



Between 1929 and 1956 - a time period spanning the Great Depression and three major wars - Graham's investments grew an average of 17% per year!

## “Back to the Future” – Investments 101

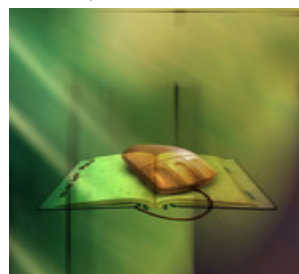
Whenever Warren Buffett –the “Sage of Omaha”, founder of Berkshire Hathaway and one of the richest men in the world - is asked about good books for investors, he recommends *The Intelligent Investor* by Benjamin Graham. Ben was Buffett's first boss and later became his friend and intellectual guide. But Graham came to Wall Street in 1914 and retired in 1956. He wrote *The Intelligent Investor* in 1949, and updated it in 1972. What can this old-timer have to say that is relevant in today's fast-paced electronic world?

In a word- “lots”! 27 years after his death, Graham words still ring

true. If you understand Graham's core points on what investing is all about, nothing the markets do will surprise you. Graham asks the most basic possible questions and answers them in the clearest possible terms. For instance:

### WHAT IS A STOCK?

A stock is not a ticker symbol or a blip on a computer screen. A share of stock is ownership in a business--and in the long run it can go up in value only if that business grows and stays profitable.



In the “dot.com” mania, many people saw only the soaring prices of Internet stocks and forgot about the basics of businesses. Graham saw speculators make the same mistake with auto stocks in 1919, radio and utility stocks in 1929 and electronics stocks in the 1960s.

### WHAT IS THE STOCK MARKET?

Usually people say the stock market is an auction - a place where buyers and sellers meet. It is also a way for companies to raise capital. Graham, in a stroke of imaginative genius, says the stock market is a person. His name is Mr. Market, and all day long



Graham was a pioneer in driving home to investors the importance of crunching numbers.

he asks you to trade with him. Mr. Market is generally stable and calm, but he often gets either manic or depressed. When he's manic, he sets high prices--and you should refuse to buy from him. When he's miserable, he sets low prices--and you should refuse to sell to him. No matter what, you must not let Mr. Market's mood swings determine your own outlook and actions.

#### **WHAT IS AN INVESTOR?**

Graham warns that most people who think they are investing are, in fact, speculating. Speculators, he says, base their "standards of value upon the market price," while investors look at things through the other end of the telescope. An inves-

tor always evaluates and weights the market price against established standards of value. A speculator likes a stock if its price has gone up. An investor likes a stock if it sells for less than the value of its underlying business.. You must study an investment thoroughly, and it must have minimal risk of massive loss and its potential return must be realistic. Graham was a value investor and so is Buffett.

#### **WHAT IS AN INTELLIGENT INVESTOR?**

The Wall Street marketing machine -and the daily gyrations of the markets - give the message that investing is not for amateurs. To some degree this is very true. Without a plan and the discipline to follow it (*two*

*attributes many investors lack*) success in investing becomes a matter of luck. We do not recommend this approach if peace of mind and security of your future is a goal. Northstar can provide both the plan and discipline.

We strive to be "intelligent" in our approach for our clients wealth. That means being able to harness our emotions and constantly expanding our understanding of what is happening in the economy and world markets. It means being patient and thinking independently. Our clients have recognized that they want expert advice from someone who is without conflict of interest and has only



their future well-being in mind.

Here are five active fund managers currently on Northstar's Recommended List that follow Graham's precepts.

*Mason Hawkins - Longleaf Partners* Despite his gentle Southern manners, Hawkins has iron discipline and will not pay more than 60% of the business value for a growing company that has "owner-oriented" managers. He also seldom trades.

*Charles Royce - Royce Funds.* His flagship funds - Pennsylvania Mutual and Royce Total Return - specialize in small companies that fall between the cracks on Wall Street. He pays ex-

tra attention to risk. Buys and holds for years.

*Christopher Browne - Tweedy Brown.* Tweedy Browne Global Value diversifies with hundreds of small to mid-size stocks trading at low multiples of earnings, revenues or book value.

*John Rogers - Ariel Funds.* His "socially responsible" funds will not invest in alcohol, defense, gambling and tobacco stocks. Also looks for well-run mid-size companies that have stumbled.

*William Nygren - Oakmark Funds.* Like Hawkins, favors growing businesses run by managers who "think like owners"; only buys when a stock is trading at a deep discount.

Northstar's investment philosophy is about equally divided between using index funds (like Vanguard or DFA funds, whose objective is to capture available market returns in the sector their benchmark index represents) and superior actively managed funds. "Superior" to us means those few mutual funds that have consistently provided better total return than their peers with less volatility and lower expenses.

All five managers listed above have done just that for more than ten years. However, the prime directive of investing always applies "Past performance is no guarantee of future results."