

Reading; a Key Attribute to Investment Success

One of the unique features about TAMMA is that I perform our own investment research. According to an analysis by Lipper, a Thomson Reuters research unit, 85% of active large-cap stock funds has lagged their benchmark indexes through Nov. 25 2014. So rather than buying mutual funds in non 401k accounts (typically mutual funds are the only investable option in 401k plans), I decided early on in my investment career that dates back some 20 years that I would select individual stocks and bonds to build customized portfolios for my clients.

As I have enhanced TAMMA's proprietary company research methods over time, some people might just believe that I stare at numbers all day long...quite the contrary. One of the unknown key attributes to investing is the ability to read and to read large amounts of data. There are over 20,000 publicly traded companies in the United States alone and over 50,000 globally. It would be humanly impossible to know even a slither of information about all those companies let alone the time to read each of their annual reports.

Strategically I have broken down the companies that I follow into two camps, a Top 50 list and a Top 100 Prospect list.

- Top 50 List – consists of any individual company that TAMMA currently owns in any client portfolio in addition to companies that we would own at a specified price target. Conversely we also have price targets to sell specific portions of our holdings as well including companies within this list.
- Top 100 Prospect List – consists of any company that we have found through our research processes that while interesting, we cannot support an investment thesis at this point in time. However this does not mean conditions wouldn't change in the future so we maintain coverage of these companies.

Once a company makes one of these lists, they can move between either lists or be dropped from one or both altogether. This typically is a result of missing expectations/deterioration in performance, company becomes overvalued, or an investment thesis that just did not come to fruition.

Notice how both list have a maximum number of companies. While you could arbitrarily pick any number of companies to follow over time, I have come to the conclusion that any more than this amount I could not spend an adequate amount of time in researching the company and just as important, maintain a level of attention to that company in order to make an informed buy/sell decision. This is where reading as a key investment attribute begins to come into play.

When it comes to maintaining a high level of consistent and constant research, reading a company's annual report is essential. But even to track over 100 companies I needed to develop a process and checklist to filter out the good from the bad. Within a company's annual report I focus on the follow three sections;

1. Business
2. Management Discussion and Analysis
3. Consolidated Statement of Balance sheet, Income statement, and Cash flows.

Within these three sections of an annual report, I can begin to ascertain if this would be a company worthy of making one of my two investment lists. I ask the following questions;

1. Do I understand the business of the company? If yes then move to step 2. If no, is it a compelling enough business that I am willing to put time and effort to learn about? If no then move on to the next company. In order to understand what a company is worth I need to understand how it operates.
2. How does the business score in our proprietary financial model which uses economic margin, debt, cash flow, revenue growth, and quality margin as key inputs? If > 3 out of 5, then business might have some moat/merit. If <3 then move on to the next company.
3. Is the management strong? Largely a subjective question but key indicators to look at is the longevity of the executive management team, how much of the company does the executive management team own, have they been buyers or sellers of the company stock? If I feel comfortable with the management team then I have a potential company for my Top 50 or 100 Prospect list.

Insider Trading

3... Next year (2015) will be the 3rd year of Barack Obama's 2nd 4-year presidential term. The S&P 500 has been positive on a total return basis during 19 of the last 20 "presidential 3rd years" (BTN Research)

26... percentage an average American family anticipates borrowing of the total cost of their child's college education, either through student loans or loans taken out by Mom and Dad (Sallie Mae).

28...percentage of American workers surveyed who are satisfied with their financial situation (Pew Research Center)

State of the Portfolio

Although we strive to maintain a balanced approach in our research between small/mid cap vs. large cap companies, our work continues to drive us towards the small/mid cap classes. Currently we believe that most large cap companies are fairly valued so rather than chasing performance we will remain patient investors and wait for a modest pullback in prices. With that said, most of our research has been focused on small/mid cap companies with limited analyst coverage to exploit a few "diamonds in the rough."

Large Cap - market valuation (or cap) greater than \$10 billion, focus is on companies that are less sensitive to interest rates, carry below average debt, and provide for growing dividend payouts

- Diageo, DEO most people may not know this company by its name but it would likely know it by its diverse line of beverages such as Smirnoff, Johnnie Walker, Malibu, Baileys, Guinness, and my personal favorite Crown Royal. DEO has increased their dividend the past 2 years which currently stands at 3.4% and over the past 3 years it has increased on average 8.4%. Although DEO carries a much heavier debt/equity ratio than we would like, its strong cash flow and consistent dividend growth make it very attractive. Its diverse product line, allows some

protection in economic downturns as consumers can trade up or down at various price points for changing levels of income.

Small/Medium Cap – market valuation (or cap) of less than \$10 billion, focus is on companies that grow based upon product or service differentiation, up and coming technologies that could replace current established products, services, and/or processes

- Douglas Dynamics, PLOW designs, manufactures, and sells snow and ice control equipment for light trucks. Having just put one of the worst winters on record as far as snow fall and cold temperatures behind us last year, we still believe that this company has a great long-term future. PLOW carries a modest debt level, has turned in strong cash flows, and better yet has delivered high economic margins on those cash flows. This stock could carry more volatility than most small stocks given its strong ties to the weather, but given its strong management performance we believe that it can weather most storms. As a bonus this company currently pays out a 4.0% dividend which is rare given its small size.
- US Ecology Inc, ECOL provides radioactive, PCB, hazardous, and non-hazardous waste services to commercial and government customers throughout the United States. The company does not carry any debt and supports an average sales growth rate of 13.4% over the past 4 years. It has converted those additional dollars into bottom line profits as its return on economic margin has averaged 9.6% over that same period. This is an industry with high barriers to entry and given ECOL's small size with a market cap < \$1B and strong financials, could make for an attractive takeover target.

Social Currency

We would like to express our sincere gratitude and acknowledge the following individuals who have recommended TAMMA to our newest clients. Your continued trust and confidence in TAMMA is greatly appreciated.

- **Jody & Brent Zak**

Personalized Investing; How to Build a Bigger 401k or IRA Balance

It doesn't take a high IQ to determine that there are three major factors that no one wants to here when it comes to building a larger retirement balance. They are as follows;

1. **Begin contributions as early as possible**
2. **Contribute the most that you can**
3. **Retire later in life**

This appears to be very simple in practice or on paper but in reality the real work lies in the execution of any wealth management plan that may include any or all of these points. Most people who struggle with maintaining a wealth management plan do not have an income problem, but rather they have a spending problem. You could very well have a large 6-figure income or great and still spend more of your income than you should and save at just the opposite rate.

Spending habits are hard to change especially in relationships where one person may be a saver and the other a spender. Most financial arguments I believe are centered on this push/pull vortex. I see these

struggles first hand with clients that I work with and to some degree in a few of my own personal relationships (I am the habitual saver by the way). Partners have to find a balance which may require any given number of tools to be used independently or with each. Below are a few ideas that I have found to work;

1. Consistent and focused communication, you should try not to nag the other person but constantly getting the message out there is better than hiding and hoping the problem will go away or solve itself (which it never does)
2. Illustrations also help to visually put financial situations into perspective; not opening your credit card statement won't help your situation. Nowadays credit card companies are required to show you how much interest you will be paying over the course of your debt load if you only make the minimum payments (typically a very eye opening experience)
3. Nothing begets success like success, once you begin to see results then you begin to build momentum and you can see things starting to go in a better direction. It makes you think twice about buying the latte every morning or charging up a \$5k vacation. Big or small purchases begin to add up over time



As a wealth planning advisor, I see my biggest role in people's lives as a person who can help develop that initial wealth management plan but more importantly help keep people on it. I see how painful it is for people to live with extremely high debt loads but I also see the joy and pride that people have as they dig themselves out. They choose themselves and decide not to be prisoners to the debt which not only allows for financial freedom but probably more important life freedom.

For questions about IRAs or any retirement vehicle, do not hesitate to reach out to us to find out what option may be best for your own personal situation. Remember at TAMMA, we help to personalize investing for your future.



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