2017  
San Jose /Los Gatos**



**“When one teaches, two learn.”**

**- Robert Heinlein**

**Thank you for submitting your  
questions during the webinar.**



# Improve Your Investment Performance by Ditching Your Emotions, Instincts and Overconfidence

Rick Lehman

Adjunct Professor, Behavioral Finance, UC Berkeley Extension

[WWW. BehavioralFinance.com](http://WWW.BehavioralFinance.com)

## Investor Performance Over Time



Source: Dalbar, Real Investment Advice

# *10 COMMON CAUSES OF INVESTOR STUPIDITY*

1. Pessimism
2. Impatience
3. Frequent trading
4. Short-term horizon
5. Over-diversification
6. Shunning uncertainty
7. Aversion to losses
8. Emotions
9. Focus on when to trade (market timing)
10. Desire to be in the crowd

**“It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.”**

**- Charlie Munger**

**AVOIDING STUPIDITY IS EASIER  
THAN SEEKING BRILLIANCE!**

1. Optimism
2. Patience
3. Infrequent trading
4. Long-term horizon
5. Proper diversification
6. Embrace uncertainty
7. Accept that losses will happen
8. Rational
9. Focus on what to own (quality)
10. Think for yourself



## Summary

**“To obtain better results than others, you must do something different from the others.”**

**- Sir John Templeton**

# Wanna Play A Game?



**Would you rather receive the payout from...?**

- A. \$5,281 invested in low quality stocks over the next 30 years?**
- B. \$1,000 invested in high quality stocks over the next 30 years?**

**Write it down.**

**Do it now.**

**Remember it's just a game!**

**After 30 years your investments would grow to...**

**\$64,506 and...**

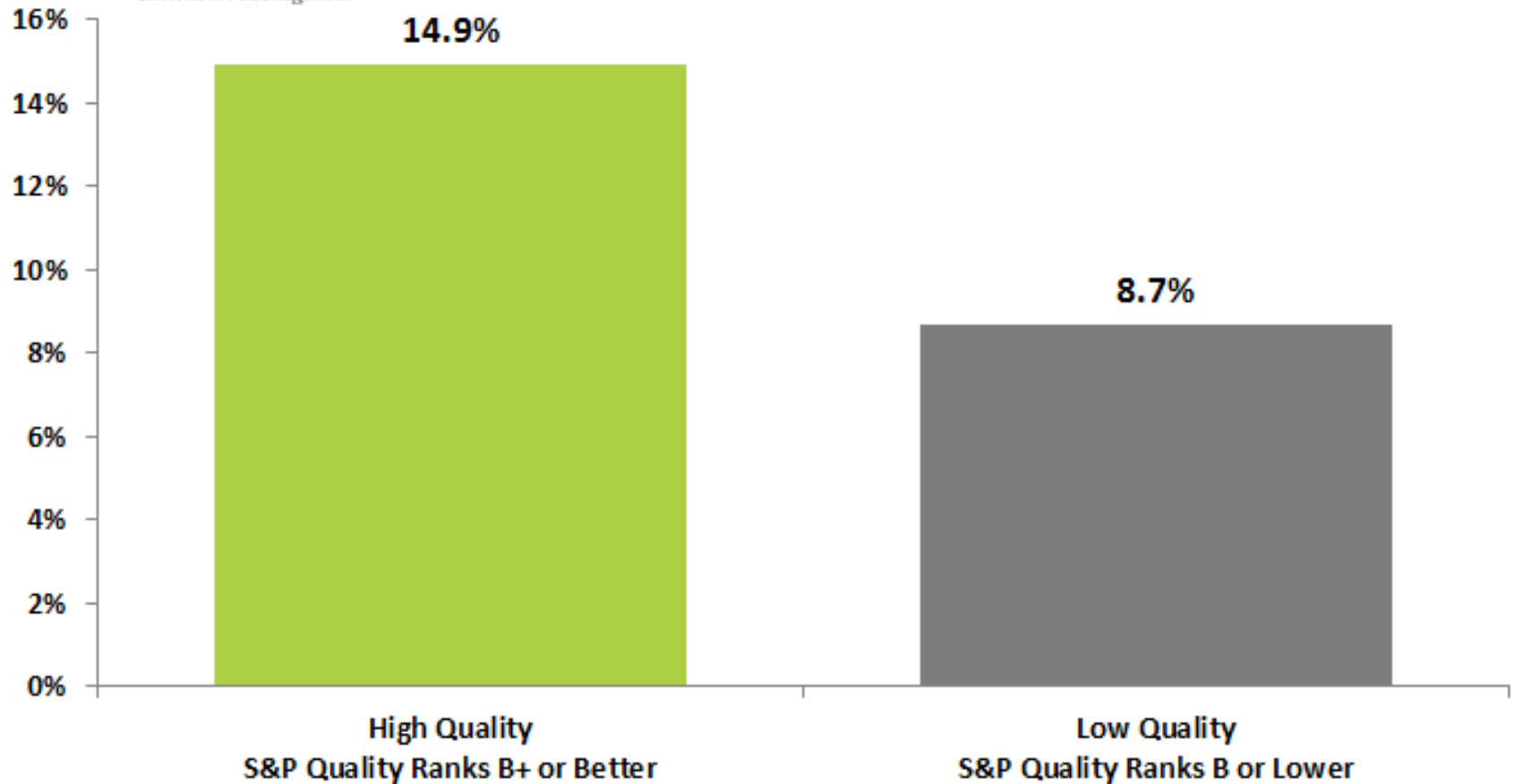
**\$64,506!**

# THE IMPORTANCE OF QUALITY – BETTER RETURNS



## High Quality vs. Low Quality

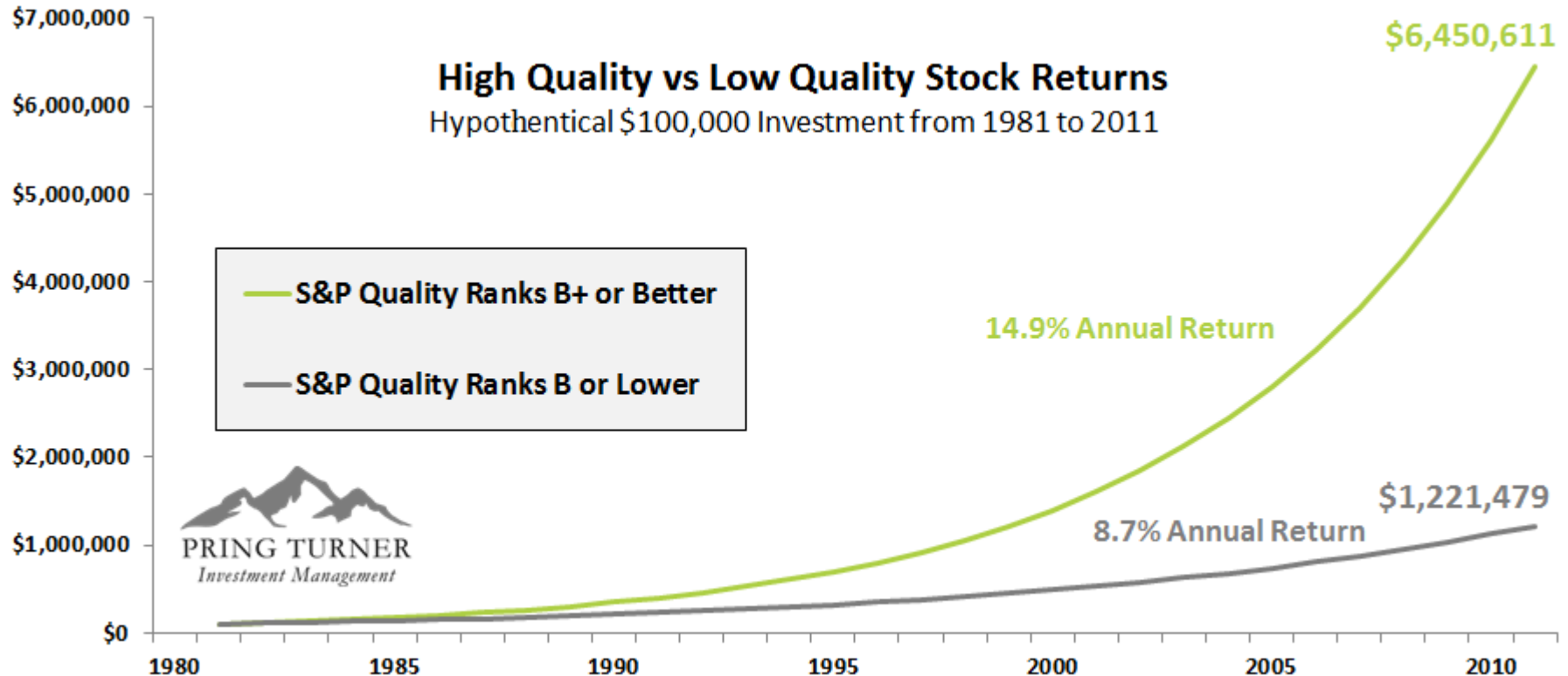
Average Annual Stock Performance 1981 -2011



Sources: Standard & Poor's, Atlanta Capital, Pring Turner Investment Management

## HIGH QUALITY STOCK INVESTMENTS PERFORM BETTER IN THE LONG RUN

# THE IMPORTANCE OF QUALITY – BETTER RETURNS



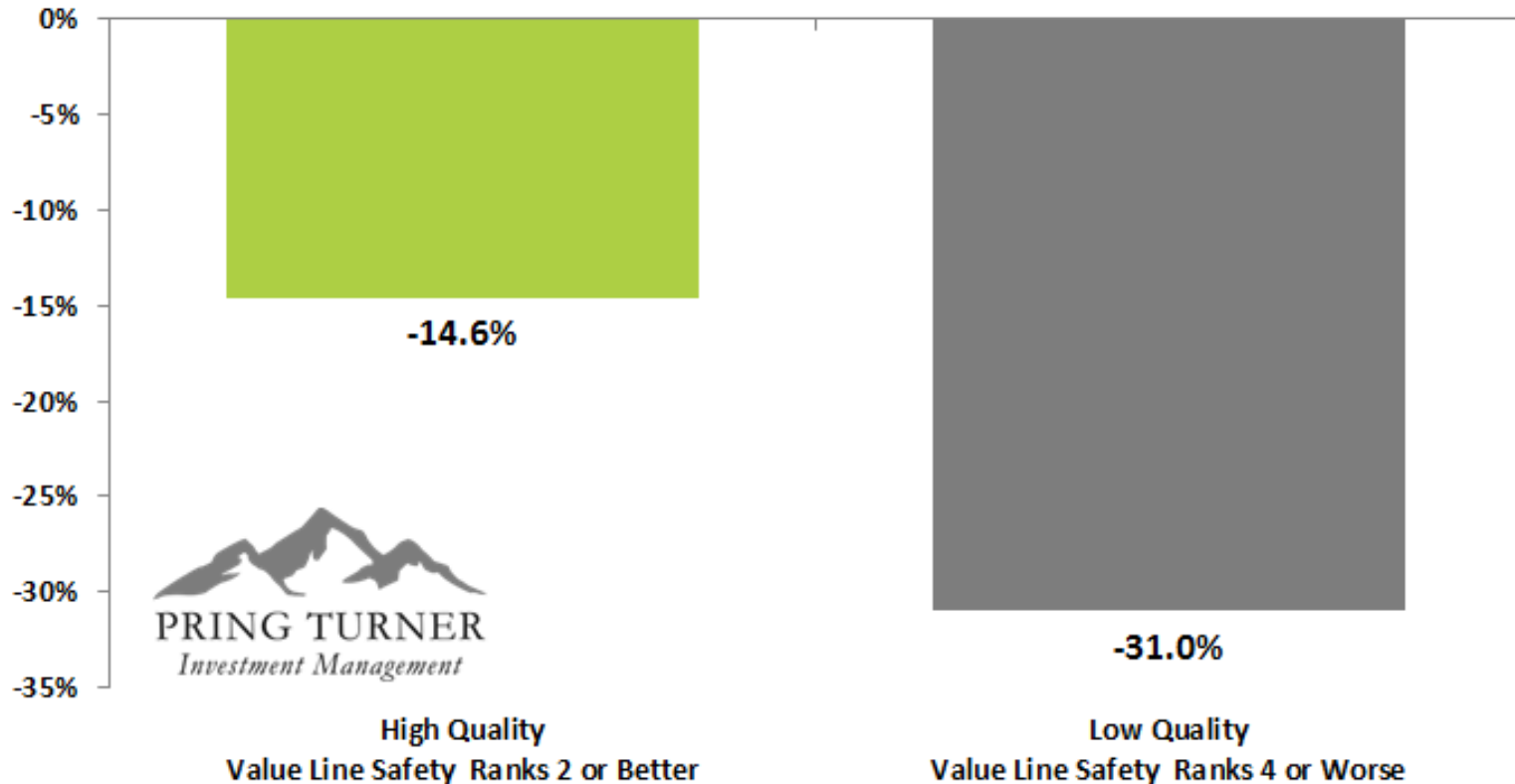
Source: Standard & Poor's, Atlanta Capital, Pring Turner Investment Management

**COMPOUNDING AT 14.9% VS. 8.7% MAKES A HUGE DIFFERENCE OVER TIME!**

# THE IMPORTANCE OF QUALITY – LESS RISK

## High Quality vs. Low Quality

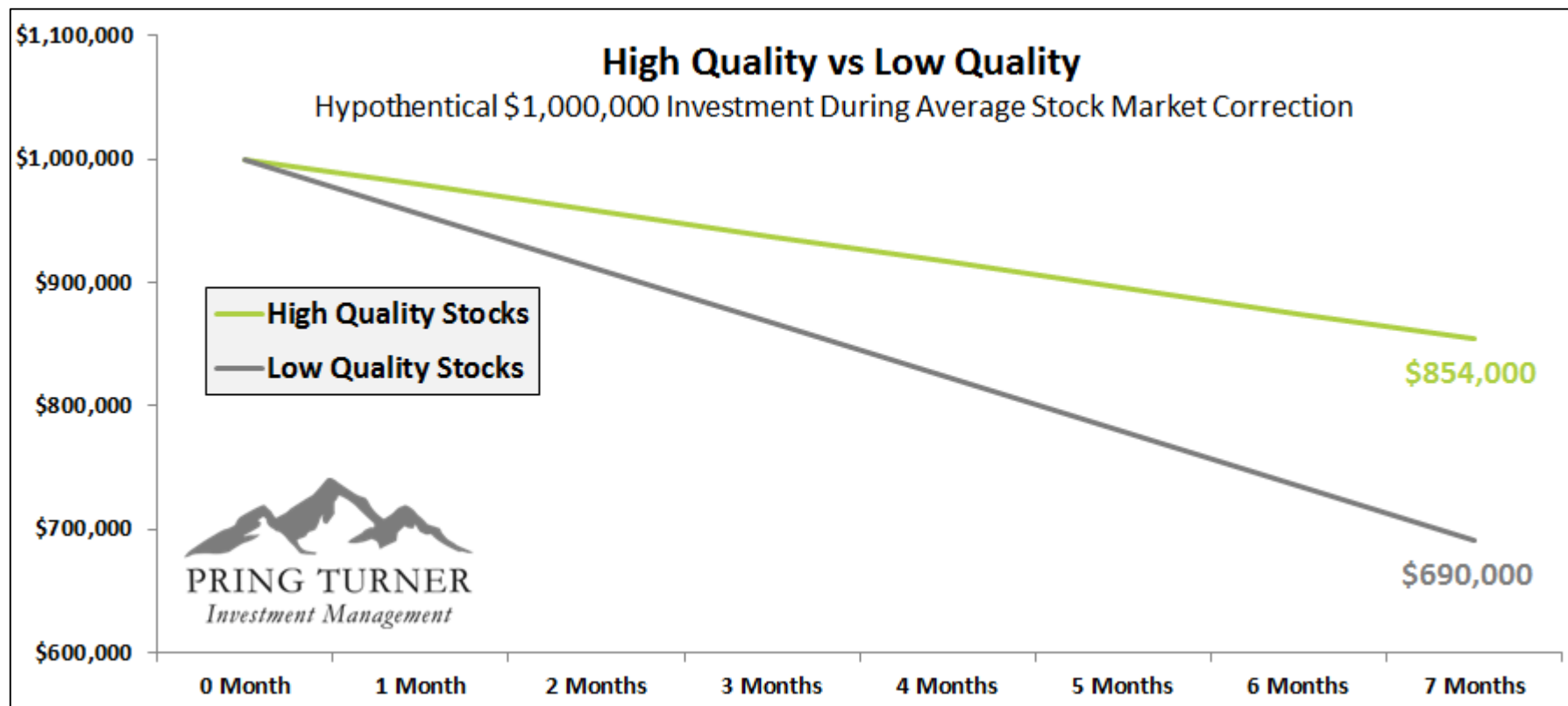
Average Drawdown During 16 Stock Market Corrections from 1972 -2016



Sources: Value Line Subscriber Manual, Pring Turner Investment Management

## QUALITY PROVIDES YOU ADDED PROTECTION WHEN YOU NEED IT MOST!

# THE IMPORTANCE OF QUALITY – LESS RISK

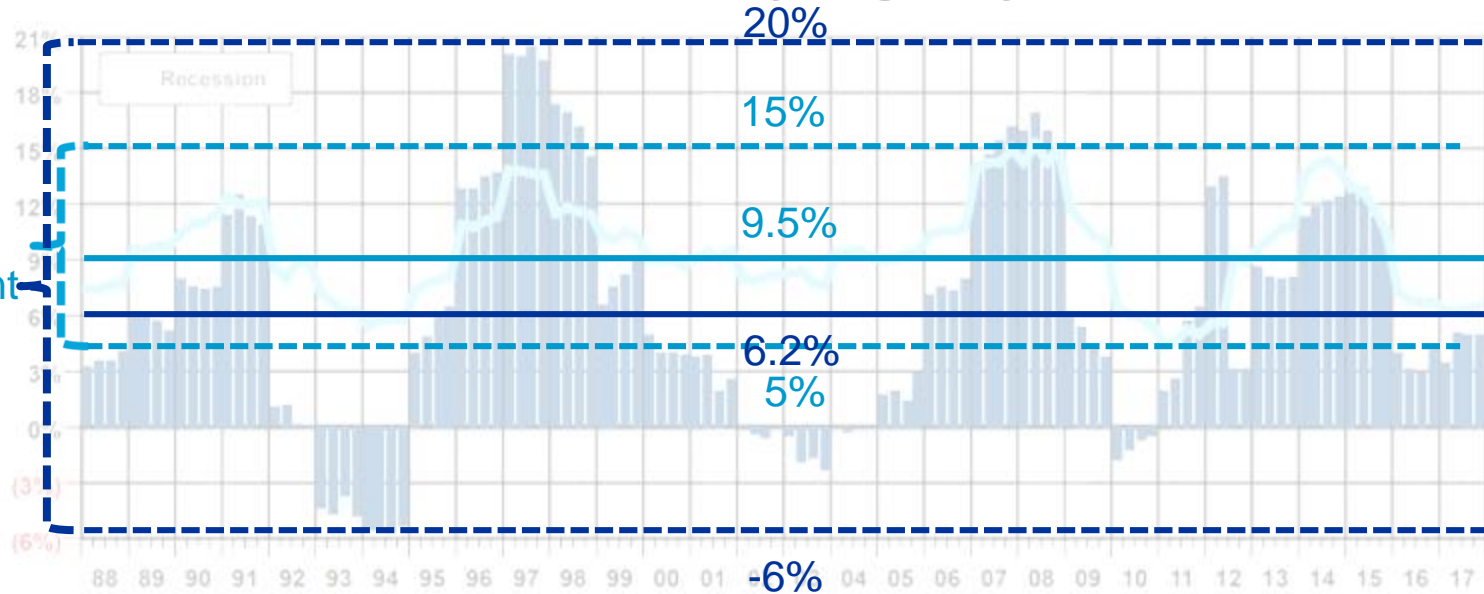


**QUALITY PROVIDES YOU ADDED PROTECTION WHEN YOU NEED IT MOST!**



# WHAT IS QUALITY?

Five-Year Rolling CAGR of As Reported Earnings  
S&P 500® Index by Earnings Stability



<u>Earnings Stability</u>	<u>Avg. 5-Year CAGR</u>	<u>Earnings Variability</u>	<u># Positive Periods</u>	<u># Negative Periods</u>
Above-Average	9.5%	2.7%	120 or 100%	0 or 0%
Below-Average	6.2%	6.3%	98 or 82%	22 or 18%

\*Time period: January 1, 1988 – December 31, 2017. The Earnings Stability portfolios are model portfolios formed and rebalanced monthly by Atlanta Capital based on the stocks in the S&P 500® Index sorted by quality rankings. This information is provided for illustrative purposes only and does not reflect the results of any strategy managed by Atlanta Capital. The Above-Average Earnings Stability and Below-Average Earnings Stability portfolios are provided to compare the aggregate of all companies in the index with High Quality S&P Rankings (B+ or Better) to those with Low Quality S&P Rankings (B or Below). The universe includes all S&P 500® Index constituents with S&P Quality Rankings and prices greater than \$1. Five-year historical earnings growth rates are calculated using a market capitalization-weighted methodology. The S&P 500® Index is a widely-accepted measure of the U.S. large cap stock market. Indexes are unmanaged and it is not possible to directly invest in an index. Sources: Standard & Poor's, Wilshire Atlas, Atlanta Capital. The material is based upon information that S&P, Wilshire and Atlanta Capital considers to be reliable, but neither S&P, Wilshire nor Atlanta Capital warrants its completeness, accuracy or adequacy and it should not be relied upon as such. The material should not be considered investment advice or a recommendation to invest in a particular strategy. Reproduction or redistribution of this page in any form without express permission from Atlanta Capital is prohibited. Above-average earnings stability does not guarantee outperformance. **Past performance does not predict future results.**

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ATLANTA CAPITAL  
INVESTMENT MANAGERS

## HIGHER LONG-TERM EARNINGS GROWTH WITH MORE CONSISTENCY

# How Do Businesses Generate Higher/ More Consistent Earnings?

**THEY HAVE A DURABLE COMPETITIVE ADVANTAGE...**



**... AKA MOAT!**

# Types of Moats

- Network effects
  - Intangible assets
  - Switching costs
  - Cost advantage
  - Efficient scale
- 
- Direction of Moat: (Eroding vs. Widening) is equally, if not more, important than size.

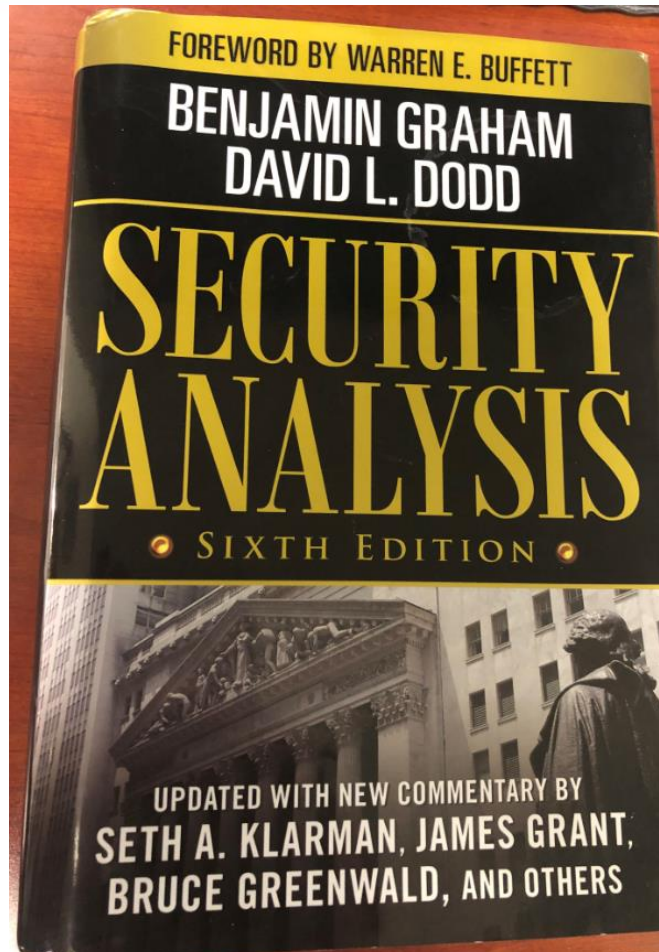
# Summary

**High Quality =  
Better Returns + Less Risk  
The Ultimate Investment  
Combination**

# Investing is Art







**Quantitative Mindset**

**Accounting Ratios**

**Metrics = Markers of Valuation**

**Corporate Culture**  
**Management**  
**Moat**

**Art**

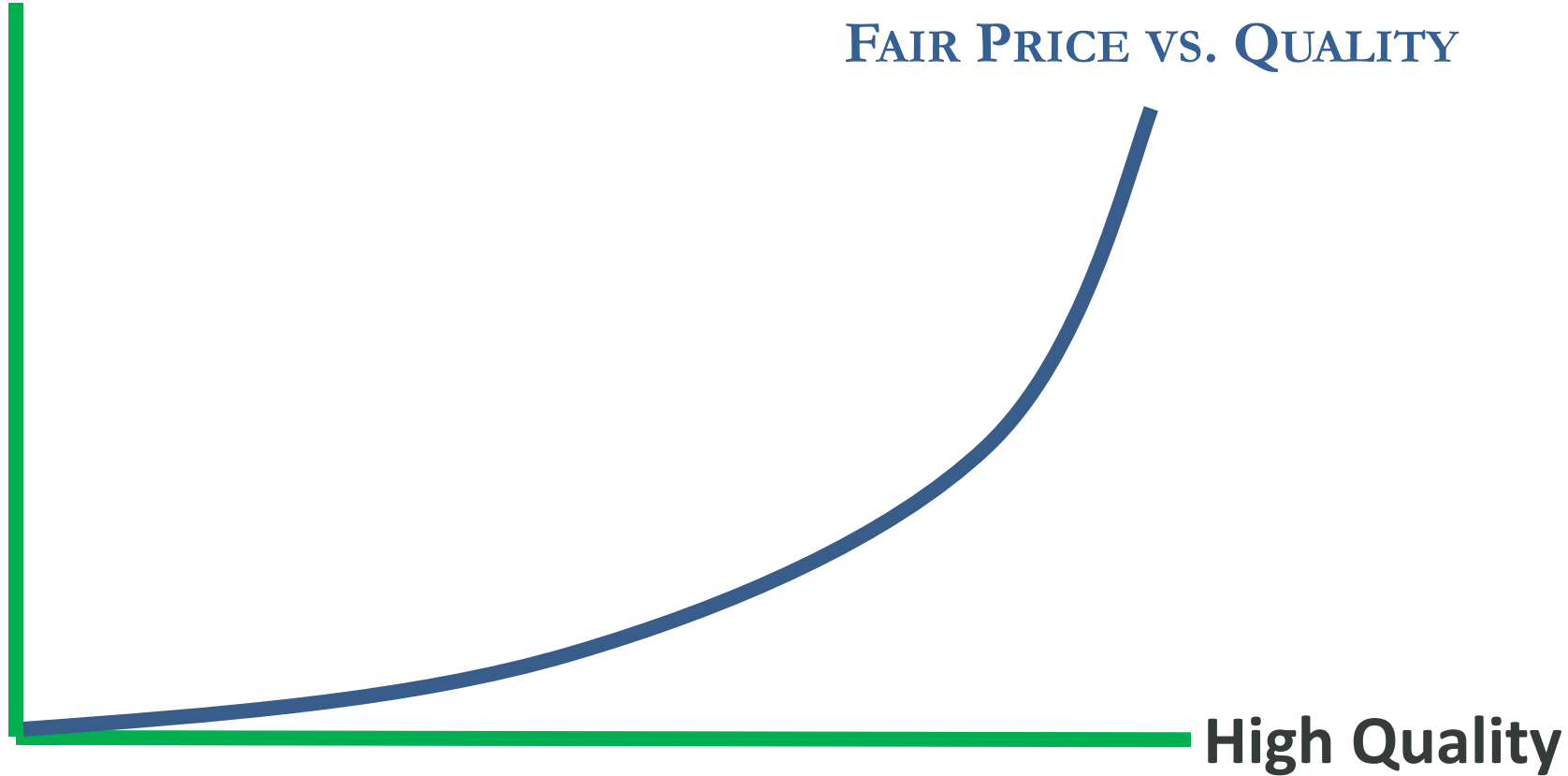
**Quantitative Mindset**  
**Accounting Ratios**  
**Metrics = Markers of Valuation**

**Science**

# QUALITY OF BUSINESS VS. FAIR PRICE TO PAY

Fair Price

FAIR PRICE VS. QUALITY



**“EXCEPTIONAL COMPANIES WITH DURABLE COMPETITIVE ADVANTAGES ARE  
IN FACT CHEAP ALMOST ALL THE TIME – NICK TRAIN**



# *HIGH QUALITY BUSINESS INTRINSIC VALUE OVER TIME*

**Intrinsic Value**



**“IT’S FAR BETTER TO BUY A WONDERFUL COMPANY AT A  
FAIR PRICE THAN...”**

## Intrinsic Value

**BARGAIN PURCHASE PRICE DOESN'T IMPROVE  
THE MARGIN OF SAFETY OVER TIME**



**“... A FAIR COMPANY AT A WONDERFUL PRICE.”  
– WARREN BUFFETT**

# *LOW QUALITY BUSINESS INTRINSIC VALUE OVER TIME*

## **Intrinsic Value**



**THINK TWICE BEFORE INVESTING IN LOW QUALITY!**

# Summary

**Value Investing = Art + Science**

**“Time is the friend of the  
Wonderful Company, the enemy  
of the mediocre.”**

**– Warren Buffett**

## WOULD YOU RATHER OWN...?

	A	B
P/E	9.5x	9.5x
Yield	5%	3.3%
Dividend Payout	53%	30%
Projected Annual Dividend Growth	3%	15%
10 Yr. Historical Earnings Growth	3.5%	8.5%

## WOULD YOU RATHER OWN...?

	A	B
P/E	24.5x	8.5x
Yield	2.9%	3.5%
Dividend Payout	76%	20%
Projected Annual Dividend Growth	5%	9%
10 Yr. Historical Earnings Growth	3.3%	14%

## WOULD YOU RATHER OWN...?

	A	B
P/CF	10.7x	10.9x
Yield	3.3%	5.6%
Projected Annual Dividend Growth	5.3%	13.5%
5 Year Projected CF Growth	6.5%	12.5%

Thank You

## Final Q&A



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