From Experience Comes Wisdom

The wisdom gained from experience is something that the wise will follow. It has been said in other stronger words that "Those who do not read history are doomed to repeat it." The following pieces that we can all learn from are the recollections of our own BetterInvesting Space Coast Chapter's long serving director, ***Walter Guy Wiles, Jr.*** *The titles for these pieces are mine.*

In 2003 at the NAIC National Convention, Guy was honored with a crystal for his 50 years of dedicated membership in NAIC. A brief biographical sketch of Guy written for the occasion appears at the end of this document.

KP, 7 September 2007

Another Interesting Scenario

Another interesting scenario I have had in my long investment history started in the early 1950's. A man who was the VP of a small bank called me one day and told me he had been in business with my father and knew me by my being a JR. I had to be his son and what a great man my father had been. He wanted me to come see him the next time I was in the bank.

About a week later I went to see him and after a long conversation about my dad, he told me about a sale of stock that the bank was having. I received a long lecture about how bank stock grew at about 5% and paid a good dividend. He told me I could buy the stock and pay for it so much a month. I bought 10 shares @ $30 and paid $10/month for about a year then decided to pay it off. My wife said that $10 could buy milk for our child. Then later they offered an additional purchase of stock for $40/share. I did the math, I had paid $300 and now my 10 shares were worth $400 plus a dividend of 0.02/per share. So I bought 10 more, for a total of 20 shares, and paid it on it @ $10/month. I paid this one off in about 8 months. My wife fussed every month as she wrote the check, saying that $10 would buy something for our son. Then about a year later along comes another of the larger banks in town and gives us one share for each share we owned @ $46/share. This bank stock soon went up and split 2-1 twice and now I have 160 shares at $32, for a total of $5120. This stock has been taken over by six different banks and is now Bank of America. In 1985 when I retired my wife told someone that I started planning for this retirement on the first day I went to work.

Soon after we moved here I set up two trusts and put the bank stock in my wife's trust at Barnett Bank. She started take out $100/month from of our checking account as a DRIP. Then Barnett was bought by Nations and then Bank of America. After each transaction our shares increased in value and these banks had some splits.

So now she has a large number of shares of BAC and has given several hundred shares to our 3 kids and 6 grandkids. Another DRIP that has been good to us is Kimberly Clark

So you can see that DRIP'S are the way to go and you never miss the money that is taken right off the top.

A Study of P/E's

One of the things I was taught and have taught for the last 54 years is that you need 6 years of data to consider a stock for purchase and that the stock should have a P/E of not more than 25-27, for you to consider buying the stock. If you own the stock you can use a little higher P/E.

I have been very conservative in my stock purchases through the years. I always used the Stock Selection Guide (SSG) on every stock that I purchased since 1953. Over the years I have built up a sizeable portfolio with some of the stocks having a basis of around $1.00. So you can see that I have a tremendous tax liability if I sell so I have been giving the limit every year to my three kids, their spouses, and my 6 grandkids. Then they can keep the stock, at my basis, for the rest of their lives or sell it, if they need the money.

Let me tell you my Home Depot story. I found HD in 1983 and they had three years of data and the SSG looked great, with growth rates of about 40% in both sales and earnings. I wanted to buy them, but I waited three more years and I went to see one of their stores in Atlanta. The P/E was about 40 which was too high for me (we didn't plot P/E'S in those days) so I waited and watched. Then one of the analysts following them said that they were in big trouble because they were borrowing money to build new stores instead of using what they earned and that they were growing too fast. The price came down so that the P/E was about 27 and I jumped on it with both feet. I used what cash I had and sold some stock to buy 300 shares That 300 shares has had several splits and my basis is $2.67. My kids and grandkids have received over 1000 shares and together my wife and I have over 1000 shares in our portfolios

Another story that I think was interesting was that in 1975 I bought 500 shares of a private family company for $40,000 for which I had to take a loan on my house. This stock paid 8.0% dividend which I applied to the loan. It had several 3-1 splits and then in 1985 it split 12-1 and 50% of the company was sold as an ESOP (employees buying the company). Thus I got about $275,000 on which I had to pay 22% tax on or invest it in stock of like risk within one year. So it isn't hard to guess what I did. I thought this was above my knowledge and I needed help. I hired a financial advisor and we talked for several hours about my investment philosophy and what fees I was to pay them. The first letter I received from them had four stocks that I should consider for investing. I did my due diligence got Value Lines along with S&P reports and did my SSGs on them. One of them was Albertson which happened to be the Stock to Study for that month. I started looking back through old BetterInvesting Magazines and found two more of the ones they had recommended. So I paid them the first payment of $1,800 told them good-by. Then I received another letter with four more stocks that I should consider for investing. Two of which were in past BIs.

I took the Stocks to Study out of the past 36 months of BIs and got new Value Line and S&P reports and did new SSGs on all of them. This was before Investor's Toolkit so it took a little time, but it was well worth the effort. Out of these 36 stocks I found 14 that were of good quality and were at the right price. There were others that were of good quality and close to the right price so I considered some of them. So the moral of this story is that the BetterInvesting magazine contained some good stocks in which to invest my money and I did not need the financial advisor. I filed the reports to the IRS in the 51 week after the sale. In the past month the company was sold so I will have the same problem again, but the stock is in a Tax Free Charitable Trust, so there will be no taxes to pay.

In recent years there have been some stocks presented in BI's *Stock to Study* that have had very high P/Es. Some people think that because it is presented in BI that it is a stock to buy. I know they say that you should do your own study, but some times they don't or BI does a study and it comes out in the buy range and with an Upside to Downside ratio of 3:1 or better with a P/E of 35-45. Looks good to them.

A Statement from Experience

In 1991 I read an article in the Wall Street Journal stating that it might be a good time to take some profits from your stocks. This article went through a long explanation of several ways to do this and one was to take the amount of money you had invested in the stock out leaving you with none of your money invested in the stock. I had several stocks that had appreciated quite a bit, so I sold the amount I had invested in these stocks leaving only the gains that the stock had realized. I invested this money in a duplex which I rented for several years then sold it in 2004 for a significant profit.

In 1996 I decided I was going to try the Rule of Five. This rule states that if you buy 5 stocks one will be outstanding and exceed your expectations, three will meet your expectations, and one will be below your expectations, thus giving you an 80% success rate. I bought the following stocks which were BI's Stock to Study. All of them had a 3:1 Up Side /Down Side ratio, were in the buy range, and had a 12% to 15% growth rate in sales and earnings/share on my SSG'S. I also got the S&P Reports and Value Line to do my Due Diligence.:

1. Equifax Inc
2. DIGI International
3. General Electric Co
4. Emerson Electric Co
5. Cohu Inc

Of these Emerson Electric & General Electric were rolling along at about 10% growth rate and paying a 3.0% dividend for a total of about 13% growth. I still have these stocks and have been reinvesting dividends for the last 11 years. Now my basis is $26 for GE & $28 for ERM.

I kept Cohu for about two years then there was a down turn for two quarter in earnings and not a bright outlook for the next year, so I sold it at a loss.

DIGI & Equifax went along about as good as I expected for a about three years but they did not fit in my portfolio so I sold them. I did not give them the full five years but I believe they would have met my expectations if I had kept them. I did not have the outstanding performer, but I did have 80% that meet my expectations

I started another five last year with the purchase of Danaher, Bright Horizons, Helix Energy, Lowes and TEVA Pharmaceutical These are doing fine except for Lowes which has been hurt by the housing market and is down about 10%. I believe it will come back next year if the housing market improves. Danaher is up about 21% so far and had a 17% gain the last quarter. I hope to keep all of these but I am sure one will let me down.

Biographical Sketch of Walter Guy Wiles, Jr. (Guy)
{Written for the NAIC National Convention 2003}

This West Virginia boy was graduated from high school in 1943. That August he enlisted in the Navy where he served for 3 years and a day. He was graduated from West Virginia University in 1949 with a degree in Chemical Engineering. In 1952 he was awarded an advanced degree from Charleston University.

Guy has been married to the lovely Joan Lusk Wiles for these past 54 years. Joan is also an NAIC member.

Process Engineer Guy Wiles worked for Union Carbide at Institute Plants and in South Charleston, WV for 35 years.

Guy joined NAIC in 1953 when he and 11 other Union Carbide employees formed the Parcotal Investment Club. Ask him to relate his experiences creating and updating PERT in the days before both the calculator and computer.

He helped with the creation of other NAIC clubs within Union Carbide and was an active participant until his retirement.

In 1986 he retired to Melbourne, Florida where he has hardly retired. That year he joined the fledgling Space Coast Chapter where he has continuously held an office in the intervening years.

He has been very active in helping to form new clubs and to help existing clubs over their hard spots. Guy has counseled them on evaluating their holding using PERT. Presently he is helping to form a new club within his East Minster Presbyterian Church and several clubs within the 9000 member Holy Name of Jesus Church in Indialantic.

Guy has helped to establish and teach most new classes within the chapter including the recent Hands on Toolkit Training. He is presently the Chapter Vice President and Computer Contact.

What makes him so good? He is an engineer!

KP, 1 October 2003