

# Article 01 **To Invest or to Reduce Debt** **–that's the question**

By William Artzberger | Updated January 11, 2018

Investors face the dilemma of whether to pay down debt with excess cash or to invest that money in an attempt to turn it into even greater amounts of wealth. If you pay off too much debt and reduce your leverage, you may not garner enough assets to retire. Conversely, if you're too aggressive, you may end up losing everything. In order to decide whether to pay down debt or invest, you must consider your best investment options, risk tolerance and cash flow situation.

## **Pay Down Debt or Invest?**

All debt is not equal. The type of debt you have can play a role in the decision as to whether to pay it off as soon as possible or put your money toward investments.

From a numbers perspective, your decision should be based on your after-tax cost of borrowing versus your after-tax return on investing. Suppose, for instance, that you are a wage earner in the 35% tax bracket and have a conventional 30-year mortgage with a 6% interest rate. Because you can deduct mortgage interest (within limits) from your federal taxes, your true after-tax cost of debt may be closer to 4%.

Student loans are a tax-deductible debt that can actually save you money. The IRS allows you to deduct the lesser of \$2,500 or the amount you paid in interest on qualified student loans that were used for higher education expenses, although it phases out at higher income levels.

If you hold a diversified portfolio of investments that includes both equities and fixed income, you may find that your after-tax return on money invested is higher than your after-tax cost of debt. For example, if your mortgage is at a lower interest rate and you are invested in riskier securities, such as small cap value stocks, investing would be the better option. If you're an entrepreneur, you also might invest in your business rather than reduce debt. On the other hand, if you are nearing retirement and your investment profile is more

conservative, the reverse may be true.

## **What Is Your Risk Tolerance?**

Risk tolerance is the degree of variability in investment returns that an investor is willing to withstand.

### **When determining risk, consider the following:**

1. Your age
2. Income
3. Earning power
4. Time horizon
5. Tax situation
6. Any other criteria that's unique to you

For example, if you're young and able to make back any money you might lose and have a high disposable income in relation to your lifestyle, you may have a higher risk tolerance and be able to afford to invest more aggressively versus paying down debt. If you have pressing concerns, such as high healthcare costs, you may also opt not to pay down debt.

Rather than investing excess cash in equities or other higher-risk assets, however, you may choose to keep greater allocations in cash and fixed-income investments. The longer the time horizon you have until you stop working, the greater potential payoff you could enjoy by investing rather than reducing debt, because equities historically return 10% or more, pretax, over time.

A second component of risk tolerance is your willingness to assume risk. Where you fall on this spectrum will help determine what you should do. If you are an aggressive investor, you will probably want to invest your excess cash rather than pay down debt. If you are fairly risk-averse in the sense that you cannot stand the thought of potentially losing money through investing and abhor any kind of debt, you may be better off using excess cash flow to pay down your debts.

However, this strategy can backfire. For instance, while most investors think paying down debt is the most conservative option to take, paying down – but not eliminating – debt can actually produce results that are the opposite of what was intended.

For example, an investor who aggressively pays down his mortgage and winds up with meager cash reserves may regret his decision should he lose his job and still need to make regular mortgage payments.

## **I. Building a Cash Cushion and Managing Debt**

Financial advisors suggest that working individuals have at least six months' worth of monthly expenses in cash and a monthly debt-to-income ratio of no more than 25% to 33% of pretax income. Before you begin investing or reducing debt, you may want to build this cash cushion first, so that you can weather any rough events that occur in your life.

Next, pay off any credit card debt you may have accumulated. This debt usually carries an interest rate that is higher than what most investments will earn before taxes. Paying down your debt saves you on the amount that you pay in interest. Therefore, if your debt-to-income ratio is too high, focus on paying down debt before you invest. If you have built a cash cushion and have a reasonable debt-to-income ratio, you can comfortably invest.

**Keep in mind that some debt, such as your mortgage, is not bad. If you have a good credit score, your after-tax return on investments will probably be higher than your after-tax cost of debt on your mortgage. Also, because of the tax advantages to retirement investing, and given the fact that many employers partially match employee contributions to qualified retirement plans, it makes sense to invest versus paying down other types of debt, such as car loans.**

If you are self-employed, having cash on hand may mean the difference between keeping the doors open and having to go back to work for someone else. For example, suppose that an entrepreneur with a fairly tight cash flow gets an unexpected windfall of \$10,000, and he or she has \$10,000 in debt. One

obligation carries a balance of \$3,000 at a 7% rate, and the other is \$7,000 at an 8% rate.

While both debts could be paid off, he or she has decided to pay off only one, in order to conserve cash. The \$3,000 note has a \$99 monthly payment, while the \$7,000 note has a \$67 monthly payment. Conventional wisdom would say he or she should pay off the \$7,000 note first because of the higher interest rate.

In this case, however, it may make sense to pay off the one that provides the greatest cash flow yield. In other words, paying the \$3,000 note off instantly adds nearly \$100 a month to his or her cash flow, or almost 40% cash flow yield ( $\$99.00 \times 12 / \$3,000$ ). The remaining \$7,000 can be used to grow the business or as a cushion for business emergencies.

**For more on managing debt, read [What's Your Debt-To-Income Ratio?](#) and [Invest in Spite of Debt](#).**

## **II. Balanced Budgeting Methods**

There are a number of different budgeting methods that account for both debt repayment and investments. For instance, the 50/30/20 budget sets aside 20% of your income for savings and any debt payments above the minimum. This plan also allocates 50% to essential costs (housing, food, utilities), and the other 30% for personal expenses.

Oprah's Debt Diet allots 15% of income to debt repayment and 10% of income to savings.

Financial expert Dave Ramsey offers a back-and-forth approach to tackling debt and investments. He suggests saving \$1,000 dollars in an emergency fund before working to get out of debt, excluding your home mortgage, as quickly as possible. Once all debt is eliminated he advises to go back to building an emergency fund that contains enough funds to cover at least three to six months of expenses. Next, his plan calls for investing 15% of all household income into Roth IRAs and pre-tax retirement plans while also saving for your child's college education, if applicable.

Read more: To Invest or To Reduce Debt, That's The Question

<https://www.investopedia.com/articles/pf/08/invest-reduce-debt.asp#ixzz58n1av064>

[https://www.investopedia.com/articles/pf/08/invest-reduce-debt.asp?utm\\_source=personalized&utm\\_campaign=fb-cta&utm\\_term=12434327&utm\\_medium=email](https://www.investopedia.com/articles/pf/08/invest-reduce-debt.asp?utm_source=personalized&utm_campaign=fb-cta&utm_term=12434327&utm_medium=email)

## **Article 02 What are 'Current Assets'**

Current assets is a balance sheet account that represents the value of all assets that can reasonably expect to be converted into cash within one year. Current assets include cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses. and other liquid assets that can be readily converted to cash.

In the United Kingdom, current assets are also known as current accounts.

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### **BREAKING DOWN 'Current Assets'**

Current assets are important to businesses because they can be used to fund day-to-day operations and pay ongoing expenses. Depending on the nature of the business, current assets can range from barrels of crude oil, to baked goods, to foreign currency. On a balance sheet, current assets will normally be displayed in order of liquidity, that is, the ease with which they can be turned into cash.

Assets that cannot feasibly be turned into cash in the space of a year – or a business' operating cycle, if it is longer – are not included in this category and are instead considered long-term assets. These also depend on the nature of the business, but generally include land, facilities, equipment, copyrights, and other illiquid investments.

## **I. Key Components of Current Assets**

Accounts receivable, bills to customers that have yet to be paid, are considered current assets as long as they can be expected to be paid within a year. If a business has been making sales by offering loose credit terms, a chunk of its accounts receivables might not come due for a longer period of time. It is also possible that some accounts will never be paid in full. This consideration is reflected in an allowance for doubtful accounts, which is subtracted from accounts receivable. If an account is never collected, it is written down as a bad debt expense.

Inventory is included as current assets, but this item should be taken with a grain of salt. Different accounting methods can be used to inflate inventory, and in any case it is not nearly as liquid as other current assets. It may not even be as liquid as accounts receivable, which can be sold to third-party collection agencies, albeit at a steep discount. Inventories tie up capital, and if demand shifts unexpectedly, which is more common in some industries than others, inventory can become backlogged. A seemingly healthy current assets balance can obscure a weak inventory turnover ratio and other problems.

Prepaid expenses are considered current assets not because they can be converted into cash, but because they are already taken care of, which frees up cash for other uses. As the year progresses, the value of prepaid expenses as assets decreases; they are amortized to reflect this fact. Prepaid expenses could include payments to insurance companies or contractors.

## **II. Ratios with Current Assets**

Components of current assets are used to calculate a number of ratios related to a business' liquidity. The cash ratio is the most conservative: it divides cash and cash equivalents by current liabilities, and measures the ability of a company to pay off all of its short-term liabilities immediately.

The quick ratio or acid-test ratio is slightly less stringent: it adds cash and cash equivalents, marketable securities and accounts receivable, and divides the sum by current liabilities. This ratio does not classify inventory as a quick asset, and hence, does not include it in its calculation. This gives a more realistic picture of a company's ability to meet its short-term obligations, but can be skewed by

a backlog of accounts receivable.

The current ratio is the most accommodating, dividing current assets by current liabilities. It should be noted that in addition to accounts receivable, this measure includes inventories, so it probably overstates liquidity in many cases, especially for retailers and other inventory-intensive businesses. In personal finance, current assets include cash on hand and in the bank, as well as marketable securities that are not tied up in long-term investments. In other words, current assets are anything of value that is highly liquid. Current assets can be used to pay outstanding debts and cover liabilities without having to sell fixed assets.

Read more: Current Assets | Investopedia

<https://www.investopedia.com/terms/c/currentassets.asp#ixzz58n4Jg78g>



# Article 03 Seven Common Investor Mistakes

By Jay Yoder | Updated March 7, 2017

Of the mistakes made by investors, seven of them are repeat offenses. In fact, investors have been making these same mistakes since the dawn of modern markets, and will likely be repeating them for years to come. You can significantly boost your chances of investment success by becoming aware of these typical errors and taking steps to avoid them.

## 1. No Plan

As the old saying goes, if you don't know where you're going, any road will take you there. Solution? Have a personal investment plan or policy that addresses the following:

**Goals and objectives** – Find out what you're trying to accomplish. Accumulating \$100,000 for a child's college education or \$2 million for retirement at age 60 are appropriate goals. Beating the market is not a goal.

**Risks** - What risks are relevant to you or your portfolio? If you are a 30-year-old saving for retirement, volatility isn't (or shouldn't be) a meaningful risk. On the other hand, inflation – which erodes any long-term portfolio – is a significant risk.

**Appropriate benchmarks** – How will you measure the success of your portfolio, its asset classes and individual funds or managers?

**Asset allocation** – Decide what percentage of your total portfolio you'll allocate to U.S. equities, international stocks, U.S. bonds, high-yield bonds, etc. Your asset allocation should accomplish your goals while addressing relevant risks.

**Diversification** – Allocating to different asset classes is the initial layer of diversification. You then need to diversify within each asset class. In U.S. stocks, for example, this means exposure to large-, mid- and small-cap stocks.

Your written plan's guidelines will help you adhere to a sound long-term policy, even when current market conditions are unsettling. Having a good plan and

sticking to it is not nearly as exciting or as much fun as trying to time the markets, but it will likely be more profitable in the long term.

## **2. Too Short of a Time Horizon**

If you are saving for retirement 30 years hence, what the stock market does this year or next shouldn't be the biggest concern. Even if you are just entering retirement at age 70, your life expectancy is likely 15 to 20 years. If you expect to leave some assets to your heirs, then your time horizon is even longer. Of course, if you are saving for your daughter's college education and she's a junior in high school, then your time horizon is appropriately short and your asset allocation should reflect that fact. Most investors are too focused on the short term.

## **3. Too Much Attention Given to Financial Media**

There is almost nothing on financial news shows that can help you achieve your goals. Turn them off. There are few newsletters that can provide you with anything of value. Even if there were, how do you identify them in advance?

Think about it – if anyone really had profitable stock tips, trading advice or a secret formula to make big bucks, would they blab it on TV or sell it to you for \$49 per month? No – they'd keep their mouth shut, make their millions and not have to sell a newsletter to make a living.

Solution? Spend less time watching financial shows on TV and reading newsletters. Spend more time creating – and sticking to – your investment plan.

## **4. Not Rebalancing**

Rebalancing is the process of returning your portfolio to its target asset allocation as outlined in your investment plan. Rebalancing is difficult because it forces you to sell the asset class that is performing well and buy more of your worst performing asset classes. This contrarian action is very difficult for many investors. In addition, rebalancing is unprofitable right up to that point where it pays off spectacularly (think U.S. equities in the late 1990s), and the underperforming assets start to take off.

However, a portfolio allowed to drift with market returns guarantees that asset

classes will be overweighted at market peaks and underweighted at market lows – a formula for poor performance. The solution? Rebalance religiously and reap the long-term rewards.

## **5. Overconfidence in the Ability of Managers**

From numerous studies, including Burton Malkiel's 1995 study entitled: "Returns From Investing In Equity Mutual Funds," we know that most managers will underperform their benchmarks. We also know that there's no consistent way to select – in advance – those managers that will outperform. We also know that very few individuals can profitably time the market over the long term. So why are so many investors confident of their abilities to time the market and select outperforming managers?

Fidelity guru Peter Lynch once observed: "There are no market timers in the Forbes 400." Investors' misplaced overconfidence in their ability to market-time and select outperforming managers leads directly to our next common investment mistake.

## **6. Not Enough Indexing**

There is not enough time to recite many of the studies that prove that most managers and mutual funds underperform their benchmarks. Over the long-term, low-cost index funds are typically upper second-quartile performers, or better than 65-75% of actively-managed funds.

Despite all the evidence in favor of indexing, the desire to invest with active managers remains strong. John Bogle, the founder of Vanguard, says it's because: "Hope springs eternal. Indexing is sort of dull. It flies in the face of the American way [that] 'I can do better.'"

Index all or a large portion (70%-80%) of all your traditional asset classes. If you can't resist the excitement of pursuing the next great performer, set aside a portion (20%-30%) of each asset class to allocate to active managers. This may satisfy your desire to pursue outperformance without devastating your portfolio.

## **7. Chasing Performance**

Many investors select asset classes, strategies, managers and funds based on recent strong performance. The feeling that "I'm missing out on great returns" has probably led to more bad investment decisions than any other single factor. If a particular asset class, strategy or fund has done extremely well for three or four years, we know one thing with certainty: we should have invested three or four years ago. Now, however, the particular cycle that led to this great performance may be nearing its end. The smart money is moving out, and the dumb money is pouring in. Stick with your investment plan and rebalance, which is the polar opposite of chasing performance.

Read more:

7 Common Investor Mistakes

<https://www.investopedia.com/articles/stocks/07/mistakes.asp#ixzz5875LLyZC>

## Article 04 Buy Side vs. Sell Side Analysts

By [Stephen D. Simpson, CFA](#) | Updated January 22, 2018

Much is made of the "[Wall Street](#) analyst" as though it were a uniform job description. In reality, there are significant differences between [sell-side](#) and [buy-side](#) analysts. True, both spend much of their day researching companies and industries in an effort to handicap the winners or losers. On many fundamental levels, however, the jobs are quite different.

### The Sell-Side Job Description

If you've ever watched a financial news program, you've probably heard the reporter reference "analysts." These "analysts" are typically sell-side analysts and are believed to provide an unbiased opinion based on proprietary research on a company's securities.

Simply put, the job of a sell-side [research analyst](#) is to follow a list of companies, all typically in the same industry, and provide regular research reports to the firm's clients. As part of that process, the analyst will typically build models to project the firms' financial results, as well as speak with customers, suppliers, competitors and other sources with knowledge of the industry. From the public's standpoint, the ultimate outcome of the analyst's work is a [research report](#), a set of financial estimates, a [price target](#) and a recommendation as to the stock's expected performance. The estimates derived from the models of several sell-side analysts also can be averaged together to come up with a single expectation called the [consensus estimate](#).

Stocks may move in the [short term](#) based on an analyst upgrade or [downgrade](#), or based on whether the beat or miss expectations during [earnings season](#). Typically, if a company beats the consensus estimate, its stock price will rise, while the opposite occurs if a company misses the estimate. However, this is not always the case. Occasionally, sell-side analysts fail to revise their estimates, but their expectations do change. Sometimes financial news will refer to a "[whisper number](#)," which is an estimate that is different from the consensus estimate. This whisper number becomes the newest, although unwritten, consensus expectation. (Learn more about these numbers in [Whisper Numbers: Should You Listen?](#))

When an analyst "initiates" coverage on a company, he or she usually assigns a rating in the form of "[buy](#)," "[sell](#)" or [hold](#). This rating is a signal to the investment community, portraying how the analyst believes the stock price will move in a given time frame. The rating can sometimes be a reflection of the expected stock movement, and not a reflection of how the analyst feels the company will perform. For example, if the company has very strong growth prospects in the next six months and the stock is [undervalued](#) based on the analyst's estimates, then a "buy" rating may be placed on the stock. However, if the same company has strong growth prospects, but the stock price has increased to such a point that it has exceeded estimates and is considered [overvalued](#), the analyst may place a "sell" on the stock.

In practice, the job of a sell-side analyst is to convince institutional accounts to direct their trading through the [trading desk](#) of the analyst's firm and the job is very much about marketing. In order to capture trading revenue, the analyst must be seen by the buy-side as providing valuable services. Information is clearly valuable, and some analysts will constantly hunt for new information or proprietary angles on the industry. Since nobody cares about the third iteration of the same story, there is a tremendous amount of pressure to be the first to the client with new and different information.

Of course, that is not the only way to stand out with clients. [Institutional investors](#) value one-on-one meetings with company management and will reward those analysts who arrange those meetings. On a very cynical level, there are times when the job of a sell-side analyst is much like that of a high-priced travel agent. Complicating matters is the fact that companies will often restrict access to management by those analysts who do not toe their line – placing analysts in the uncomfortable position of giving the Street useful news and opinions (which may be negative) and maintaining cordial relations with company management. [Investment banking](#) is a huge source of profit for the banks, and if an analyst makes a negative recommendation, the [investment banking](#) side of the business may lose that client.

Analysts will also seek to create [expert networks](#) they can rely upon for a constant stream of information. After all, it stands to reason that a deeper understanding of a market or product will allow for differentiated calls. What's more, anybody can call a doctor or engineer, but the best sell-side analysts know the right ones to call (and just as importantly, have found a way to make sure they pick up the phone). Much of this information is digested and

analyzed so it never actually reaches the public page, and cautious investors might not necessarily assume that an analyst's printed word is their real feeling for a company – rather it is in the private conversations with the buy-side (conversations that occupy much of an analyst's day) where the real truth is imagined to come out.

## The Buy-Side Job Description

In contrast to the sell-side analyst position, the job of a buy-side analyst is much more about being right; benefiting the fund with high-[alpha](#) ideas is crucial, as is avoiding major mistakes. In point of fact, avoiding the negative is often a key part of the buy-side analyst's job, and many analysts pursue their job from the mindset of figuring out what can go wrong with an idea.

On a day-to-day basis, the jobs do not look all that different. Buy-side analysts will be reading news (though more of it is from sell-side analysts than the sell-side analyst would read), tracking down information, building [models](#) and otherwise going about the business of trying to deepen their knowledge of their area of responsibility – all with an eye toward making the best stock recommendations.

Though the largest institutions will have their analysts allocated similarly to sell-side analysts, buy-side analysts in general have broader coverage responsibilities. It is not uncommon for funds to have analysts covering the [technology sector](#) or [industrials sector](#), whereas most sell-side firms would have several analysts covering particular industries within those sectors (like software, [semiconductors](#), etc.).

Whereas many sell-side analysts try to spend much of their time finding the best sources of information about their sector, many buy-side analysts spend that time trying to sort out the most useful sell-side analysts. That is not to say that many buy-side analysts do not do their own proprietary research (the good ones always do); it just means there is significant value to a buy-side analyst in developing a list of the real go-to analysts in their space. (Learn more about the careers available in [Becoming a Financial Analyst](#).)

Buy-side firms do not usually pay for or buy the sell-side research outright, but they are often indirectly responsible for a sell-side analyst's compensation. Usually, the buy-side firm pays [soft dollars](#) to the sell-side firm,

which is a roundabout way of paying for the research. Soft dollars can be thought of as extra money paid when trades are made through the sell-side firms. So, in essence, the sell-side analysts' research directs the buy-side firm to make trades through their trading department, creating profit for the sell-side firm. Additionally, buy-side analysts often have some say in how trades are directed by their firm, and that is quite often a key component of sell-side analyst compensation.

## Key Differences

Although both sell-side and buy-side analysts are charged with following and assessing stocks, there are many differences between the two jobs.

On the compensation front, sell-side analysts often make more, but there is a wide range and buy-side analysts at successful funds (particularly hedge funds) can do much better. Working conditions arguably tilt in the favor of buy-side analysts; sell-side analysts are frequently on the road and often work longer hours, though buy-side analysis is arguably a more pressurized job.

As the job descriptions might suggest, there are significant differences in what these analysts are really paid to do. Speaking realistically, sell-side analysts are paid largely for information flow and to access the management (and/or high-quality information sources). Compensation for buy-side analysts is much more dependent upon the quality of recommendations the analyst makes and the overall success of the fund(s).

The two jobs also differ in the role accuracy plays. Contrary to what many investors expect, good models and [financial estimates](#) have less weight to the role of a sell-side analyst, but can be critical for the buy-side analyst. Likewise, price targets and [buy/sell/hold](#) calls are not nearly as important to sell-side analysts as some financial media might seem to think. In fact, analysts can be below average when it comes to modeling or [stock picks](#) but still do alright so long as they provide useful information. On the other hand, a buy-side analyst usually cannot afford to be wrong often – or at least not to a degree that significantly impacts the fund's relative performance.

Buy-side and sell-side analysts also have to abide by different rules and standards. Sell-side analysts have to pass several regulatory exams that buy-side analysts do not even have to take. Likewise, buy-side analysts



typically enjoy less restrictive rules on share ownership, disclosures and outside employment, at least insofar as regulators are concerned (individual employers have different rules concerning these practices).

## **The Bottom Line**

There is no real value in arguing who has the better, or more important, job between the sell-side and the buy-side. When the system functions as it should, both are valuable. No buy-side analyst can hope to cover everything and smart buy-siders make a point of quickly figuring out who they can trust and rely on in the sell-side community. Likewise, dedicated sell-side analysts can typically dive deeper than buy-side analysts and really learn the ins and outs of an industry. For readers considering a career on Wall Street, though, it is important to understand the differences and pursue the career path that really best fits their skills and demeanor. Read

more: [Buy Side Vs. Sell Side Analysts](#)

<https://www.investopedia.com/articles/financialcareers/11/sell-side-buy-side-analysts.asp#ixzz55pRiTjqt>

## **Article 05 The Greatest Investors: Thomas Rowe Price, Jr.**

The Greatest Investors: Thomas Rowe Price, Jr. By Nathan Reiff

### **Greatest Investors: Introduction**

The Greatest Investors: John (Jack) Bogle

The Greatest Investors: Warren Buffett

The Greatest Investors: David Einhorn

The Greatest Investors: Stanley Druckenmiller

The Greatest Investors: David Dreman

The Greatest Investors: Philip Fisher

The Greatest Investors: Benjamin Graham

The Greatest Investors: William H. Gross

The Greatest Investors: Carl Icahn

The Greatest Investors: Jesse L. Livermore

The Greatest Investors: Peter Lynch

The Greatest Investors: Bill Miller

The Greatest Investors: John Neff

The Greatest Investors: William J. O'Neil

The Greatest Investors: Julian Robertson

The Greatest Investors: Thomas Rowe Price, Jr.

The Greatest Investors: James D. Slater

The Greatest Investors: George Soros

The Greatest Investors: Michael Steinhardt

The Greatest Investors: John Templeton

The Greatest Investors: Ralph Wanger

## **The Greatest Investors: Thomas Rowe Price, Jr.**

Born: 1898 (Linwood, Maryland)

Died: 1983

Key Positions: Mackubin Goodrich & Co. T. Rowe Price Associates, Inc.

Personal History:

Thomas Rowe Price is known as the “father of growth investing.” His early years placed him in the middle of the Great Depression, but rather than shy away from stock investments he decided to embrace them. He felt that financial markets operated on cycles, and that inspired his investment strategy, which focused on buying into good companies for long term investments. At the time that Price was operating, this was an unusual mode of investment to say the least.

Price studied chemistry at Swarthmore College, graduating in 1919. He quickly discovered that he enjoyed numbers and finances more than chemistry, though, and began his investment career with the Baltimore-based brokerage firm Mackubin Goodrich, now known as Legg Mason. Eventually, Price was named chief investment officer of the firm.

Due to disagreements over Price’s view of growth stocks, Price left to found T. Rowe Price Associates in 1937. Always a forward thinker, Price went against convention when he decided to charge fees based on the investments that clients had in his firm, not based on commission. Price was committed to the principle of “putting the client’s interests first,” believing that happy clients would result in a successful business.

Price entered the mutual fund world with the T. Rowe Price Growth Stock Fund in 1950, where he served as CEO until his retirement in the 1960s. He sold the company in the 1970s, although the company has retained its name and remains one of the nation’s leading global asset management firms.

### **Investment Philosophy:**

Price believed that investors needed to focus more on individual stock-picking over the long term. This could be facilitated by discipline, consistently in the

stock picking process, and thorough, fundamental research.

Price was a pioneer in the strategy of growth investing, a process by which investors search out companies with excellent growth potential whose earnings and dividends are expected to grow at faster rates than inflation and those of the general economy. John Train, author of "The Money Masters", says that Price looked for these characteristics in growth companies:

Superior research to develop products and markets.

A lack of cutthroat competition.

A comparative immunity from government regulation.

Low total labor costs, but well-paid employees.

At least a 10% return on invested capital, sustained high profit margins, and a superior growth of earnings per share. Price spent the large majority of his career advocating for the growth model, although by the end of his career he began to question the industry's widespread enthusiasm for this methodology. It was at this time that he began to sell off his interests in his firm. It turns out that Price was accurate in his assessment, as the early 1970s saw growth stocks tumble considerably. Unfortunately, his namesake company only barely managed to survive, although he had retired and was no longer in control of the investment decisions.

### **Quotes:**

"It is better to be early than too late in recognizing the passing of one era, the waning of old investment favorites and the advent of a new era affording new opportunities for the investor."

"If we do well for the client, we'll be taken care of."

"Change is the investor's only certainty."

"No one can see ahead three years, let alone five or ten. Competition, new inventions - all kinds of things - can change the situation in twelve months."

The Greatest Investors: James D. Slater

Read more: The Greatest Investors: Thomas Rowe Price, Jr.

<https://www.investopedia.com/university/greatest/thomasroweprice.asp#ixzz595Oogivr>

## **Article 06 The Greatest Investors: James D. Slater**

The Greatest Investors: James D. Slater

By Nathan Reiff

Born: March 13, 1929 (Cheshire, U.K.)

Died: November 18 2015

Key Positions: Leyland Motor Corporation, Slater Walker Securities

BioProjects International PLC, Galahad Gold PLC

### **Personal History**

Known by his pen name “The Capitalist,” James D. (Jim) Slater wrote regular columns in London’s The Sunday Telegraph. In this column, Slater made public his own personal stock investment strategy, welcoming a wide audience of non-investors into the world of investing. Slater was also credited with having invented the price-earnings to earnings-growth ratio (PEG), which he popularized through his column and, in the United States, in his book “The Zulu Principle” (1992). (To learn more, read *Move Over P/E, Make Way For The PEG and How The PEG Ratio Can Help Investors.*)

Early in his career, Slater was a chartered accountant and then a corporate manager. He held these positions from 1953 through 1963 at a number of U.K. manufacturing companies, the last of which was Leyland Motor Corporation. In 1964, Slater partnered with Peter Walker to found an investment company called Slater Walker Securities. It was with this firm that Slater became famous in the U.K. for aggressive corporate takeovers. By 1969, Slater Walker was a significant financial conglomerate, and the firm evolved into an investment bank.

Slater saw his company end abruptly due to the 1973-74 recession in the U.K. This bankrupted Slater personally as well. Nonetheless, he managed to fight his way back into the upper echelons of the investment world by means of private investing and with his financial writings. His investment advisory service “Company REFS” helped to establish him as an investment guru in the U.K.

Slater authored a number of books and publications, including a number of children's books. By the year 2009, Slater had established himself as chairman of BioProjects International PLC, as well as deputy chairman of Galahad Gold PLC, and investment director at Agrifirma.

## **Investment Philosophy**

Slater laid out his thoughts on investment strategy in his weekly column and in a number of books. He tended to favor small growth companies that he saw as being undervalued by the market. In order to seek out these stocks, Slater looked to the PEG ratio, which combines growth and value investing by comparing a company's price-earnings ratio against its expected earnings per share growth rate.

For Slater, a stock with a P/E ratio was not expensive so long as it had a high earnings growth. Slater also popularized the technique known as "asset stripping," referring to the acquisition and subsequent disposal of company assets, a practice that many viewed as unnecessarily or overly harsh in terms of costs to company employees.

Noteworthy Publications:

"Investment Made Easy" by Jim Slater (1995)

"The Zulu Principle: Making Extraordinary Profits from Ordinary Shares" by Jim Slater (1992)

"Beyond The Zulu Principle: Extraordinary Profits From Growth Shares" by Jim Slater (2000)

"How To Become A Millionaire" by Jim Slater (2000)

"Make Money While You Sleep" by Jim Slater (2002)

Quotes:

"Most leading brokers cannot spare the time and money to research smaller stocks. You are therefore more likely to find a bargain in this relatively under-exploited area of the stock market."

"Highlighting what Slater thought was the inherent greater potential for the growth of smaller companies, he said, "I once compared a very large company with an elephant by making the comment that elephants don't gallop."

"You get out of an investment what you put into it, so the first decision you have to make is how much time you are prepared to devote to the initial task of acquiring a basic knowledge of investment."

Read more: The Greatest Investors: James D. Slater

<https://www.investopedia.com/university/greatest/jameslater.asp#ixzz595QBqPic>

## **Article 07 The Greatest Investors: Benjamin Graham**

By Nathan Reiff

Born: 1884 (London)

Died: 1976

Key Positions: Newburger, Henderson & Loeb Graham-Newman Corporation

### **Personal History:**

Benjamin Graham authored several books that have served as indispensable reading for rising investors in recent decades, “Security Analysis” (1934, written with David Dodd), and “The Intelligent Investor” (1949). Although born in London, Graham lived in the United States from his early childhood, growing up in New York City. Graham’s father died when he was only nine years old, leaving the Graham family in a difficult financial position and Benjamin with a focus on achieving financial security.

Graham studied at Columbia University, graduating in 1914, and began working at Newburger, Henderson & Loeb as a messenger immediately after graduation. Graham rose through the ranks exceptionally quickly and was named partner at the company by 1920.

Working together with partner Jerome Newman, Graham founded an investment partnership in 1926 and began to lecture at Columbia University on matters of finance. Graham would continue to lecture on these topics until his retirement in 1956. Although the Graham-Newman Corporation suffered greatly during the stock market crash of 1929, the partnership survived and eventually managed to recoup its losses. The experience was a formative one for Graham, who went on to co-author “Security Analysis” in 1934. From that time until its termination in 1956, the Graham-Newman Corporation thrived, sporting an average annual return of 17%.

### **Investment Philosophy:**

Graham’s investment style may best be summed up by his second book, “The Intelligent Investor,” still considered to be one of the seminal texts on investing for the modern era. Graham’s fundamental philosophy was that any worthwhile investment would be worth substantially more than what the investor had to



pay for it. Determining value of a potential investment requires thorough analysis (fundamental analysis, by modern parlance). Graham looked for companies with strong balance sheets, little debt, above-average profit margins, and significant cash flow. To describe his efforts to find undervalued companies with temporarily low stock prices and sound fundamentals, Graham coined the phrase "margin of safety." The margin of safety refers to the difference between the purchase price of a stock and that company's intrinsic value. The greater the difference between the two, the more attractive the stock is as an investment opportunity: now, these stocks are referred to as low value multiple stocks. Along with Graham's view of margin of safety as a crucial indicator of an investment's potential for success, he also believed that market valuations were frequently wrong and that stock prices will always fluctuate.

Noteworthy Publications:

"Security Analysis" by Benjamin Graham and David Dodd (1934)

"The Intelligent Investor" by Benjamin Graham (1949)

"Benjamin Graham: The Memoirs Of The Dean Of Wall Street" by Benjamin Graham and Seymour Chatman (editor) (1996)

"Benjamin Graham On Value Investing: Lessons From The Dean Of Wall Street" by Janet Lowe (1999)

## Quotes:

1. "To achieve satisfactory investment results is easier than most people realize; to achieve superior results is harder than it looks."
2. "Most of the time stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble ... to give way to hope, fear and greed."
3. "Even the intelligent investor is likely to need considerable willpower to keep from following the crowd."
4. "It is absurd to think that the general public can ever make money out of market forecasts."

5."It is rare that the founder of a discipline does not find his work eclipsed in rather short order by successors. But for over forty years after publication of the book ["Security Analysis"] that brought structure and logic to a disorderly and confused activity, it is difficult to think of possible candidates for even the runner-up position in the field of security analysis." (Warren Buffet, Financial Analyst Journal, November/December 1976)

Read more: The Greatest Investors: Benjamin Graham

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