

BETTER INVESTING

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Annual Meetings

Shareholders Learn the Ropes

by Garrison Wells

When a group of BetterInvesting members headed off to Berkshire Hathaway's annual meeting in April, some for the very first time, they had high expectations.

They weren't disappointed.

There were lessons, camaraderie, food, fun and freebies from the "Woodstock of Capitalism."

Most of all, there was Warren Buffett, chairman of Berkshire Hathaway.

"If you are going to learn, you might as well learn from the best," says Kim Butcher, a director of the BetterInvesting Volunteer Advisory Board. "Last year, when I went, it was like: 'Oh man, I can't believe that I am actually here.'"

Annual meetings — not just Berkshire Hathaway's — are rife with information. It's not just the numbers. There are contacts to be made, a corporate culture to study, questions from other investors to consider, all sorts of information not available in writing, online or over the phone.

"There are only a limited number of ways you can protect your investment, and this is one of the ways you can do that," says Barry Owens, a Nashville, Tenn., economist and business columnist. "You can find out what others think about the company while you are there and interact with the people who are professionals with the company."

It's your chance, he adds, "to find out what really is going on. You can find out the direction for the future of the company."

Butcher, a labor and delivery nurse in Evansville, Ind., says the annual meeting brought home a lot of the things she has learned as an investor. "It's no different when you are in nursing school," she says. "You learn the theory, but you have to be on the floor to learn the practice."

Butcher also enjoyed the social elements of the largest annual events in Omaha, Neb. It draws more than 35,000 people.

"Being with like-minded investors and having a great social time, sharing a meal, seeing new areas of a city, is making memories that gives enjoyment to life overall," Butcher says. "I made memories that will last a lifetime."

Her memories, detailed in a writeup titled "Pilgrimage to the Woodstock of Capitalism," include dinner at Piccolo Pete's; lunch at the University of Creighton's Billy Blues Alumni Grill prior to a Value Panel Discussion by hedge fund managers; \$1 Oreo Cookie Blizzards from Dairy Queen; \$5 off a Benjamin Moore & Co. gallon of paint; and discounts on Justin Brands Inc. Western footwear and See's Candies. (All but the meals were Berkshire brands.)

But it wasn't just fun and games for the hard-core investor.

There were connections to be made, lessons to be learned and intelligence to be gathered.

"The one that sticks out the most is how Buffett used the free cash flow from his companies to invest in other companies at the correct price point," Butcher says. "In the past, I had stocks for which I would reinvest the dividends. Recognition of how Buffett does the same, but only when the value of the stock is at the proper price point, was a rather light-bulb moment for me."

"He has a saying that 'growth and value investing are joined at the hip,'" she says. "I understand the importance of that now."

Omaha-based Berkshire Hathaway is legendary for its shareholder return and per-share price. Its tentacles reach far and



Gearing Up. BetterInvesting members Mike Knight and Kim Butcher, of Indiana, attend the Omaha, Neb., annual meeting of Berkshire Hathaway, Geico's parent company.

wide, into energy, apparel, insurance, retail and finance.

Buffett holds almost as much economic sway (at least to investors) as Federal Reserve Chairman Ben Bernanke. Like Bernanke, investors hang onto Buffett's words, and his message to shareholders is quoted by business magazines. In 2007, *Barron's* named Berkshire Hathaway the most respected company in the world based on a survey of U.S. money managers.

In his blog *Contrarian Edge*, Vitaliy N. Katsenelson, chief investment officer for Denver-based Investment Management Associates, says he was struck most by Buffett's answer to what businesses perform best in an inflationary environment.

The answer?

"The ones that have royalty on someone else's revenue. You don't have to invest any more capital, no receivables,

no fixed costs. Your revenues keep growing with inflation as long as the product remains viable."

Companies that fall into this category, Katsenelson says, are ones that receive significant income from franchising such as McDonald's, credit-card companies such as American Express and Discover, payment processors including Visa and MasterCard, and companies that have their own brands such as Iconix and Cherokee.

"I have to tell you, if you are a value investor and you don't go to Omaha for Buffett's weekend, you are shortchanging yourself," he wrote. "It is really not about Buffett; it is about going to idea lunches and dinners with other value investors."

Other annual meetings can provide important information. Indeed, as Warner Robins, Ga., resident Julie Werner found out this year when she attended Synovus Financial's annual meeting, there can be a big payoff.

A longtime investor in the financial services firm based in Columbus, Ga., Werner knew the company well. Nonetheless, she arrived with a 3-by-5 index card with questions she wanted answered.

The preparation paid off with a 5-minute exchange with Kessel D. Stelling Jr., Synovus president and CEO. Her first question: "Will the company pay off its TARP loan without having to dilute shareholder equity?"

His answer, which involved growing the bank and considering regulatory

issues, lacked specific details, says Werner, a member of the NAIC/BetterInvesting board of directors. "He was really in a Catch-22 as to what he could say," she says.

Her second question inquired about competitiveness with other banks and profitability. "I was relatively pleased with the additional information I got," she says. "I was more confident in the company's plans after the meeting than I was before."

She was the only investor to ask questions. Werner, whose portfolio is well on its way toward her goal of \$1 million, attends one or two annual meetings a year. For the rest she mainly relies on online presentations.

"I tend to listen to shareholder meetings, especially for the smaller companies that I own," Werner says. "Bigger companies are well-broadcast and covered by analysts but not smaller companies. I get significant insight from listening to what they are telling their shareholders and from the questions being asked by analysts on the call."

There's a big difference, however, between the annual meetings of other companies, such as Synovus, and Berkshire Hathaway's annual meeting, says Allen Holdsworth. They probably aren't attended by Microsoft founder Bill Gates.

Before traveling to Omaha this year for his first Berkshire experience, the retired Illinois resident and BIVA Board director had attended annual meetings for John Deere and was deeply disappointed. "I think it's typical of the vast majority of

'Light-Bulb Moments' at an Annual Meeting by Garrison Wells

Kim Butcher, a director of the BetterInvesting Volunteer Advisory Board, attended the Berkshire Hathaway annual meeting in April. Here's an idea of what she learned.

Q Did you get information from the meeting that makes you a better investor?

The one that sticks out the most is how (Warren) Buffett uses the free cash flow from his companies to invest in other companies, and the correct price point for doing this. In the past, I had stocks for which I would reinvest the dividends. Recognition of how Buffett does the same, but only when the value of the stock is at the proper price point, was a light-bulb moment for me. He has a saying that "growth and value investing are joined at the hip." I understand the importance of that now.

Q Seems like there was a sense of camaraderie. Do you feel that's very important?

Being with like-minded investors is always enjoyable. There are many ways to make money in the market. Some do it with options, ETFs or mutual funds. Being able to talk with those who invest the same way you do is letting you "talk the same language" on a subject in which you have an interest. This is for me just about as good as having a great piece of chocolate.

Q Did you make key contacts? Anyone in particular you want to mention?

One of many books that I have read to be a better investor is *The Little Book That Builds Wealth* by Pat Dorsey, who is the director of equity research at Morningstar. This book is one I reread yearly. It was enjoyable to meet Pat at

annual meetings,” Holdsworth says. “Most of them last an hour and half or so, the company people get up and talk, and they don’t want many people asking questions. They just want to do their busi-

ness and be done. Going to the Berkshire Hathaway meeting is totally different; you can’t even compare the two.”

On the first day, his group showed up at 6:30 a.m. “and there were already 3,000 to 4,000 people waiting to get in.”

“And it didn’t start until 8:30 with a movie,” he says. “At 9:30 Buffett and (Vice-Chair) Charlie Munger came out and answered questions from 9:30 to noon and then from 1 p.m. to 3:30 p.m. There isn’t another company in the world that does anything remotely like that.”

Still, Holdsworth urges investors to attend annual meetings if they’re nearby — even if it’s just for the experience and to learn how they operate.

Mimi Rauschelbach, of Phoenix, Ariz., has a similar view. The BetterInvesting chapter regional manager and longtime volunteer, also a Berkshire first-timer this year, says investors shouldn’t expect the same “Disneyland” atmosphere at other annual meetings. She and her husband Paul, for instance, had their picture taken with the Fruit of the Loom characters (another Berkshire Hathaway business).

“I don’t make a habit of going to annual meetings,” she says, “but I have gone to several and seen company officers up close to hear their responses and see their expressions. To me that is a valuable thing — going to an annual meeting and seeing people face to face.”

The experience is particularly beneficial for new investors, she adds, because there’s a lot to learn. “I don’t think you

have to go to every meeting, but going to an annual meeting or two or three will show you how things work” she says. “Not every company does things the same way.”

Butcher cautions, however, that you shouldn’t necessarily buy everything the company says. “BetterInvesting teaches you to do your own due diligence,” she says. You’ll always have executives who provide answers full of hot air, she finds.

But remember, Butcher says, it’s your company. “If you have questions, don’t hesitate to ask,” she says. “If you don’t understand what management is telling you and you don’t understand where they are taking the company, ask them.

“Don’t be shy. It’s your money. It’s a great way to find out if this is a company that you really want to own.” **B**

Garrison Wells is an award-winning freelance business writer in Colorado Springs, Colo.



Omaha Stake. Members of the BetterInvesting family attending the Berkshire Hathaway annual meeting included Ross Meredith Jr., of Utah; Mimi Rauschelbach, of Arizona; Paul Rauschelbach, of Arizona; Mike Knight, of Indiana; Kim Butcher, of Indiana; Hank Mittleman, of New Mexico; Dianne Seaman, of Texas; Ron Jaynes, of New Mexico; Allen Holdsworth, of Illinois; John Pan, of California; Solna Braude, of California; Eric Aker, of California; Ron Bruyn of California; Linda Blay, of California; Anita Widmayer, of California; Steve Widmayer, of California; Edwin Smith, of California; Joyce Smith, of California.

Tips for Attending Annual Meetings

- **Be prepared.** Learn about the company before you go. Plan the questions you want to ask.
- **Don't be afraid to ask the questions.** It's your company.
- **Pay attention to the questions others ask.** There may be hints of what's going on that the company doesn't want you to know. You'll learn of the concerns of other investors.
- **Watch how the company treats its investors.** Study the culture of the company.
- **Get names.** There are a lot of people here, both with the company and other investors, who may be helpful in the future.

the University of Omaha book signing they had on Friday night. Another book I plan on rereading yearly is titled *The Business of Value Investing* by Sham Gad. I met Sham last year and it was great to see him again. We were discussing a stock that I own and I was asking him questions about enterprise value and asking for a clarification. I was told I could e-mail him if I had any questions. It is great meeting new people who are willing to help you become a better investor.

Q Did you get leads for other information sources for investing?

I have for the last two years used the websites Seeking Alpha and GuruFocus.com as sources for investing information. These websites have articles written by those who are considered the best of the best in having consistent returns. Learning what “the gurus” have invested in and how they have done an analysis of a stock enhances my own judgments in determining what my SSG values are. This year I

met Whitney Tilson of T2 partners, whose Tilson Mutual Funds follow a long-term-oriented, value-based investment strategy to identify stocks that are trading at a substantial discount to their intrinsic value.

Q Were there any negatives? For instance, these are often dog-and-pony shows, so do you need to be cautious and check out any statements made by companies.

BetterInvesting has taught me to always do my own due diligence. I expect to have to listen to some “hot-air types;” it is just the nature of life. I just think to myself, “Oh, boy this one is sure full of themselves.”

Q Anything else to be cautious about?

Be cautious of what anyone tells you. Everyone has their own personal agenda. Recognize there is always risk. Learning to balance risk and reward is a constant in life. Just as change is constant, growth is optional.