Sather Financial Group, Inc.

Comprehensive Wealth Managers

What Is Investing?
November 21, 2008 Commentary

Just when most of us thought the "other shoe" had dropped, we have been slapped with back to back 400+ point declines in the Dow. It is certainly salt in the wound. We don't know if this is *capitulation* in which everyone finally throws up their hands and says "I give up" or not.

However, our perspective is that there are two very different worlds at work currently.

World #1 is the hyper speculative, second by second, knee jerk reactionary world that folks like CNBC, CNN, FOX and Bloomberg report on all throughout the day. If you knew nothing else, you would think that a nuclear weapon had been dropped on our financial markets and that our demise was imminent. This world bombards us with information literally every second of every day—whether or not it is remotely accurate.

World #2 tells a very different story—it is the story of finding solid business partners. This is INVESTING (as opposed to trading, gambling or speculating). Investing requires discipline, patience and critical thinking skills. ***This is what we do on behalf of our clients.***

Investing is a proposition in which we look for a business partner. What do we want in a business partner? For starters, we want a business that sells goods to an ever expanding universe. We prefer dominant, if not monopolistic, types of businesses. We want sales, earnings and profit margins that are continuously improving. We want businesses that are conservatively financed—no need for unnecessary debts. It is not that hard to find firms like these in today' market place.

If you had business partners that exemplified the characteristics in the above paragraph would you bail on them just because a bunch of gamblers from World #1 told you the universe was coming to an end? Doubtful.

Dell is a business partner that we admire. However, the traders of the world are behaving as if Dell will never sell another computer. Is this perspective accurate? No. Last night Dell reported quarterly earnings (yes, positive earnings) of $.37 per share. On an annualized basis this is $1.48 per share in earnings. With Dell stock trading for $10 per share this means that you can buy the entire business for 6.75 times earnings—despite the fact that we know that the average company historically trades for 14 times earnings.

Is Dell just an average company? No, it is a well run machine. Secondly, you have to employ a small amount of critical thinking to see that Dell has $5 per share of CASH on its balance sheet. Once you make a simple adjustment for that cash you realize that the ongoing business operations of Dell are trading for 3.3 times earnings. Just to get back to the averages, Dell would have to increase by 300%!

In this environment do you want to be a buyer or a seller of Dell? If you look at the math and critically assess the fact that the world needs computers you realize that Dell is probably a sound choice for a long term business partner.

Dell is not the only company that fits this profile of being a solid business partner at a tremendous value. Here are some others:

1. Altria, which sells beer, cigarettes and food is down 30% this year. It is selling for 9 times earnings and business partners receive a 7.75% dividend yield just for being a business partner.

2. Berkshire Hathaway (Warren Buffett's company) sells everything from energy to insurance and fully owns companies like Dairy Queen, Geico, Pampered Chef, Acme Brick, Clayton Homes and Benjamin Moore Paint. Despite Buffett's legendary record of being the greatest investor of all time, the idiots from World #1 have indiscriminately sold Berkshire. As such, it is down 44% year to date.

3. Microsoft, the world's largest and most dominant seller of computer operating systems is down 50% this year. This company, which is a debt-free virtual monopoly, can be purchased for a mere 9 times earnings.

4. Disney, who provides everything from theme parks to ESPN and ABC TV, not to mention a long string of hit movies is down 40%. And any of us can be Disney's business partner for only 8 times earnings.

These are all real businesses with real products that produce real earnings. After applying a bit of critical thinking you need to ask yourself "do we want them as our business partner?" The quick answer is "yes".

The news media can tell us that the world is coming to an end. We don't care. **If these types of companies fall even further we will only get more interested in being their business partner—not less.**

We wish that we could tell our clients when the markets will return to "normal" behavior. We don't have a crystal ball and have never purported to understand the short term moves of the financial markets.

We do understand the fundamental analysis of assessing and valuing a business. Again, this is the foundation of INVESTING. At this point, we are quite content to continue being owners of the businesses we have partnered with.

We fully anticipate that being business partners with these companies will still provide the best LONG TERM returns for all of us.

In the long run, these strong businesses will not only survive, they will most likely pick up market share. Just another, of many reasons, to hang in there with our business partners.

While we wait for rational behavior to resume, we hope everyone has a safe and happy Thanksgiving.

Call with questions.

Sincerely,

Dave

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