

**SUCCESSFUL
STOCK INVESTING**

The Truth Seeker Co.

SUCCESSFUL STOCK INVESTING
FROM THE TRUTH SEEKER
BY A VERY SUCCESSFUL INVESTOR

Successful Stock Investing
Second Edition

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Published by:
The Truth Seeker
P.O. Box 2832
San Diego, CA 92112

SUCCESSFUL STOCK INVESTING

This book is based upon 60 years of successful investing, probably 30 years of stock investing. Some fundamental rules have been developed and proven.

No effort is made to provide a get rich quick plan.

A primary objective is to preserve capital. Decisions have been made based upon research, knowledge and reason. Speculation, not based upon knowledge has no place in the program. Heavy losses have been suffered because of high pressure selling tactics of stock promoters. However, no stock has ever been bought which could not have been sold later at a profit.

One of New York's most successful operators said that if he bought a stock which dropped \$2 a share he would sell it, providing all information available did not indicate that the reduction was only temporary, thus the maximum loss incurred would never be more than the \$2. This plan followed the fundamental principal of preservation of capital.

While wise financing is practical it is unwise to gamble on the price of a stock increasing enough to sell it at a profit to pay the money borrowed, or to meet the margin required. Any borrowing should be on a basis that will be repayable from a definite source.

We have seen margin buyers, gambling on the possibilities of an increase in a stock's prices lose all their investment and be wiped out.

Some of the principles involved are summarized.

Buy value. Check the net asset value of the stock. This is the asset value as usually shown on the annual reports of the company, less its liabilities. Asset value can be much greater, or less than book value. Book value is the recorded cost of the assets, less the liabilities. But assets may have been purchased or developed in previous years at low costs or prices, and they can sometimes be many times the book or recorded value. When this principle is followed you are, in effect, buying assets, when you buy the stock at a price which is at or below book, or asset value. In companies which have been established for many years book value is usually much less than actual asset value.

PRICE EARNINGS RATIO

Another fundamental rule is to consider the rate of earnings on the price of the stock. A general consideration is that a company should be earning 10% on the value of the stock. But this consideration must be considered with others.

Some of the most successful corporations operate on profit, or net earnings margins of three or four percent of their sales are revenues. An example is Chevron, formerly Standard Oil of California. Its 1983 revenues were \$28,411,000,000. The net income was \$1,590,000,000, or less than 6% of gross revenues. The income per share was \$4.65. The price of the stock recently was \$35. The price earnings ratio (PE Ratio) was approximately 7. Other things must be considered. But a PE ratio of 7 indicates an acceptable price.

Recently Ford Motor has been selling at around \$36 a share. Last year its earnings were more than \$20 a share. This is considered an enormous indication of the value of the stock – considered with the possibilities of not so much profit for next year and the competitive condition of the auto market.

Buying stability. Another principle is to buy companies which have been in business, successfully, for many years and have shown a fair earnings on their stock for years.

Buying management. Old, long established companies which have a record of exceptional management are the safest to invest in. They should have a good earnings record.

Stock prices fluctuate, depending upon economic and political conditions. When book and asset values are good, and income per share is fair, and prices are at a low historical cost, it is wise to buy. The good companies – Blue Chips – are usually safe to buy. Management is important, for the politicians are eternally seeking to plunder all businesses, with various kinds of tricks and schemes, and the best managements are those which seek to protect the public and the stockholder by every method possible to combat the plunderers. The plundering is a way of life in this leftist, Democrat Party controlled nation and we must accept it is a way of life. The politicians gain political support by plundering the productive businesses and passing out taxpayer's funds to various kinds of loafers, special organized predatory groups, such as benefits to labor unions, farmers who get paid not to produce wheat, cotton, corn or milk, and fruit growers who dump part of their production, tobacco raisers who cut back on production to keep prices high, and other special interests.

Management is not always able to cope with the political situation and when the Democrat politicians gain too much power, they can wreck any business, and it is time to dispose of the stock in the companies which may be vulnerable. When the labor unions gained extra power under Democrat administrations the successful investors sold their stocks in the railroads and the auto companies. Many of the railroads went bankrupt and the auto companies suffered great losses, such as Chrysler, which had to have the taxpayers bail them out. American Motors stock dropped from \$30 a share to \$4. American companies paying \$20 and more per hour cannot compete with foreign companies which have to pay much less than that. Steel companies and other manufacturers have suffered the same losses.

Search the facts. Read the annual reports of any company under consideration, back for several years. Has its growth been consistent? Is its labor cost reasonable? Has it paid reasonable dividends for years? Does it have a fair earnings record? It is wise to get all the information available on a company.

There are many companies which are managed by executives who secure excessive amounts of pay and benefits from the income. Best to stay away from such companies. Usually, excessive benefits to the management of a company must obtain the approval of the stockholders, and where they control the majority vote, they can gain enormous benefits from the revenue in the way of percentages, or stock options.

However, super managements are well worth the high benefits they receive.

The best companies are those which have a genuine desire to serve the public, their customers and the nation and humanity. Most of this information can be obtained from the annual report of the companies.

DAY TO DAY KNOWLEDGE

To know the most important information every investor should subscribe to the Wall Street Journal, which gives a day to day report on stocks, business and politics. There is no substitute for knowledge.

TESTING YOUR JUDGMENT

For the beginner, it is wise to check the stocks you have in mind to buy, examine the facts, watch them day by day, make paper determinations on which you would buy and at what prices. Meanwhile you are not yet investing. All your ideas are on paper. When you see that are successful, then is the time to start actual investing.

It is important to note the highs and lows of various stocks. The fact that a stock has increased does not mean that it may not be a good buy. Remember that we must consider value, earnings, management and the political situation under which the company must operate. When interest rates are high, billions go into loans and bonds, and when interest rates are low there is more money to buy stocks. Much of this general information is available in the Wall Street Journal, and of course other financial publications.

EXAMPLES

Based on the methods outlined, below are examples of profitable investments. Amounts and dates rounded.

<u>Cost a share</u>	<u>Date</u>	<u>Value</u>	<u>Date</u>	<u>Gain</u>
Gibraltar Savings Association				
\$13	Jan. 1982	\$32	Jun. 1984	\$19
General Dynamics				
\$29	Nov. 1982	\$53	Jun. 1984	\$4
Ahmandson				
\$15	Feb. 1982	\$19	Jun. 1984	\$4
Standard Oil of California				
\$34	Feb. 1982	\$38	Jun. 1984	\$4
\$26	Mar. 1982	\$34	Jun. 1984	\$8
Penn Central				
\$25	Jun. 1982	\$47	Jun. 1984	\$22
Union Oil Cal.				
\$26	Nov. 1982	\$37	Jun. 1984	\$11
Missouri Pacific, which was merged with Union Pacific				
\$54	Jul. 1982	\$69	Jun. 1984	\$15
Bethlehem Steel				
\$15	Jul. 1982	\$17	Jun. 1984	\$2
Signal Companies				
\$22	Jul. 1982	\$26	Jun. 1984	\$4

In addition to the gains, which were sometimes greater, but not sold, substantial dividends were received. Gains were not taken because of need to pay the capital gains tax, which has since been changed to a maximum of 20%, while the holding period has been reduced from 1 year to 6

months, but also because the potential for continued gains was considerable and the time of selling was not considered ripe.

The composite cost of 32 tax transaction from December 1981 through July 1984 was \$1,921. The composite value as of July 1984 was \$2,551 with a composite gain of \$6.30 per share, or about 30%. Many of the stocks have much greater gains, but sales have not been made to avoid the capital gains tax. Substantial dividends have also been received, as have stock dividends. Prices also include losses on stocks which have fluctuated and are now below cost, but it is considered that they will recover substantially.

LATER EXAMPLE

30 stocks with a composite cost basis of \$19,887 per 1,000 shares increased to \$25,551 per 1,000 shares in two years, with a gain of \$4,664 per 1,000 shares.

Allegheny Corp. stock has risen from \$8 a share to as high as \$95 a share but has dropped back to \$80. It has not been sold because its potential is still considerable, and it has distributed substantial dividends in American Express stock which it acquired in a purchase transaction of a portion of Allegheny assets.

Penn Central stock was bought for \$3 a share and now the company is buying its own stock at \$47 a share which should increase the value of the remaining stock. Other stocks have increased from 100% to 300% but have not been sold because of the capital gains tax, and because they still have potential increases.

Using the principles of buying stock with a basic value in an established, well managed company we have bought Union Oil Co. of Calif. (now Unocal) at prices starting from \$26 a share in the last two years. (Before that it was bought at lower prices.) In July it was rumored that Standard Oil of Indiana was considering buying the company at a price of \$52 a share, double the costs. While the rumor was not confirmed, it verified the asset value of the stock, which jumped 8 points but closed at more than \$36. There is no intention of selling, for we consider the true value of the stock much more.

The buying was on heavy volume which means that the available stock will be reduced and the price will, in the long run, increase.

Stocks are not bought at less than book or asset value, and where fluctuations have dropped prices it is considered that they will increase as their production increases.

Two weeks after the valuation, the composite gains had dropped to \$5,691 per 1,000 shares. Temporary fluctuations are to be expected and the long term prospects must be given important consideration.

It is considered that the stocks will increase an additional 25 to 50%. Stocks should never be sold on a down market. Good stocks will retain their value.

Stocks fluctuate based upon many conditions, but those bought on the fundamental principles, particularly of book and asset value, sound management and long term dependability will rebound and regain their fundamental value. The investor should not be in a position to be forced to sell at low prices. Ripeness is an important consideration and many stocks continue to increase over the years, as we gave an example of Allegheny increasing from \$8 a share to more than \$80 a share – besides having divided up stocks acquired from acquisitions.

WATCH FOR BARGAINS

Stocks with fundamental values may fluctuate because of special conditions. A recent example is that of International Tel. and Tel. We considered its fundamental value of not less than \$40 a share. Because of a quarterly loss and the international situation the stock dropped to \$20 a share, and we at once ordered 1,000 shares. While it rebounded to more than \$22 a share at once, we consider that there will be at least a \$50 profit in much less than a year, and an eventual 1,000% profit.

The stock market fluctuates depending upon the amount of investing capital available. When interest rates are high stocks usually drop, as the money for investment is used to buy bonds or invest in certificates of deposit. There are usually not enough billions of investment money to buy stocks available. The super experts buy the stocks considered the best candidates for short or long term appreciation. Probably there is a certain amount of manipulation. The day to day operators make a "run" on certain stocks and sell out at a quick profit, often the stocks will continue to increase in value.

The big operators who buy 10,000 shares at a time, or more, will load up with extra good stocks. We do not encourage the non-professional to try to outguess the day to day or short term fluctuations.

THERE IS NO SUBSTITUTE FOR INFORMATION

Successful investing is not for the lazy man. It depends upon full information on the stock being considered. What is its record for years? Check the annual reports and the quarterly reports. Information can be obtained from a responsible broker. They have large research libraries and a knowledge of stocks in general.

Never buy on "tips" or from high pressure stock salesmen.

We recommend strongly that any investor subscribe to the Wall Street Journal and study it carefully every business day. There are other periodicals of great value, many of which are available in the public library or in the broker's office. It will take an hour or more to digest the daily information in the Journal. If more information may be needed, often the customer relations departments of most companies will provide it – but must not be expected to furnish information the investor should obtain from available sources.

The wise investor will allot a certain time every day to study his program. Many people waste precious hours looking at TV programs or even childish entertainment or sports, or even in fruitless conversation. One can set aside a certain amount of time for his study of stocks – and we have found it intensely interesting – much more so than sports or TV. One can allot 3 hours a day to the study of stocks and have plenty of other time for other subjects.

SELECT A SUBSTANTIAL BROKER

When you buy stocks you get a receipt for your money. It may be a week or ten days before you receive the stock. We do not advise leaving stock in the brokers' accounts. Stock belongs in a safe deposit box, and if it is not received promptly it should be checked on and obtained. For many years we seldom bought stock on margin and have had no difficulty in obtaining the certificates within a few days of purchase.

We have had very satisfactory relations with Kidder, Peabody and Company. In years past we have had delays with other brokers, some now merged and inoperative. We had a \$700 loss in

some funds left in a brokerage firm on what we thought was an interim interest fund, but it was an account which fluctuated. We had anticipated that the full capital would be available when needed.

In line with information necessity, it is wise to check on the prices of your stocks frequently – we do it most every day.

RECORDS

When putting your stock in the safe deposit box – as a precaution – it is wise to attach to the certificate a separate piece of paper giving the price paid for the stock and the date purchased and received. We suffered a heavy loss in records in a disastrous fire – but the stock certificates were safe in the bank safe deposit box.

INCOME TAXES

The greatest hindrance to stock investing is the Federal and State income taxes. Every move by a successful investor must be considered with its consequences of the income taxes. The predatory politicians seem to have an intense hatred of capitalists, businesses, investors and freedom lovers. They are eternally seeking ways to impose new and higher taxes and to impose more complicated and cumbersome tax returns and regulations. One of our recent publications from the income tax service has 80 pages, most of it in fine print and encumbered with manufactured or supposedly legal requirements, seemingly conflicting, and for an ordinary citizen, nearly impossible to understand. Actually, we don't think most of the employees of the IRS understand the complicated mess of printed "instructions" which the ordinary tax victim is supposed to digest and follow. On numerous occasions we have been advised to "seek a professional" tax advisor. The income tax laws are a jungle swamp of harassment for the taxpayer.

George Orwell's 1984 is upon us, only many times worse than he imagined it would be in 1948 when he wrote the book.

The Democrats are in the saddle and they are riding us high and digging us with their sharp spurs, gouging us as hard as they think they can. No relief is in sight.

WE HAVE TO LIVE WITH THEM

Their tax dictatorship is a fact of life, just as darkness follows the day. President Reagan is on the taxpayers' side as is Governor Deukmejian of California, but their hands are tied by the Democrats in power in the House of Representatives and the California Legislature and, of course, the ante-taxpayer judges appointed by the ruling gougers.

Protest is worthless. Only a change in the party in power will be effective. No relief is in the foreseeable future.

One of the most important steps an investor must take is to study carefully the income tax laws of the U.S. and the state he does business in. While it is impossible to understand them fully, one must do the best he can. The politicians yell about "loopholes" for the rich. We have never seen even the slightest one. They use their political yelping about loopholes to endeavor to soak their victims more.

The tax gougers are short-minded, for with their punitive tax on capital gains they discourage successful investors from selling stock when they have a gain because of having to pay the punitive capital gains tax.

As we write this we have been waiting for several weeks to get a simple answer from the IRS. We have been informed that we had a \$6,234 credit on estimated tax. We asked for which year this credit was due us. We were given the run-around and the brush-off by one bureaucrat after another. We asked them to phone us – (we phoned them 3 times) or to send a letter. They treated us as if we were at fault. Finally, we asked our congressman to find out for us – but we had to prepare a special form and go through two of his assistants to get a promise of action. Meeting him with the papers is out of the question. Our local office refers us to the state regional headquarters and we get the brush-off and the run-around when we do that. Before this book is finished we hope to have an answer that any ordinary businessman would give in 5 minutes.

The IRS seems to have a huge horde of investigators and auditors looking for excuses to hook their victims. On one case in dispute (we paid the tax) we have been waiting since 1975 for a final decision on a 1974 income tax. It will soon be ten years.

The investor must know what his few rights are in his tax program. He has to pay tribute to the predatory politicians in the saddle. It is very unwise to seek to evade or escape taxes.

PAY THE TAX DICTATORS – get on with your study of the best investments.

Younger investors should set aside a share of their income and their time to try to rid the nation of the Democratic politicians. For businessmen, investors and freedom lovers it is the most important thing they can do. They have a vast horde of relievers and religious supporters who keep them in power. The religious promoters make billions because of their tax exemptions. Many Republican politicians are also tax gougers.

After years of effort the politicians have reduced the holding period for capital gains to 6 months instead of a year. The bleary-brained politicians have finally had it seep into their heads that the longer period and its high rates kept billions of dollars in stock being held sometimes for many years because the owners did not want to pay the punitive income taxes – not only the Federal but the State upon which no tax deduction is allowed, thus the taxpayer is soaked not only three times, but the federal tax hounds tax the company on its net income, but also tax the investor a second time around on any dividends the receives.

Corporations are allowed to deduct 85% of the dividends they receive from their income tax, but private investors do not have this advantage.

The politicians unmercifully soak those who make money for they cannot get it from the millions of loafers they give easy so-called relief and welfare money to, nor of course from the farmers, milk raisers, wheat growers and tobacco raisers to subsidize them and **KEEP THEM POLITICALLY IN LINE.**

As stated we must live with this looting.

But now, an investor can hold stocks for only six months and be charged a maximum of 20% of his capital gain. This is a very great benefit and plans to benefit from its provisions should be made. Eventually, perhaps the holding period will be eliminated and the government will gain by the sale of stocks on the capital gains basis.

BULL MARKETS AND RALLIES

Some non-thinking stock commentators say that on a rally or a bull market anyone can make money. We advise not to buy stock without knowing as much as possible about the stock. **BUY VALUE AND MANAGEMENT BASED UPON A KNOWLEDGE OF THE STOCK.**

Recently the stock market averages have surged ahead. Most stocks have gone up – but not all. We have not been favorable to utility stocks as most states are encumbered with anti-business

public utility boards. One more regulatory body to have to watch. We avoid utility stocks and especially in the leftist states like New York, Pennsylvania, Illinois and lately California where Democrats have the whip in hand. But most other states also suffer. Washington State investors (and other investors) have lost billions as a result of the collapse of the bonds of the Washington Power complex's failure to pay interest on its bonds. We do not favor any utilities now except, perhaps, if the Telephone Company can be so classed.

Back to the increase in stock values. We had some stock in South Carolina Electric and Gas Company which was paying a modest dividend, but the Utility Commission was unfriendly to the stockholders so we determined to get out. Stock was selling at about \$18.50 a share. We watched it carefully and when it hit \$20 we got out. The stock has since gone back down to \$18.50 even with the so-called rally or bull market. Meanwhile we bought other stocks which have advanced handsomely – one sample. Union Oil of California has been selling at much below (book) asset value. We bought a chunk. While the utility stock went down – in a few days the Union Oil stock advanced to \$34 a share. We had bought at \$29 and \$30. It still has room to advance. Federal regulations are destructive enough to we avoid stocks subject to the mercy of state regulators on top.

We bought Home Federal Savings stock at \$13.50 a share. While most stocks advanced, it went down to \$13. We bought because we were a customer of the local headquartered company – we did not follow our long-term rules, but we expect the stock to advance in time.

We consider American Tel. and Tel. stock a long term candidate for substantial increase in value. It may take more than a year.

ATT is a fine company, one of the greatest services the world has ever known. The smallest town in Africa where the people live in straw and mud huts and they do not know indoor plumbing, can talk over a great part of the world. Instead of encouraging such magnificent organizations, the Democrat business haters have put the company and its customers and stockholders to billions of dollars of expense to survive the harassment they have suffered. But the intelligent management and the record of the company will survive and grow and I look for the values to increase substantially.

(Would that our politicians were 1/100th as efficient and favorable to the consumers and the nation as the great progressive companies they perpetually harass and tax gouge.)

The millions of tons of finely printed rules and regulations the politicians encumber the stockholders and the companies with would feed whole nations, to say nothing of the time consumed by the victims seeking to understand the garbled up paper mess and comply with the destructive instructions and pay the costs and demands.

THROUGH THE WRINGER

The politicians and their allies, the labor unions, push companies to bankruptcy. They did it on the railroads with their featherbedding demands for pay for work not done, and the labor union rulers have brought the auto companies and steel companies to ruin or near ruin. But when they wrecked, or near-wrecked companies, often at heavy expense to the government and the stockholders, who often lose all their investment, the remaining assets of the wrecked companies sell at bargain counter prices and we made gains of more than double or triple buying stock in the Penn Central Company which emerged from the wreck of the Eastern rails.

We expect to gain substantially from the remnants of the government enforced breakup of ATT, when the wise managers have time to recover from their terrible beating.

MERGERS

There is usually a good opportunity for a capital gain when companies cut expenses and improve production by merging. Recent mergers of the Missouri Pacific and the Union Pacific Railroads have proved profitable to stock buyers who foresaw the benefits. Stock which cost an average of \$113 a share has now, after merger, increased to \$161.50, and still has not reached its expectation. This merger was for efficiency and the public good. With the resources of both roads, the stock has great chances of growth. The wise managers are now taking trucks that would cost far more to send on the highways, and putting them on flat cars, hauling scores with one train crew, instead of having to pay individual truck drivers, driving through snow and rain and traffic. The railroads have land and minerals and oil to be developed.

Another profitable merger has been the Santa Fe and the Southern Pacific rails. Stock bought at \$37 has now gone to \$42 – but it has an excellent chance to go much more when the benefits of the merger become more effective.

We wish to repeat – there is no substitute for knowledge of the stocks under consideration. Such mergers are always under the supervision of the political regulatory agencies. If we ever get a government administration friendly to business, there will be great opportunities for gains from such mergers.

LONG-TERM OBJECTIVES

We often consider the long-term possibilities of a stock. All stocks go up and down. They should be bought when they are low. The stock listing in the Wall Street Journal and in the weekly stock reports in most newspapers show highs and lows of the stock in certain periods, usually in the year in question.

Some years ago we were attracted to the long-term possibilities of Allegheny Corporation. We bought stock at \$8 a share. Over the years we have kept close attention to the stock and it has now risen to \$81 a share, but it did hit \$95. We did not sell because of the income tax capital gain gouge. When we consider selling a stock for the capital gains, we must also consider whether it still has possibilities and whether there is a better place to invest the proceeds. There are many companies with wise and honorable management.

PARKING MONEY

The time is not always ripe to buy stocks, or, perhaps we are so occupied that we do not have time to examine prospective purchases. Then is when we consider “parking” funds until they are needed.

We have had some success in buying tax-exempt municipal bonds, which often do not pay a high rate of interest – but the tax-exempt provision is beneficial. At certain times they can be bought at a discount and a good return obtained. We advise great caution in buying tax-exempts. We fear such high taxed and wasteful states as New York, Pennsylvania, Illinois and recently California. We never advise buying revenue bonds. We favor General Obligation State bonds or bonds of carefully run cities. Revenue bonds are dependent on receiving income from the proposed developments and in the condition of our local governments we are wary. It takes careful investigation and knowledge. We have had full success in buying tax-exempt government or municipal bonds in Utah, a carefully-run state, and in Nevada, which gains much revenue from gambling taxes, which costs the state nothing.

Puerto Rico is a conservative, pro-business U.S. commonwealth, and it issues bonds which are tax-exempt for many purposes. We have parked funds in such bonds with full repayment and usually good interest.

Check the records of the entity issuing the bonds. Have they paid regularly on time? Is there a sure chance that they will redeem the bonds when they mature? We have never lost a dollar on the bonds we have bought, although we have lost a little on some corporate bonds bought in times past.

In the last year, surplus funds have been parked in Allegheny preferred stock which pays about 11% in dividends and we consider 100% safe. We buy it at about \$26 a share and it pays \$2.78 a year. When the money is needed we will sell, at usually a higher or the same price we paid for the stock. There are other preferred stocks which pay good dividends, but which we do not anticipate will have any capital gains.

SHORT INTEREST

There are many operators who anticipate that stocks will decline, so they borrow stock at the current price, sell it, and later when and if the stock declines they buy the stock back at the lower price and repay the borrowed stock, making a profit.

There are always millions of shares of stock thus bought. The stock is hanging over the market and is a support for the regular stock market, for it all has to be replaced at some time.

Every month the stock market publishes a list of all stocks sold short and the number of shares. In buying stocks we consider the number of shares thus sold short and if the number is large we know that sooner or later stock to replace the borrowed shares must be bought and, in effect, it sustains the prices. Short selling requires more knowledge than the ordinary investor possesses but he can consider the possible effect of prices being sustained or increased when replacements are made.

The Wall Street Journal and other publications publish the list monthly of the short interest.

PRESERVING CAPITAL

We recommend that an investor does not put all his capital in stocks. Some should be invested in GOOD municipal tax-exempt bonds. We prefer General Obligation State bonds or bonds from such states as Utah. Utah is run by the Mormon Church and we have great confidence in their state and local governments. We disagree entirely with the religious superstition of the Mormon Church, but their people are hard-working, thrifty and honorable. We have lived among them and formed our own opinion.

We also favor real estate investments of a share of capital. A lifetime of experience has proven beneficial and extremely profitable. Everyone should have his own home – we do not favor condominiums. We utterly oppose owning any kind of residential rentals – the owner is subject to the usually leftist regulatory state, federal and municipal rental agencies. One cannot pick his own tenants.

But we favor the investment of funds in commercial rental property and in acreage. We bought, years ago, a property in a commercial zone for \$1,000 a lot, which has now increased many times that besides paying a good rent.

We bought acreage for \$600 an acre which increased to \$12,500 an acre in less than 10 years. Here again, it is necessary to make a study of what to buy and where.

The lazy non-thinker cannot make the wisest choices.

California and Florida will grow as wise people will leave the miserable cold weather and climate of the North and East.

PARTNERSHIPS AND SYNDICATES

We do not favor investments of such. We lost all of the \$5,000 investment we made in an oil development partnership. Remember that you must always buy value – not a promise, even if written on a highly embossed certificate. This year we are taking a loss on \$3,500 of stock of such a deal and \$5,000 on the oil partnership. They were entered into years ago and were part of the cost of our education of how to make money in stocks and other investments. We hope our experience will be of great benefit to those who study it and test our recommendations.

Remember there are many who want to sell you promises and engraved paper for cash.

SPECULATION

In the last two years many have bought computer and other stocks linked with the computer age. Some inventors have developed time and money saving parts of the new business machines. Some inventors have sold out for fabulous profits. Investors have made big quick profits – they may have watched their speculative stocks go up – and go down when the demand fell off. We never got into the picture and didn't make the fast profits that we reported, but neither did we lose when the stocks took a dive.

An investor in speculative stocks must be an expert – unless he may have some inside information. But we do not buy stocks unless we buy VALUE. The assets must be there. Sometimes a stock which has a spectacular rise may go up because of a surge of buyers who expect it to go on soaring. The incentive is to make huge profits on the possible great demand for the product. Perhaps, earnings are very great for the time. These are not for us.

We have no need for increasing capital gains at the expense of risk. In times past we were burned by buying a stock which was supposed to shoot up – and maybe it did – but later it dropped as fast. The unwise investor will avoid borrowing money to get into such a project.

It is certain that, with sufficient capital, a newcomer might buy speculative stocks expecting to make a five-to-one or ten-to-one profit on them – and he must have some of his capital that he can afford to lose – sort of gambling. We advise against it.

Sometimes pushers praise a stock and get their commissions selling it. We got a terrible hooking on King Resources, which had spectacular increases – much of it money received from sales of its stock. We bought \$32,000 worth of it primarily on the grounds that it owned leases and commitments on millions of acres of Northern Canadian land with potential oil, gas and mineral possibilities to be developed. When the bubble broke the creditors moved in, the company went bankrupt and the stock became practically worthless. What assets were left went to the preferred and secured creditors and the stockholders were wiped out.

When the stock moved up, we were encouraged to buy more. The proper move was to sell enough to recover capital and let the profits ride. When the stock became shaky we should have sold out – remembering that one should not lose more than \$2 a share on stock not substantial and with a good background.

That \$32,000 properly invested would be worth at least 3 times that now. The conservative brokers did not handle the stock in the first place.

We made a similar bungle on American Motors. The introduction of a small car made the stock popular and it had great increases and sold well. The program was oversold and later the stock went down to \$2.50 a share. We bought a little at the bottom, but it is still in the doghouse, now selling at about \$4.50 a share. We had sold out our General Motors stock when we ascertained that the company was captured by the Auto Workers Union. We sold some stock at around \$100 a share. It has gone down but partially recovered to \$78. Its year's low was about \$56.

The American Motors stock may recover. We are holding it on speculation. American Motors is also under the cloud of labor union demands. We could have made substantial profit some time after purchase – and should have followed the rule that later determined to get our capital back and ride on the profits and sell when the stock dropped \$2 a share below cost – or sooner. Hindsight is better than foresight, but the wise man learns by experience of his own if he will not use the experience of others.

PRICE EARNINGS RATIO (PE)

We always consider the earning production of a stock. We do not like to buy stock unless the company is earning about 10% on the value of the stock. Many times we have bought stock at 5 time PE ratio. That usually means that stock is earning 20% on the price of the stock. There are many other factors to be considered, but if a company is earning 10 or 20% on the value of the stock, it is profitable. Many of the big companies have very small profit margins but their volume is large and their assets accumulate.

Assets which are valuable will probably produce profits in the future, or they may be sold and reduce debt, with a usual reduction in cost of servicing the debt.

When a stock sells at a price too high compared to its earnings it is wise to consider selling it – but all other factors must also be considered. Dividends and PE ratio are reported daily in the list of stock prices published daily in the Wall Street Journal. Political and world affairs may influence demand for a company's products and its earning may decrease even though its potential remains substantial. A well managed company with substantial assets is probably well worth retaining for more favorable condition. Great consideration should be given to established responsible management and substantial assets. Good management will weather many storms and is experienced in coping with the politicians.

WORLD CONDITIONS

The world is going leftist, semi-Communist and many countries have gone anti-business. Britain had a bad case of it, but under conservative Thatcher is slowly recovering as she encourages the sale of the businesses taken over by the leftist regime.

France is entirely leftist as is Italy and both must go through the wringer, running up public debt, buying votes with welfare and subsidy payment and experimenting with socialist schemes to take over private businesses. It is wise to avoid any stocks which might come under the leftist's control. All are dependent upon the U.S. standing firm enough to prevent the Reds from taking over their rotten economies. Africa and South America are dead losses (except conservative controlled South Africa and some of the Arab controlled North African nations). We have stock in the highly profitable S.A. gold mines. However, the Communist pressure and the religious and leftist groups in the U.S. make it important to give very close attention to a probable blow up. One stock has

dropped from \$80 a share to \$60, but the dividends are so generous that we have refrained from selling. We have acquired the stock from a trust. We are wary of foreign stocks and have lost on some (also acquired) Canadian gold mining and oil exploration stock.

Mexico and South America are billions of dollars in debt to the U.S. and to U.S. bankers. The taxpayers will probably be required to bail out the U.S. and international banks which have poured the money into those countries, and which are now seeking more loans to pay the delinquent interest they owe.

We have refrained from keeping any funds in the U.S. international banks which have loaned the money and also to some fringe Communist nations and to black Africa.

The Japanese are friends, but they are strong competitors and work and save. We never forget Pearl Harbor and do not invest in Japanese or Japanese controlled companies.

Canada, which has been under the control of its leftists has discouraged American investments. However, its new prime minister is a conservative and probably will encourage American investment. Investments in Canadian stock require very careful investigation. It is wiser probably to invest in American stocks which have interests in Canadian resources, such as aluminum, forests, oil and mineral assets.

DEFENSE STOCKS

The demand for submarines, planes, tanks, and missiles will probably remain strong. With this in view we invested in General Dynamics stock which has a strong defense building program.

Stock which we bought on the basis of our consideration of this point has increased from \$29 a share to \$59 – doubling in the last two years. Other countries must come here to get the latest weapons. Carefully selected defense companies should do well in the next several years.

We must keep in mind that the U.S. has the knowledge to develop modern weapons and machinery and the incompetent dictators and socialists in other nations do not have this so they will be customers for our advanced knowledge – even our farm products which the Communists are unable with their destructive methods to produce enough.

Israel has received \$30 billion from the U.S. and great supplies of arms, planes, tanks and weapons – and will demand and receive more from our captive politicians, all of which will build up demand for weapons and defense material. The bitter Arab nations must also come to us for their holy war against Israel. They have the money to pay for what they buy.

DIVERSIFICATION

Probably it is wise to invest in a number of kinds of stocks rather than to put all your capital in one stock or in one kind of stock. World, national and company conditions change from time to time. Sometimes certain stocks sell better or pay better dividends, and if one has several kinds he can take advantage of the price of the earnings of one stock or one kind of stock when other kinds are not productive.

In times past we have invested in many stocks or kinds of stocks on a hit-or-miss basis, determining what to buy on an individual basis of the company record. We had some stocks for capital gains, some for long-term gains and some for income. In recent years nearly all have been selected for their potential short-term or long-term capital gain possibilities.

In starting over we would select several categories.

In recent years we have had a list of 28 to 35 different stocks, which have been watched several times weekly for changes, for prices to determine whether to buy sell or hold.

We now hold:

- One investment company
- One preferred stock
- Four savings and loans
- American Telephone and Telegraph
- Five national and international oil companies
- One steel company
- One oil service company
- Two manufacturing companies
- Three gold mining stocks
- One defense and plane and ship building company
- One international telephone and electronics company
- One diversified manufacturing company
- Two railroad holding companies (resulting from four former companies)

Half that many different classifications would be enough, but judgment must be used on what kinds of stocks to own and what companies to own and when to buy or sell. Our operations, not systematic, have been successful.

We have also had some real estate investments and some tax-exempt municipal and state bonds, while money not invested has been parked in savings and loan accounts and money market accounts. We have suffered severely from trust deeds on money loaned or on deeds from property sold on terms. Buyers and borrowers can use sharp lawyers, and which may delay payments due for 5 years. One sale with a trust deed for security due in 2 years, made in 1977 has just been paid off in 1983. Another made in 1980 has paid no interest for 2 years, is under foreclosure and has cost \$50,000 in attorney's fees and may take another 3 years to go through the crooked, inefficient and incompetent costly courts.

A trust deed with its terms in plain English is subject to various stalling interpretations by the incompetent and crooked judges, beside the great delays, all of which defraud the lender of the money and interest due. Attorneys have a license to gouge and soak the litigants. Crooks find many ways to avoid paying on a plain written obligation. Our judicial system is a hopeless tangle and growing worse every week. We are at the mercy of the rotten politicians who pass the laws and appoint the judges. We will not make any further loans. We have similar difficulty with plainly written leases. Crooks will sign any trust deed or lease but with no intention of keeping its terms and sharp lawyers and incompetent courts allow the crooks to avoid their obligations. Meanwhile they have the use of the money loaned to them or the use of the property rented to them.

Crooked stock operators also know how to defraud the stockholders and tie them, or the company, up in years' long litigation. We have two such cases in the courts now that have been pending for more than two years. It is paramount to only buy stock in companies with a long record of competent and honorable management. (All companies are subject to attack by predators and government regulator, and others, but the wise managements know how to cope with them, and usually survive without loss.)

BEWARE OF TRUSTS

More than 15 years ago we invested a substantial amount in a trust arrangement with the Security Pacific National Bank, providing for certain bequests and payment of a designate non-profit organization after our death. The funds were to be invested in tax-exempt securities. The interest on them was very meager.

During the years, the investments besides paying very small interest or dividends have dropped into less than \$28,000 – a capital loss of \$22,000. We were careless in not watching the investments and breaking the trust when the management of the trust showed their first incompetence. It is very unwise to depend upon others to manage investments.

In contrast with the bank's mismanagement we served as a trustee under the will of a friend with a minor daughter.

When he died he left an estate of \$50,000 invested in various kinds of stocks, including some foreign stocks.

We were to pay the minor daughter 10% of the estate when she reached 18 years of age. We have now paid her \$45,000 in stocks and cash, \$5,000 a year. (The trust was to run 10 years.) We have paid \$2,000 to \$3,000 in dividends from the stocks every year.

AND THE BALANCE OF THE ESTATE IS STILL \$121,000.

Some other trustors have sued the bank successfully for mismanagement of trust funds, where it has lost substantial sums by failure to use good judgment (at least) in managing the funds. We had recommended to our friend to place the money for his daughter in a bank trust fund. He said he wanted no part of such an arrangement so for his friendship we agreed to act as trustee under his will.

Trust agreements are usually for the purpose of legally avoiding the heavy probate costs and costly and lengthy time of dragging the estate through the hopelessly bogged down courts. Before making such a trust, one should look up the track record of the potential trustee, and should watch its management every year. Private trustees are annually scrutinized by the courts (who usually have assistants to examine the reports, which are not subject to the usually lengthy court processes) and are under bond for the full amount of the trust. The fees of the trustee are small. The politician imposed paper work and regulations, supposedly for the benefit of the trustors, are onerous and difficult. We would not handle another. But making a relative of a spouse a trustee is probably a wise method of passing on an estate.

A thorough study of the subject and the laws governing it should be made.

(One elderly investor with a substantial estate said he was going to spend his money before he died.)

The program followed by the writer has been extremely successful and has produced a very substantial increase in capital and a satisfactory receipt of dividends.

This booklet is preliminary and will be presented in later editions, but it is the writer's desire to share the knowledge gained from many years experience with the readers of the Truth Seeker. The primary objective has been to preserve and increase capital. While we invest in stocks on a speculative basis, the amounts invested are small, comparatively, and possibilities that they will increase are good. Usually we have had years of knowledge of the stock invested in. But we recommend that the primary consideration any investor should give should be based upon preservation of capital and speculation should be avoided.

The Truth Seeker has profited from the success of the investments.

<u>Stock</u>	<u>Date</u> <u>Bought</u>	<u>Cost</u>	<u>Recent Purchases</u>	
			<u>Current</u> <u>Price</u>	<u>Gain</u>
Gen. Dynamics	11/16/82	\$28.37	\$81.50	\$52.17
Ford Motor	6/11/84	37.00	44.25	6.75
Norf So.	8/1/84	48.87	66.12	17.25
Union Oil	12/9/83	28.75	46.37	16.62
Int. Tel & Tel	7/11/84	21.12	31.37	10.25

These prices do not contain expenses of the deal, nor do they contain the dividends received which have been substantial.

Stocks have not been sold because their potential is good and we didn't want to pay the capital gains tax, which is less than ordinary income rates.

Of course there are many other gains, and a very few losses which will be later turned to gains.