



Invest in the Best



"The company just didn't see the need for a Quality Manager."

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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**

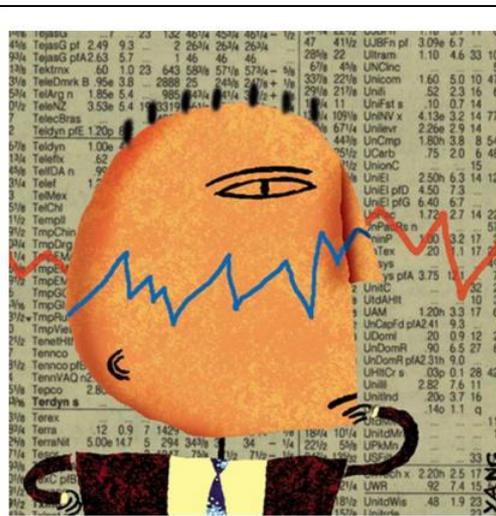
**2014 – 2017
San Jose /Los Gatos**



“When one teaches, two learn.”

- Robert Heinlein

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



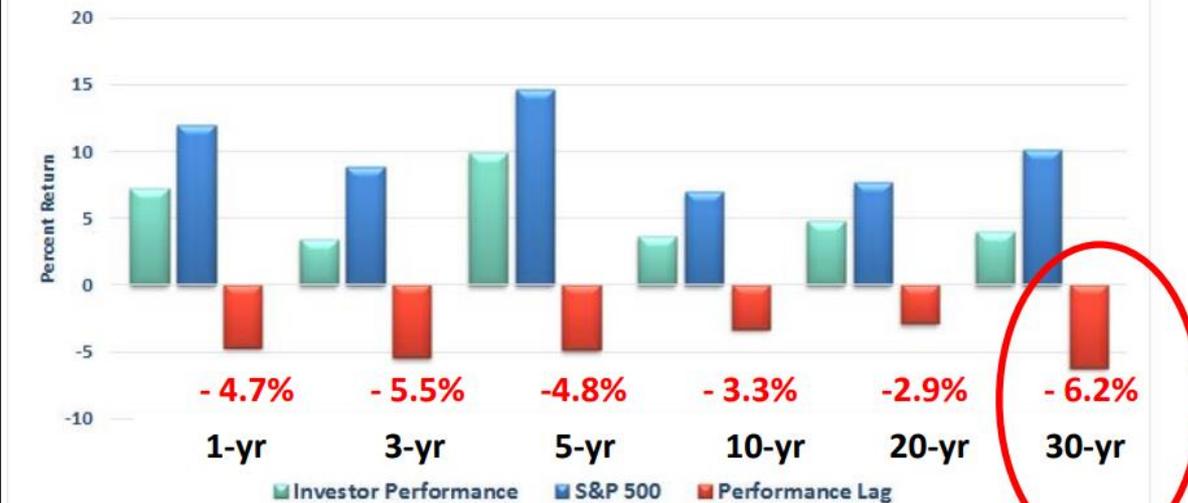
Improve Your Investment Performance by Ditching Your Emotions, Instincts and Overconfidence

Rick Lehman

Adjunct Professor, Behavioral Finance, UC Berkeley Extension

WWW. BehavioralFinance.com

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!**

AVOIDING STUPIDITY

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...

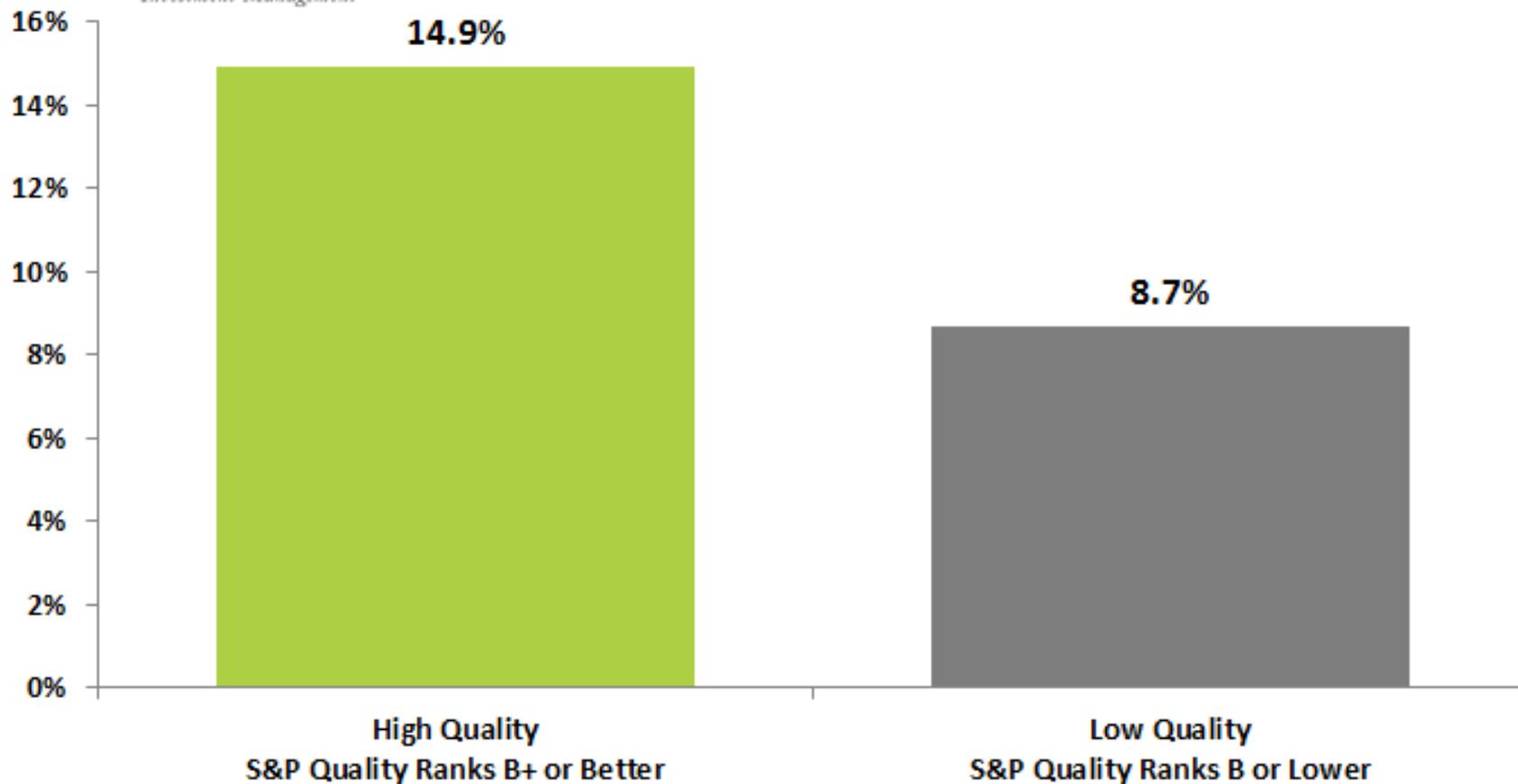
\$64,506!

THE IMPORTANCE OF QUALITY – BETTER RETURNS



High Quality vs. Low Quality

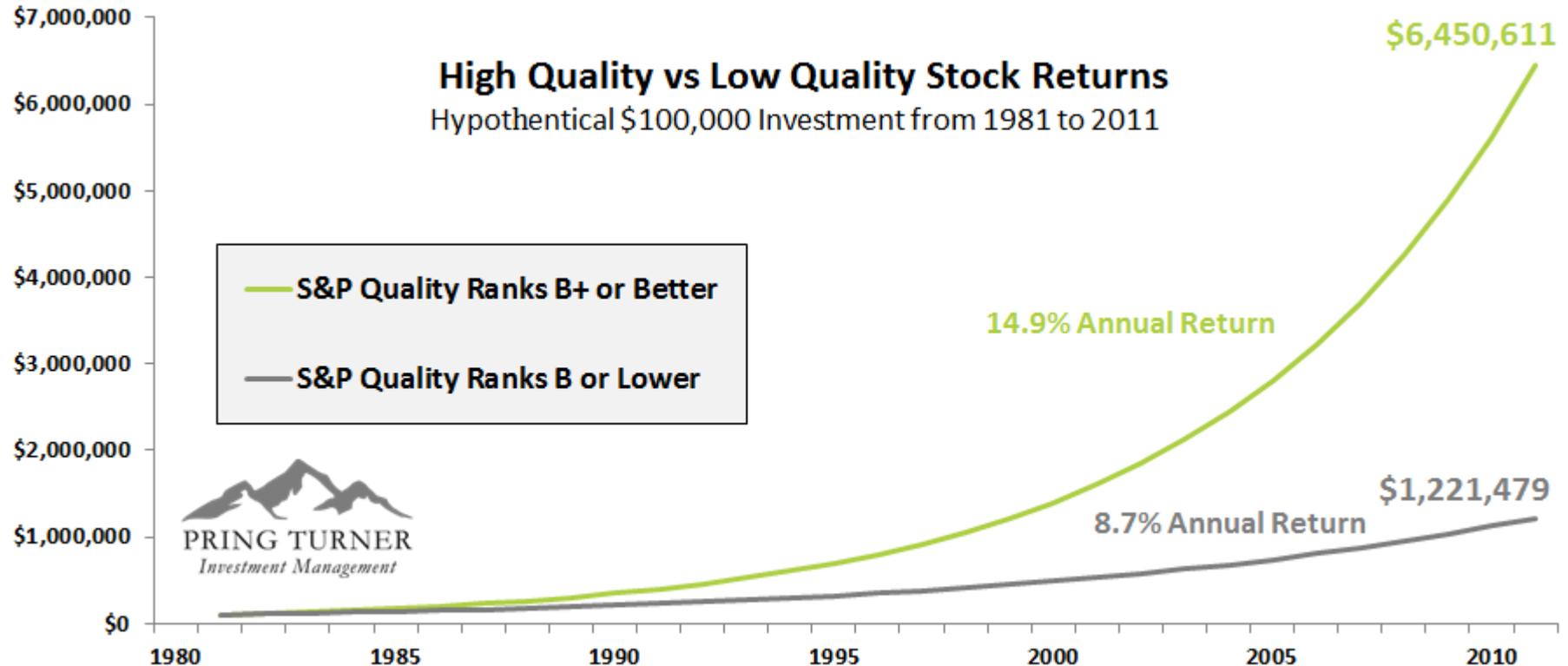
Average Annual Stock Performance 1981 -2011



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

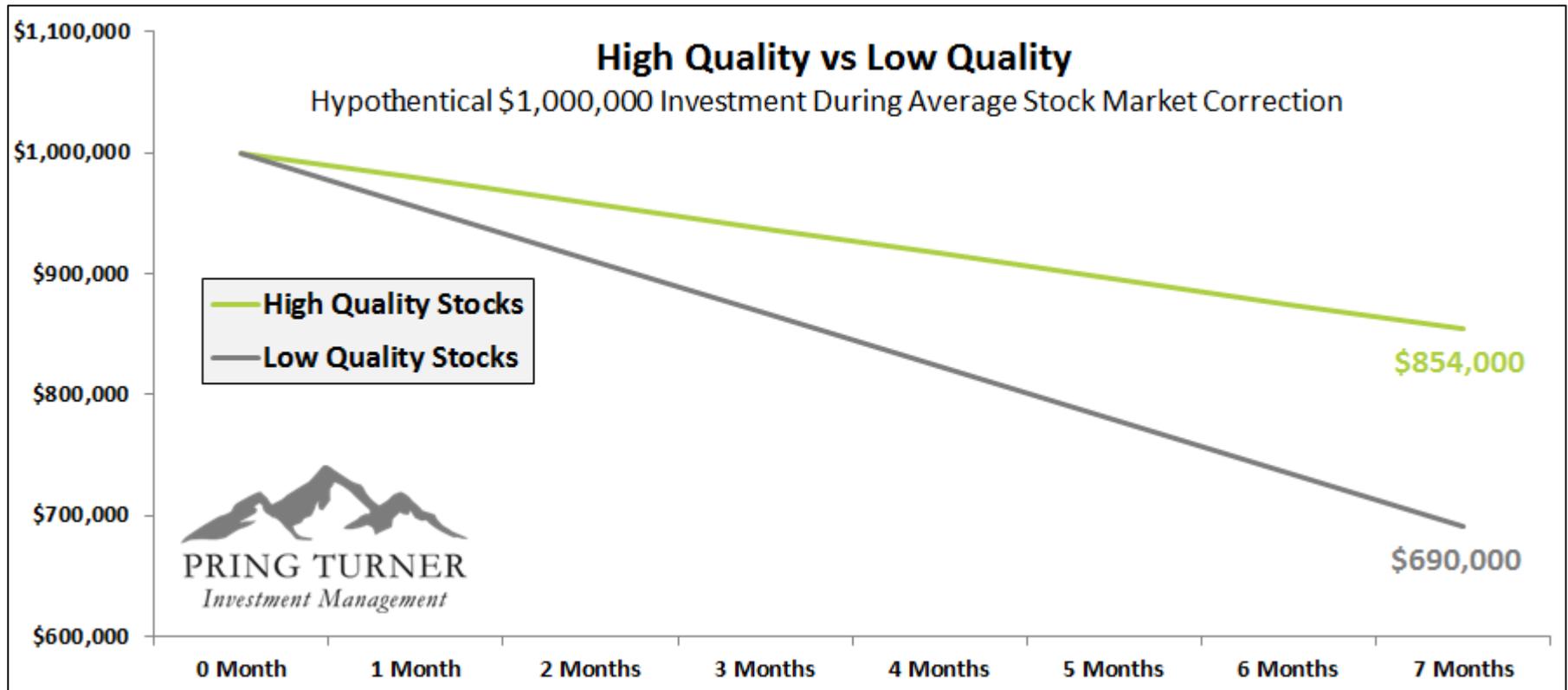
Average Drawdown During 16 Stock Market Corrections from 1972 -2016



Sources: Value Line Subscriber Manual, Pring Turner Investment Management

QUALITY PROVIDES YOU ADDED PROTECTION WHEN YOU NEED IT MOST!

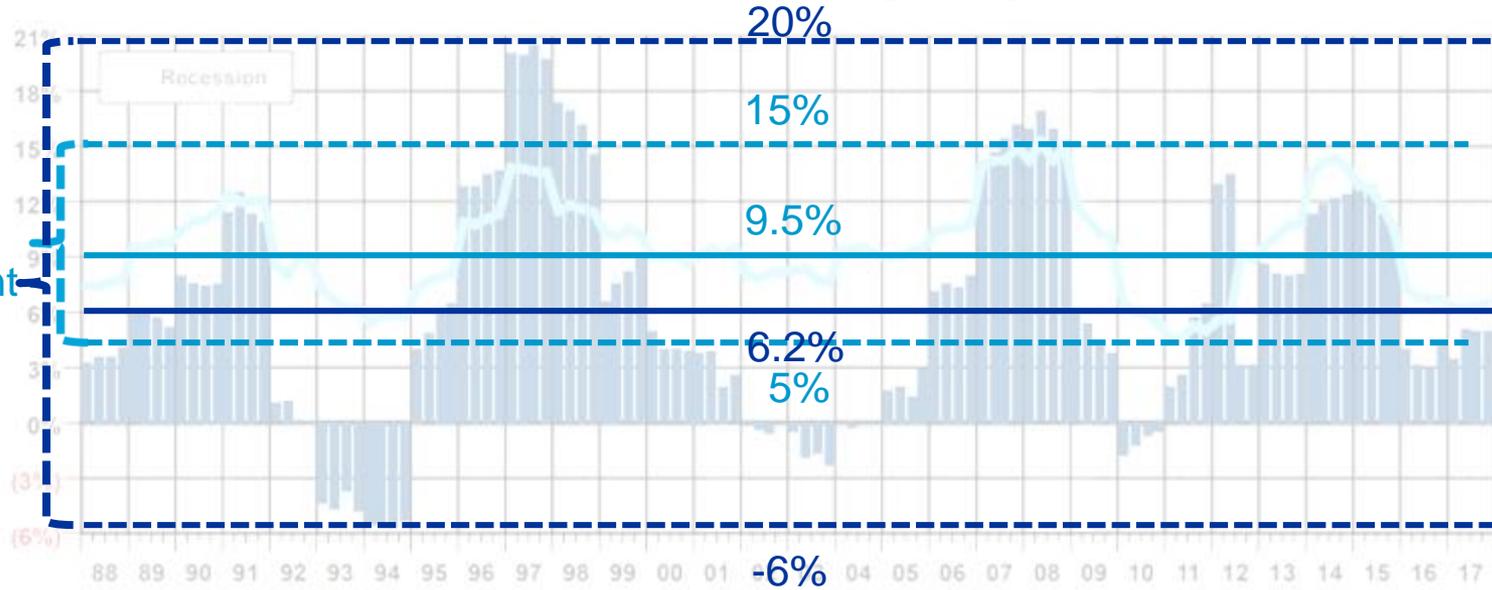
THE IMPORTANCE OF QUALITY – LESS RISK



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



More
Higher
Consistent

	<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.**

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

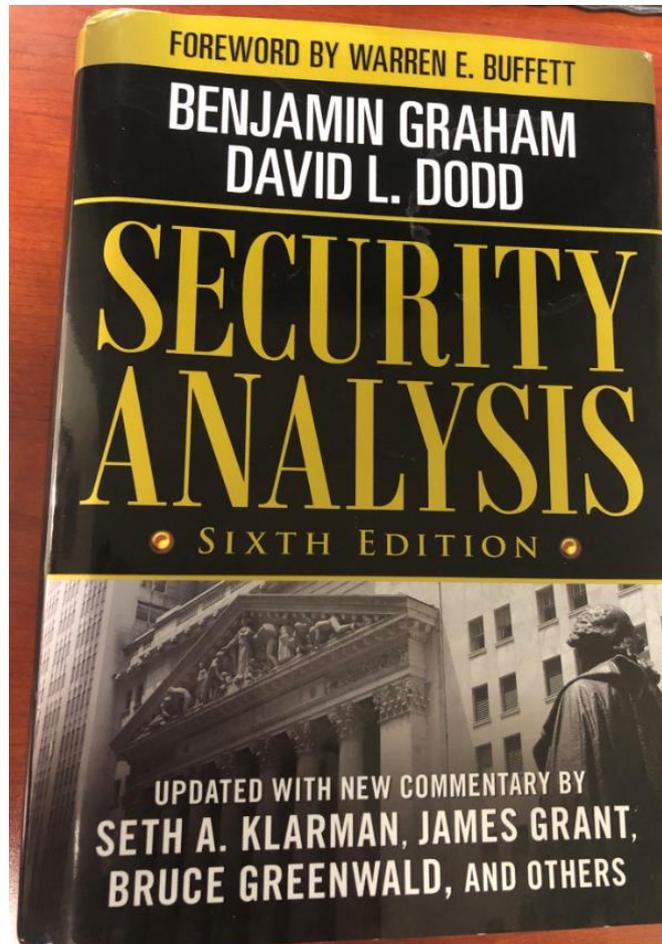
- Network effects
 - Intangible assets
 - Switching costs
 - Cost advantage
 - Efficient scale
-
- Direction of Moat: (Eroding vs. Widening) is equally, if not more, important than size.

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

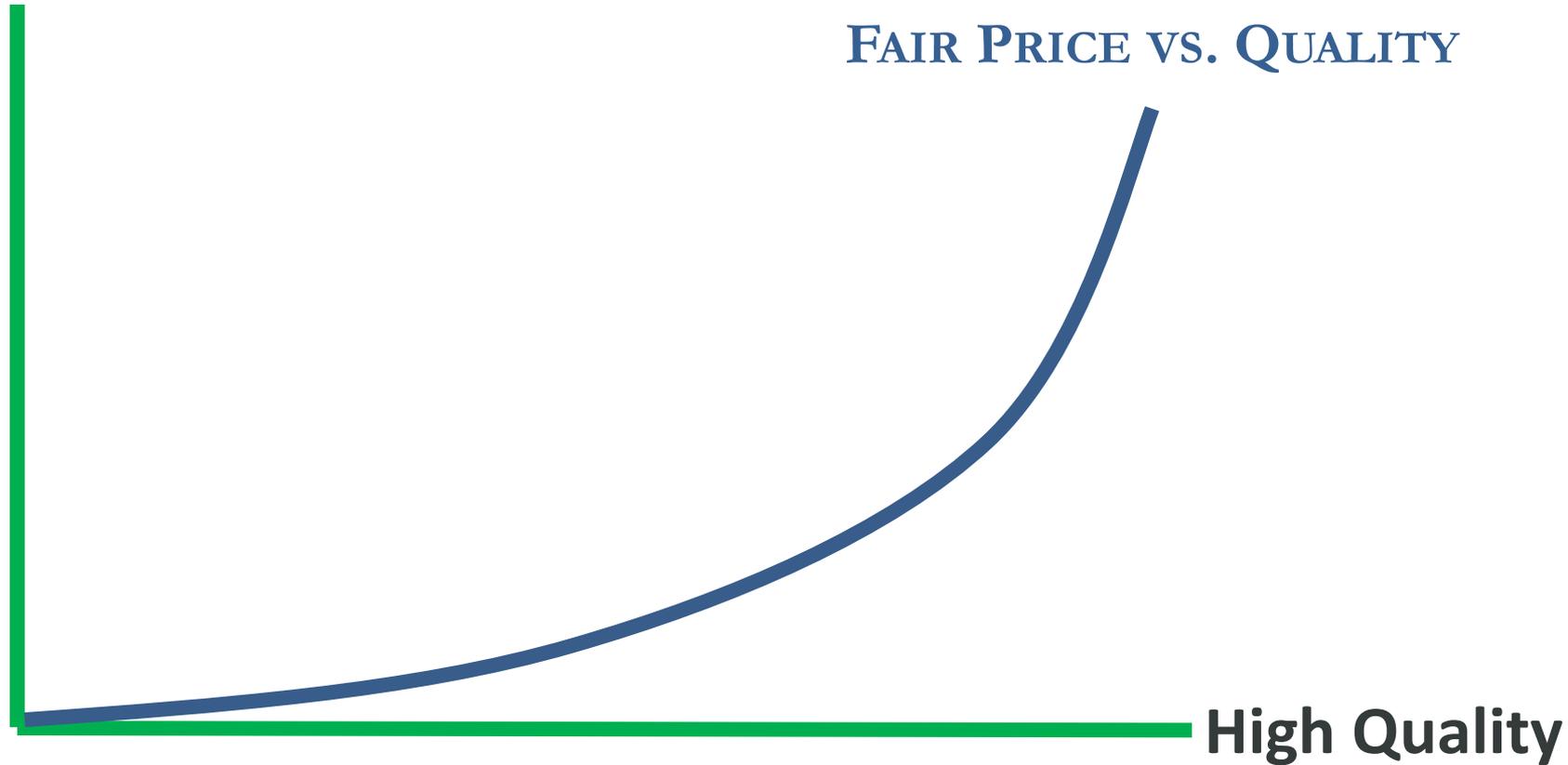
Quantitative Mindset
Accounting Ratios
Metrics = Markers of Valuation

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

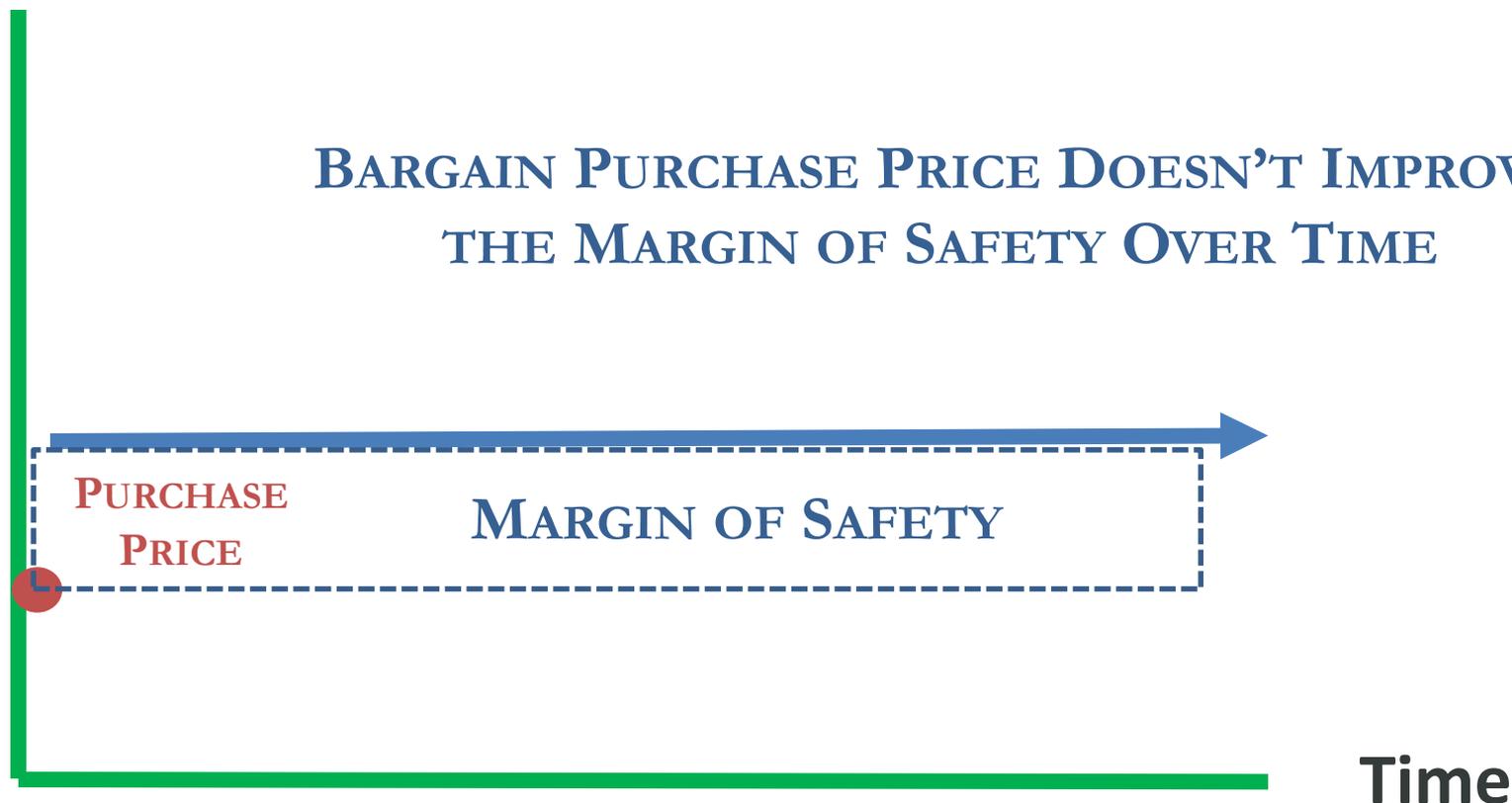
Intrinsic Value



“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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