

Book Excerpt

BOOK EXCERPT TO PLACE IN WEB SITE (not this sentence) ANYONE CAN
BECOME RICH
One Stock, BASM, and the Seven Steps

America won the Revolutionary War. Although the reasons are complicated and involved strategy, perseverance, supplies, and more, we know from our school days that the British relied on an outmoded way of fighting. They were very well organized, marched in a straight line, and stood tall in their bright red coats when they red.

In contrast, the Colonials were more free-form, hid behind trees, and red when ready. Comedian Bill Cosby had a routine in which he played the captains of two teams, the Red Coats and the Settlers. When the captain of the Settlers won the coin toss, Cosby then asked him what he wanted.

The Settlers'™ captain said that the enemy team had to wear those bright red coats, approach the Settlers in a straight line, and re only when comâ-manded to, while the Settlers could hide behind rocks and trees and re at will. We have always laughed at this, and put a lot of faith in that part of what we learned in school. The regimentation of the British undermined their ability to ght this type of war. The Colonials'™ exibility and new ways of ghting were instrumental in helping them win a war against a much larger and better-equipped army.

America won its independence.

What if I told you that most investors today are practicing a form of "Red Coat Investing" that undermines their ability to become truly wealthy?

I would add that there is a way to win your own independence from inâ- exible, counterproductive investing. It is through very easy yet solid techâ-niques that I and many other investors with top records have used for decades to capitalize on great stocks. It is not magic, nor does it work while you sleep. You have to actually learn the key techniques of how to recogâ-nize a great company and a future winner and then know how to hold on so you can create wealth.

First you have to free yourself from old ways of thinking. Next, you need a "compass," so that you can direct your attention to some critical but simple things. Havenâ™t you always wanted to recognize, buy, and hold one of the companies that have made stock investors 100X (100 times) their money? (Throughout the book I use X to denote multiplesâ€”thus here it means "one hundred times the value of the original investment.")

This book is about the compass, and about Seven Steps that are the simple but highly effective procedure you use, so you can stop beating yourself. It is not a manual with complex instructions, but in contrast, it uses entertaining true stories from my decades as a stock picker, with lessons. This is the way most of us learn most quickly and effectively.

Over time, you'll be able to work with more confidence and less frustration, and have a far better chance of making the big money. While this can be triples and quadruples, I think of the "big money" as more like making 10X, 25Xâ€”even 100 or 200Xâ€”your investment by owning the greatest companies, and owning them with true insights and patience over the long term. This will reward you with a second form of independence: being independently wealthy.

Since computers arrived on desktops in the early to mid-1980s, investing has not improved, nor has it improved with the arrival of the information age. For most people, information overload has simply made it much tougher to pick stocks in order to become wealthy. People look for almost everything, lacking focus and the secrets of what to look for. Those secrets of how and what to focus on are revealed herein. By simplifying and focusing, your chances of getting rich go up enormously.

My college English-literature teacher taught us that there were only seven great themes in all literature, so every book, movie, or play embodies one of those themes or a derivative of one of them. Well, there are a few more than seven themes (or principles) in all of investing, but not many. Almost all of the best growth-stock investing revolves around certain themes of how a company makes its money, grows, and thereby provides great stock wealth to its shareholders.

When we can recognize things that have occurred before, investing becomes much more simple. Each great company has a business model that it should describe in very straightforward terms: how it will grow, be very profitable, and protect itself from competitors. Learning to recognize the things that really matter gives you that critical focus and helps you avoid drowning in the flood of information available in this information age. Thus you can concentrate on the relevant aspects of that business model, the strategy and key assumptions a company makes, and, of course, how good its management is. I will outline how you go about finding this relevant information and how to focus on four critical factors, or BASM: Business model, Assumptions, Strategy, and Management. Investors who learn to focus on BASM become the investors who invest for the greatest gains.

The earnings that companies generate do create the stock gains over a relatively long period of time, but there is a

lot of confusion and noise in the short term. The reporting and accounting techniques in the “numbers game,” and even fraud and lying, can all seem like one of those English garden mazes to most of us at times. Thus I regard earnings as the “golden eggs” that create stock gains, but what I call the “golden goose” — “BASM” — is actually responsible for those golden eggs.

Still, our universal human instincts, foibles, and responses often get in the way of good investing. These foibles include greed, which can be a positive force if controlled, but a negative force when emotions run high. Next come lack of patience and lack of regard for time horizons, or insensitivity to benchmarks. Another critical and very human mistake is trying to predict short-term market moves and basing all good stock investing on high-risk factors, a strategy that almost always torpedoed great investing. Central to all great investing is substituting knowledge for emotions and building the right kind of knowledge to make the big money.

To use BASM and the tools and concepts of successful investing, we need to stop doing the things which, although typical of human behavior, constitute beating ourselves. We need, then, to follow the Seven Steps:

- knowledge
- patience
- disciplines
- emotions
- time horizon
- market timing
- benchmarks

The Seven Steps and BASM combine in a very fluid and natural way to allow you to invest for the big money. Learning to use these things is not very hard. You can see how they work in the examples I offer in this book. You will be using what is, in effect, the case method, which is the core learning tool of Harvard Business School, many of the other top business schools, and most great law schools (although my own experiences, recounted here, and yours will be much more effective than anything you learn in school). It seems to work far better than other methods. It is experiences that make investors great, and these experiences can help to make you great — meaning rich.

Did you make an early prediction that the Asian crisis would hit in 1998, or that the bull market would peak in March 2000? Most of the time, people cannot accurately predict early in a season the two teams that will be in the Super Bowl or World Series; nor can they predict the weather, or even some of the most important things that happen in their personal lives. We all like to feel that we can predict certain things, but we also know that reality says we rarely can do it accurately.

But when I get to know the CEO of a company well, I can start to understand how he or she will react to new situations. Although you may not be able to actually meet with CEOs, you can certainly read up on their track records, public statements about their company, and articles about them — in short, get to know what you truly need to know about them as you learn the techniques in this book.

Today, the Internet and other resources make it possible for you to learn all about who a CEO truly is. You can find out things right at your desk that I and other professionals had to research through travel, meetings, and phone calls.

You can predict the behavior of your closest family members and friends in certain situations, so even if you cannot predict the behavior of CEOs quite as well, you can still separate the great ones from the rest. That’s what it’s all about.

Identifying great CEOs and understanding the best corporate business models can make you very wealthy. The system of identifying those investing elements that I describe over and over again is what most great investors have found through their experiences — like those in the cases we look at here. It is the best way to make a lot of money, and over the years I refined what many of us used into the key four elements of great companies and great stock picks. Thus BASM — “the four elements” — is how you can identify and predict the companies whose stocks will generate the big money for investors.

I will never forget a warm spring day in Chicago more than a dozen years ago, when a man came up to me from the crowd after I had made a presentation to a large group of investors in the mutual funds I managed. He was in that portion of mutual-fund investors who also liked to buy some individual stocks to try to get rich. He made it clear to me that, for him, the best part of the presentation was not my fund per se, but my stories about how I picked the best stocks. Years of talking to investors have reinforced the fact that those who want to get rich crave the same kind of stock stories that professional investors tell each other over lunch.

These investors felt that they learned and benefited not so much from rules, books, or articles but from hearing about the experiences of successful investors. I immediately recognized how profoundly important that principle was, for not only had I learned from my own experiences and from great investors I knew, but I had also learned a lot from the very beginning by embracing the experiences of someone who was interviewing me for a job before I graduated from business school. It was one great story, but sometimes that is all it takes.

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