LITT Presentation

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Motivation

- Writing intensive class
  - Students were required to read book chapters and summarize reading in executive summary
  - Provided students with page numbers to key sections of the book
  - Reading outline with questions to answer
  - Required students to hand in reading notes
  - Realized students have difficulty reading large amounts of information
- How to organize large amounts of information

Using Kindle Reader in Finance

- Goal: Reading comprehension
- How?
  - Use iPads as e-readers during class to teach students to be more critical readers.
  - Use the iPad's highlighting options to teach students to identify key textual elements.
  - Use an iPad in direct communication with the classroom projector (Doceri software)

Georg's Kindle for PC 3 - The Future for Investors: Why the Tried and the True Triumphs Over the Bold and the New

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It was Philip Morris, which in 2003 changed its name to Altria Group.[2] Philip Morris introduced the world to the Marlboro Man, one of the world's most recognized icons, two years before the formulation of the S&P 500 Index. Marlboro subsequently became the world's best-selling cigarette brand and propelled Philip Morris stock upward.

Philip Morris's outstanding performance does not just date from midcentury. Philip Morris was also the best-performing company since 1925, the date when comprehensive returns on individual stocks were first compiled. From the end of 1925 through the end of 2003, Philip Morris delivered a 17 percent compound annual return, 7.3 percent greater than the market indexes. An initial $1,000 invested in this firm in 1925, with dividends reinvested, would now be worth over a quarter of a billion dollars!

Philip Morris's bounty did not only extend to its own stockholders. As the appendix describes in detail, Philip Morris eventually became the owner of nine other original S&P 500 firms. Many investors in such little-known companies as Thatcher Glass became enormously wealthy because their shares were exchanged for successful companies such as Philip Morris and its predecessors. Riding on the coattails of such winners is an unexpected, but not uncommon gift for investors.

How Bad News for the Firm Becomes Good News for Investors

Some readers may be surprised that Philip Morris is a top performer for investors in the face of the onslaught of governmental restrictions and legal actions that have cost the firm tens of billions of dollars and threaten the cigarette manufacturer with bankruptcy.

But in the capital markets, bad news for the firm often is transformed into good news for investors. Many shun the stock in the company and fear that its legal liability for producing a dangerous product—cigarettes—will eventually crush the firm. This aversion to the firm pushes down the price of Philip Morris shares and raises the return to investors who stick with the stock.

As long as the firm survives and continues to be very profitable, paying out a good fraction of its earnings in the form of dividends, investors will continue to do extraordinarily well. With the price of its stock so low and its profits so high, Philip Morris's dividend yield is one of the highest in the market. Those reinvested dividends have turned its stock into a pile of gold for investors who have stayed with the company. The power of Philip Morris's high dividend to propel its higher returns is discussed in Chapter 10.

The superb returns in Philip Morris illustrate an extremely important principle of investing: what counts is not just the growth rate of earnings but the growth of earnings relative to the market's expectation. One reason investors had low expectations for Philip Morris's growth because of its potential liabilities. But its growth has continued apace. The low expectations combined with high growth and a high dividend yield provide the perfect environment for superb investor returns.

Later in this chapter I will state and explain the basic principle of investor return, which will enable you to find the winning stocks. But before I do so, let us take a look at the original S&P 500 firms and determine which have performed best for investors. Once we study their characteristics, we shall be able to identify the true corporate El Dorados.

The Top-Performing S&P 500 Survivor Firms

Table 3.1 indicates the twenty best-performing surviving firms of the original S&P 500 Index in 1957. These are firms whose corporate structure remained intact, as they have not been merged into any other firms. The shareholder return on each of these companies has beaten the return on the S&P 500 Index by at least two and three-quarters percentage points per year since the index was founded in 1957, and some have beaten the index by much wider margins. This means that an investment in any of these stocks has accumulated anywhere from three to thirty-seven times the accumulation of the S&P 500 Index.

TABLE 3.1: TOP-TWENTY PERFORMING SURVIVORS, 1957–2003

Georg's Kindle for PC 3 - Capital Ideas: The Improbable Origins of Modern Wall Street

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the 1965 paper, which appeared in MIT's *Industrial Management Review*, reveals its message: "Proof That Properly Anticipated Prices Fluctuate Randomly."

Samuelson begins by introducing the expression "shadow prices" to characterize so-called true values, or what Keynes refers to as "prospective yield." He admits that these are theoretical prices—"prices never seen on land or sea outside of economics libraries." Nevertheless, even though they cannot be observed or calculated, Samuelson insists we must assume that they exist: there is such a thing as intrinsic value.[17]

But if value hides in the shadows, how can we bring it to light? Echoing Bachelier, Samuelson suggests a startling answer: Perhaps the best estimates of shadow prices are the prices set in the marketplace, every minute of every trading day. Those prices may not be precisely equal to the shadow prices, but no other estimate of intrinsic value is likely to be more accurate than what buyers and sellers agree on in the marketplace.

This is a strong statement—the sort of statement that has turned many professional investors away from academic theories of capital markets. Those professionals remain convinced that persistent differences between intrinsic value and market prices do exist and that they can be identified by skilled managers. They cite the enormous premiums over market prices produced by takeovers during the 1980s, or Polaroid's fall from a high of 150 in 1972 to 14 in the crash of 1974.

Samuelson points to what Bachelier, Working, and Kendall had discovered about the behavior of prices in the markets for commodities and for stocks and bonds. In these markets, buyers and sellers are engaged in constant, intense competition, each trying to make a more accurate bet on the future than the others. If they have reason to expect General Motors to sell at a higher price in the future, the price will go up today. If the guru on Wall Street Week says that mortgage rates will soon fall to 9 percent, the young couple buying a new home will refuse to take out a mortgage currently offered at 10 percent. Farmers will not sell their winter wheat for delivery next summer at $2.00 if they hear that the crop has been poor and that the price next summer is expected to be $2.25.

Echoing Bachelier, Samuelson wrote:

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What students like

- I asked students what they like
  - Compare their reading notes with mine
  - Helps them identify key points better
  - Reading together on board students see how key elements relate to each other
- I explained to students color code but student need reminder that each color means

What needs improvement

- Complete reliance on technology to work
  - First 3 weeks
    - Limited class time
      - 3 days for not having doceri
      - 3 days for computer crashing
      - 2 days Classroom computers are wiped clean each day => reinstall kindle => limit on how many times you can install reader
  - AirPlay: connect iPad directly to projector without have computer as intermediary.