

WATHEEQA INVESTOR DIGEST

About WID

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Some of the world's renowned investors when asked what makes them great – the unusual but common answer is “We read and think”. The main goal of WID is to bring our clients the best interviews, articles, research and thought provoking material that we come across, read and thoroughly enjoy. Our collections are old, nevertheless timeless treasures while some are recent and highly recommended.

We thought; why not put these gems together each month and share the collective wisdom of what we read. WID is our contribution from that inspiring idea. We truly believe – what you read and how much of that you internalize; reflects who you are. We suggest you archive our premium collections; read them and re-read them.

Lying in wait – Yacktman talks to Value Investor Insight

He's been investing for more than 40 years, but don't expect a “been there, done that” attitude from Don Yacktman: “Will Rogers once said, 'Good judgment comes from experience, and a lot of that comes from bad judgment.' I add to my base of experience every day.”

Don Yacktman adds “The growth aspect speaks primarily to our focus on business quality. We're not usually looking for the scruffy cyclical or turnaround story, but for businesses with high market shares in their principal product or service lines, with long product cycles but short customer-repurchase cycles, and with relatively low capital requirements that allow the company to generate high cash returns on tangible assets while growing. We've always considered businesses requiring enormous amounts of capital for fixed assets, especially when they're economically sensitive, to be at a big disadvantage. That's why something like the airline industry has been a growth business for most of the past 100 years but doesn't make any money for shareholders.”

Source: http://www.yacktman.com/value_investor_disclosure.html **WID**

Flexible Value Investing – Yacktman talks to The Wall Street

Donald Yacktman and Stephen Yacktman manage two mutual funds and separate accounts. They consider themselves investors in businesses and they view the selection process as though they were buying a long-term bond. They look at the rate of return they would earn and the quality of those companies; the higher the quality is, the lesser the required rate of return. On the good business side, their sweet spot is companies that have low capital intensity and low cyclicality. They evaluate the management of a company on the basis of how well it has invested cash in the past. They have concentrated portfolios. The top ten holdings plus

cash will generally be 50% in the Yacktman Fund and 75% in the Yacktman Focused Fund. Rather than trying to call the market and make overall judgments on potential holdings, they look for investments that are dropping in price yet their forward rates of return are going up very much like a bond does. They say that media and finance have shown up as natural purchases because their rates of return were so high.

Source: www.yacktman.com/wall_street_transcript_disclosure.html

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Why Buffett hates the Kraft-Cadbury deal?

Buffett begins “I feel poorer...in the last two weeks there's been two things that caused me to feel poorer. They sold a very fine pizza business and they said that they got 3.7 billion for it. But because it had practically no tax basis they really got about 2.5 billion. So they sold a business for 2.5 billion that Nestle (NSRGY) is willing to pay 3.7 billion for. Now can Nestle run it that much better than Kraft? I doubt it. But that business was sold for 2.5 billion (and) earned 280 million pre-tax last year. So they sold that business right around nine times pre-tax earnings.

Now they mention paying 13 times EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) for Cadbury but they're paying more than that. For one thing EBITDA is not the same as earnings. Depreciation is a very real expense. But on top of that they've got 1.3 billion they're going to spend in terms of rearrangements of Cadbury. They've got 390 million of deal expenses. They are using their own stock - 260 million shares or something like that - (which) their own directors say is significantly undervalued. When they calculate that 13 (times EBITDA) they're calculating Kraft at market price not at what their own directors think the stock is worth. So: the actual multiple if you look at the value of Kraft stock is more like 16 or 17 and they sold earnings at 9 times. It's hard to get rich doing that.

Source: www.gurufocus.com 25-Jan-2010 **WID**

Philip Fisher's fifteen timeless principles

All good principles are timeless and Philip Fisher's famous “Fifteen Points to look for in a common stock” from his classic book *Common Stocks and Uncommon Profits* remain as relevant today as they were first published.

The 15 points are a qualitative guide to finding superbly managed companies with excellent growth prospects. According to Fisher, a company must qualify on most of these points to be considered a worthwhile investment.

Source: www.morningstar.com **WID**

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Please send us your feedback and any article, reports, links that you find are valuable keeping in mind the spirit of WID. This way we can learn together and much faster.

You may email us at: intelligentinvestors@watheeqa.com

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