

Sather Financial Group, Inc.

Comprehensive Wealth Managers

First Quarter 2009 Commentary

Through the first quarter the financial markets are down. This is no surprise to anyone breathing oxygen. At one point in early March the financial markets took their tailspin to a new level with the Dow Jones Industrial Average down more than 25% in 2009. This moment of distinction put our financial markets at a 12 year low—a dubious moment indeed.

With all of this supposed doom, gloom and despair, is the world coming to an end? Have the basic laws of economics been repealed? Has anything changed about the world's desire to buy beer, cigarettes, food, Q-Tips or most other things? **Of course not.**

Let's stop and take a look at Johnson & Johnson (JNJ) for a second. This company makes Q-Tips, Band-Aids, Baby Shampoo, Tylenol and a whole list of products that people, world wide use every day. Even with our brains, we can understand the uses of Q-Tips.

Does JNJ make money selling Q-Tips? Yes. In fact, JNJ has increased its earnings, on average, by 10% per year—for the past 20 years! That is some serious consistency.

Although there are subtleties that go into valuing a business, **the largest component to a valuation is a company's annual earnings**. For the past 20 years JNJ common stock traded in a range between 15 times annual earnings and 20 times annual earnings. Simply put, this means that if JNJ earned \$4 for every share of stock for each shareholder then the stock would most likely trade for between \$60 and \$80 per share. Given JNJ's consistency this is quite easy and logical to follow.

Now try applying these metrics to JNJ in 2009 and something does not make sense. The company is currently earning \$4.57 per share for every share of stock that shareholder's own. Despite this, the stock is only trading for ELEVEN times its annual earnings and pays investors a 3.5% annual dividend too. So why have investors run for the door on JNJ and so many other great companies?

Has the market for Q-Tips dried up? Is there no demand for Tylenol? Is JNJ no longer selling Band-Aids or Baby Shampoo? Of course not. The demand for these items is pretty much the same as it has always been—if not growing.

Why then is JNJ trading for only 11 times its earnings when normally it trades at 15 to 20 times its annual earnings? We are not sure, but **the short list of culprits continues to be: emotion, fear, panic, 24/7 news media etc, etc.**

Do any of these things materially affect the long term demand or viability of Q-Tips, Band-Aids, Baby Shampoo or Tylenol? No.

As such, once the fear, emotion, panic and non-stop droning of our news media ends people will look up and see what a great investment it is to hold or buy JNJ-- or a wide variety of other great businesses.

You can apply this same simple math to a long, long list of fine companies. You can also do some basic market research by going to the local Wal-Mart or grocery store. **If we did not have FOX News telling us that the world was ending 20 times a day, and we used common sense based upon what we see at the grocery store, we would quickly realize that people are still shopping, spending money and that the laws of economics have not stopped.**

If these things are true, **the world economy will moderate and settle down.** In the meantime, we take tremendous pleasure in knowing that every time someone buys Q-Tips that JNJ's earnings just keep going up, which in turn makes that investment that much more valuable.

Finally, this year marks Sather Financial's tenth anniversary. To say thank you to our terrific clients and supporters we would like to invite you out to Fosatti's (302 S. Main St) for a cold drink, a bite to eat and an opportunity to relax a bit. This year's client appreciation party will be on Thursday April 23 from 5PM to 8PM. Please put it on your calendar as we would love to see you there.

Sincerely,

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

Warren Udd
CERTIFIED FINANCIAL PLANNER™

