

Clarkson's Investment Quarterly

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Winter Issue 1996



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Dear Clients,

In this issue of the **Investment Quarterly**, we will explore the process I use to make a stock pick. I only come up with a few new ideas ever year. This involves a careful process of search and elimination. Today, I will show you: 1) where I look for fresh ideas; 2) what sources I draw from to develop a comprehensive investment philosophy; 3) why I have to be a good salesman to convince you to make a long term investment in companies that frequently make mundane products like storm windows or agricultural equipment; and 4) why some stocks will lose money no matter how carefully I investigate them.

Best Buys

Working in a large brokerage house gives me lots of opportunities to compare notes with other stock brokers. I have gotten some of my best tips from other brokers. It was my friend and fellow broker, Bill Petchl, who first told me about Daig. His information came from a plastics salesman, who had visited the company and seen its tremendous growth potential.

At least two or three times a year, I scrutinize the stock reports in **Standard and Poor's** and **Corporate Report** to review the financial outlines of small companies both here and across the country. I began buying Ag Chem simply because of its high return on equity and low P.E. After poring over literally hundreds of stock reports in **Standard and Poor's**, I began buying Allou Health and Beauty Care for the same reasons. To get the complete picture, I also send for a company's financial reports and personally visit those that look promising.

I subscribe to **Barron's**, **The Wall Street Journal**, **Forbes**, and local newspapers. Occasionally, I draw from them for information about foreign-companies like DeBeers or more recently, Fletcher Challenge.

Recommended Reading

With the development of Internet, I am not concerned that the cyberheads will come up with the best stock tips. Picking stocks is about more than access to information. You need an investment philosophy to direct your choice of stocks. You must thoroughly study the market to internalize the principles of sound investing.

Four books have helped crystallize my investment philosophy. I recommend **Money Masters** by John Train, **Super Stocks** by Ken Fisher, **The Intelligent Investor** by Ben Graham, and Peter Lynch's **One Up On Wall Street**. I also wanted to mention, **Reminiscences of a Stock Operator**, written in the 1920's. It is extremely entertaining first person account of one broker's experiences with the market and the psychology of investing.

Convincing Clients

Once I settle on an idea, I need to call over 300 of my active clients to discuss it, and at the same time, do an overall review of your portfolios. I spend a lot of time in the office, updating clients and advising you of market

trends. While my golf handicap is not getting any better, I feel my service to clients certainly is.

It can be hard selling my ideas. They rarely make scintillating cocktail conversation. You won't find me recommending Roller Blades, high tech stocks, or experimental pharmaceuticals. I invest in products I understand and can explain to you, which are often dull, like discount hair salons or vitamins.

BIG BUCKS

I tell all my clients to expect to wait from 2-5 years before the stock will show any significant growth. This style of investing is like a low fat diet: you will see the results in the long run, but there is no instant gratification. I am selling carrots not chocolate cake.

I provide some handholding during the long gestation period, but investors must be patient and trust the process.

In conclusion, being a good stock picker is much like being a good deer hunter. First, you have to get out there and study the market. You must develop an investment philosophy and the ability to read price points just like the deer hunter must learn the likely grazing areas and how to read tracks. Once you spot the deer, you can't hesitate, just as when you recognize a great stock, the time to invest is now. Don't be sidetracked by speculators. They're like the inexperienced sportsman who fires into the brush, because he hears something crashing around. You could end up shooting Farmer John's cow and have to pay a large sum for a poor decision. Finally, you must learn to hold good stock. It's like following a trail. It may be tedious and take all day, but you'll end up bringing down the big bucks. If you give up too soon, they will slip through your fingers like stealthy deer who disappear into the forest.