

PHYSICIAN'S Money Digest®

THE PRACTICAL GUIDE TO PERSONAL FINANCE

An Ascend Media Healthcare Publication

April 2007

BASM—An Acronym Investors Should Know

| STOCKS |

Growth companies that multiply an investor's money by 25 times, 100 times, or even between 400 and 600 times—let alone the truly big companies like Wal-Mart at over 19,000 times—have four great characteristics. You can quickly and easily learn how to identify these characteristics by using common sense.

Why the Win

The acronym BASM (see box) can be a tremendous guide in this process. A business model describes three essential things. How a company will make high profits, how it will grow those profits for a long time, and how it will protect those profits from competition.

Yahoo and eBay have great BASM, while Amazon needs more work on its business model, and Google is a great product, but like many companies, such

Business model
Assumptions (by management)
Strategy
Management

as Polaroid, and Xerox, and Kodak, needs to support the current hot product with a business model as good as Yahoo's. In other words, a good company not only develops a great product, but is able to expand and branch out for years to come, strategically cultivating new revenue streams.

Every company makes critical assumptions about how to approach a market. Bill Gates studied how consumers and companies would buy software, and only then applied his assumptions to construct a business model, followed by a product strategy. That is how he won.

Get in Tune

Physician-investors can recognize BASM by practicing looking for them. Only read annual reports of companies that clearly show they have great-looking business models and assumptions about their future. Thus, focus saves much time.

"Know what you own" is the old adage about how to hold the wealth stocks or buy more during big market swings instead of guessing the market

direction, which costs people chances to be rich. For example, if you don't understand how a tech stock will make money, don't buy it.

Earnings are the golden eggs that drive stocks over the long term, but BASM is the golden goose that lays those golden eggs. Knowing the BASM will save time and headaches and avoid staying up late to emulate financial analysts.

Keep a notebook, and you will be amazed at how quickly you start to identify the BASM and those wealth stocks, even early-stage companies without earnings. It is all the same, whether it is technology, retail, or health care. ■



Fred Kobrick is the author of *The Big Money: Seven Steps to Picking Great Stocks and Finding Financial Security* (Simon & Schuster; 2006). A veteran investor and mutual fund manager, Kobrick managed \$4.5 billion in assets in mutual funds. He draws on decades of success as a stock-picker. Kobrick's fund achieved one of the five best long-term records in the United States for 15 years, according to USA Today, and was selected by Money magazine as one of six "Funds of the Decade" in the 1990s. His fund was the only fund to win the USA Today's All Star Fund of the Year award more than once.