



# The Best Stocks Come To Those Who Wait – Investing in the New Normal

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# The Virtues of Patience

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*All men's miseries derive from not being able to sit in a quiet room alone*

-Blaise Pascal

*All investor's miseries derive from not being able to leave the stock market alone*

-Sham Gad



# Why Sit Still?

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- Fewer transactional costs
  - Brokers Commissions
  - Taxes (Short-Term vs Long-Term)
- Maximize the benefits of compounding
  - Compounding is the most powerful force in the world – Albert Einstein



# The 2% Difference...

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- Consider:

Two investors each invest \$50,000 in the same exact investments utilizing two different channels (different mutual fund, broker, etc.).

Investor A earns 10% a year

Investor B earns 8% a year



## .....A Little Means A Lot!!

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- At the end of 30 years:

Investor A: \$872,470

Investor B: \$503,133

The 2% difference: \$369,337!!!



# Why Wait? No Help from Mr. Market

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- Dow Jones Industrial Average
  - December 31, 1964: 874.12
  - December 31, 1981: 875
- S&P 500 Index
  - December 31, 1997: 970
  - December 31, 2008: 903



# The Johnson & Johnson Co.

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- Founded over 110 years ago
- Worldwide developer and manufacturer of various health care products
  - Tylenol, Sudafed, Pepcid AC
  - Baby Shampoo, powder, etc.
  - Band Aids, Visine Eye Drops



# J&J: Grandpa's Favorite Stock

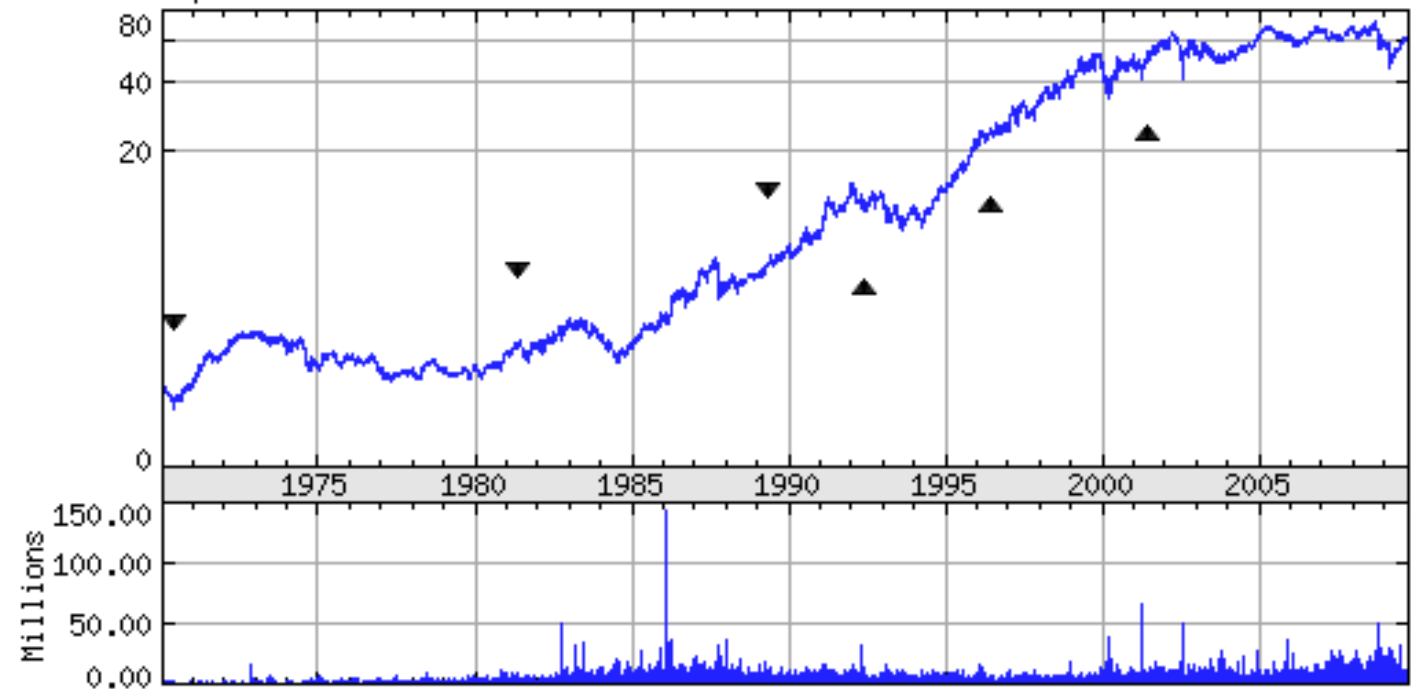
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- First sold stock in 1944 – by then a well known established company
- 1944 IPO Price = \$37.50
- After stock splits, 1944 single share equal to 2500 shares today ( $\$37.50 = \$900,000$ )
- Single 1944 share now producing \$4500 a year in dividend payments

# J&J: Decades of Success

JOHNSON & JOHNSON  
as of 17-Sep-2009

Splits: ▼



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# J&J's Secret Sauce

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- Makes products essential to every stage of human life
- Most products require regular use (shampoos, insulin shots, toothpaste, etc.)
- Worldwide growth potential very strong in developing countries
- I'd bet that every household in the U.S. has at least one J&J product.
- Each year, 1.3m households added in U.S.



# J&J's Secret Sauce

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- Excluding 2008, J&J has grown sales at 10% annual clip for over 100 years
- Makes products that have unlimited growth potential all over the world – recession proof
- Future growth drivers will be outside US
- Very doubtful that J&J future returns will mimic past – company too big
- But still great opportunity w/ 3.2% yield



# The Lost Decade: 1998 - 2008

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- S&P 500 Index delivered a negative real rate of return over the past 10 years
- S&P 500 Index Values:
  - December 31, 1997: 970
  - December 31, 2008: 903
- Are investors just being duped over the long run??



# You Decide

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- Whole Foods – Natural Foods Grocer
  - \$1,000 invested in 1998
  - 2008: \$2,000
  - This is after the stock slid to \$11 from \$80 (today shares back near \$30)
- Nucor – Steel Company
  - \$1,000 invested in 1998
  - 2008: \$20,000
  - 35% Annual Return
- I never heard of Nucor/Whole Foods!!!



# Have You Heard Of....

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- UnitedHealth Group
  - \$1,000 invested in 1998
  - 2008: \$15,000 after stock splits
- Wal-Mart
  - \$1,000 invested in 1998
  - 2008: \$3,000



# Investing in the 'New Normal'

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## What It Means Going Forward



# The 'New Normal'

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- Characteristics of 'New Normal' Economy
  - Very little or no consumer discretionary spending
  - Tighter credit and borrowing standards
  - Increased consumer savings
  - Increased partnership between public/private sector
- Most are good things in the long run!!!



# The 'New Normal'

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- Consequences

- Reduced corporate profit growth
- Slower than normal job recovery
- Reduced future market returns

- Benefits

- Increased household savings
- Society less addicted to credit cards



# Investing in The “New Normal”

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- Get comfortable with:
  - Appreciating the market for what it really is – a way to increase your assets gradually over time
  - Remember this problem took over 20 years to create – it can’t be fixed in one or two. Folks have a lot a ground to make up for.



# Investing in The “New Normal”

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- Learn to:
  - Embrace the public/private partnerships between business and government – the government is the only one spending money. Whether we like it or not, they will be involved in the recovery. There is plenty of blame to go around.
  - Appreciate the long-term growth engines in China, India, Brazil, etc.



# Investing in The “New Normal”

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- Have realistic expectations
  - Unless you are devoted to spending serious time analyzing and actively selecting stocks, future returns may be subdued for a few years
  - Concentrate your efforts on selecting established, quality names – they have underperformed this market rally



# Investing in The “New Normal”

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- Areas to Focus On
  - Non-discretionary companies
    - Food, healthcare
  - Agricultural
    - feeding more people with diminishing land
  - Commodities –
    - Building blocks of society (metals, grains, oil)



# Investing in The “New Normal”

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- Areas to Avoid
  - Retailers
    - Very long time before American consumer spends like 2006-2007
    - Wal-Mart and Target
    - Too many exist today
  - Business that rely on discretionary consumption
    - Tiffany's vs Costco: Costco
- Starbucks vs Pfizer: Pfizer



# China, etc...

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## ■ China

- 1.3 billion people – who want to eat, drive, and live more urban lifestyles
- Consider that 50% of China's population is more than twice the entire population of US
- Not necessary to invest directly in China, etc. to benefit from growth
- Lots of well established US based companies that are pursuing future growth by expanding in China



# Always Remember

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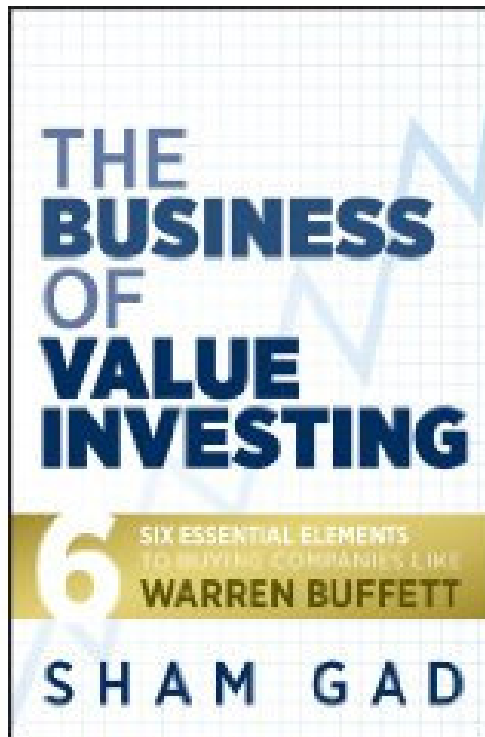
- Successful investment results requires...
  - Patience
  - Conviction to buy when others are selling – the best 10 year stock market returns have come after severe pullbacks
- ...and the 'new normal'
  - Businesses with a fundamental demand
  - Businesses with exposure to emerging markets



# Thank you!

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- New book just released.



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