# Ken Fisher
# “Super Stocks”

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# Disclaimers

- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

# Glitch

- Pre-cursor to Geoff Moore “Crossing the Chasm” etc.
- How to know if company will survive the glitch?
    - Key question which is not really answered
    - Lots of qualitative analysis…
- Buy Super Company during the glitch
    - What is Super Company?
        - The one that survives the glitch
            - Circular definition…
        - More later

# Valuation

- Earnings based:
  - Tough to predict earnings
  - Earnings are discounted
  - Buying based on earnings will not yield super returns... (questionable)
- Asset based (Graham):
  - Does not work for tech stocks
  - Pure Graham is too much short term trading
- How do you value a business?
  - Sales
  - Margins

# PSR

- Page 40 – PSR vs margin vs P/E
  - Note the margins needed for low P/E at high PSRs

# Super Stock

- Can generate internally funded future long-term average growth of 15-20%
- Will generate future long-term average after-tax profit margins >5%
- Is bought at PSR of <0.75
- Avoid stocks with PSR > 1.5. Never buy stocks at PSR > 3
- Buy Super Companies at PSR < 0.75
- Sell Super Companies at PSR 3-6
- PSR declines with size, so high growth of high PSR company does not guarantee high return

# PSR + Super Company!

- People who talk about PSR (positively or negatively ;)), usually have either not read "SUPER Stocks" or decided to ignore Ken's repeatedly stressed advice only to apply PSRs to SUPER Companies. It seems that people like to simplify their arguments (both positive and negative) and they just can't handle PSR-SuperCompany-Only metric. Disregarding Ken's advice though leads to a lot fake arguments against PSR, like "PSR does not show profitability". Yes, it doesn't, but you're ignoring "SUPER Company" part. ;)
- (It's the same with Piotroski score. People either don't read Piotroski's paper or read it and discard the note that it should be applied to weak companies coming out of crappy business year.)
- Chapter 6 -> Applying PSR to Nonsuper Stocks is what happens when author betrays his principles ☺

# PSR now

- PSR currently does not work well because we have been in a high ROE/margin environment for a long time. This explains the loss of PSR utility much more than Ken's recent claims that it has been overused
- PSR timing of stock market:
  - If you can’t find companies selling at sufficiently low PSRs, don’t buy stocks
  - Does not work per above

# PRR

- Price/research
- Don't buy Super Company at PRR > 15
- Buy Super Companies at PRR 5-10
- I never used PRR, so no comment on this part

# Tech Stocks

- Great ideas that tech research is commodity while marketing (it's not really marketing, Ken is not precise here, but think Apple, Microsoft, etc.) is what makes tech company great. This was really idea before its time that was then polished in Gorilla Game/etc.
- Tech moat is never as big as it seems – Ken wrote this before Microsoft ;)

## Great Depression

- Chapter 7 is a must read for anyone who thinks we are in the midst of great depression/recession. It's all about the prices of IBM/EK/CAT/... during the real Great Depression. (No they were not trading at 0.001 PSR or 0.01 P/B ;)). It also raises the issue that I have heard mentioned by perma bears: the high margins can contract a lot during bad times, so 5 P/E on high-pre-crisis margins becomes very expensive price if margins dive. Note that this has not happened yet. We are still in a very high ROE/margin environment even considering 2009 crash. Ken wrote his book during very low ROE/margin years. Longs/bulls should hope that we don't go into a low ROE/margin decade again, since that would lead to a real "lost" decade.

# Super Companies

- Can generate internally funded growth at above average rates
- Qualities:
  - Growth orientation
  - Marketing excellence
  - Unfair advantage
  - Creative personnel relations
  - Great financial controls

# Verdict

- Still worth reading