



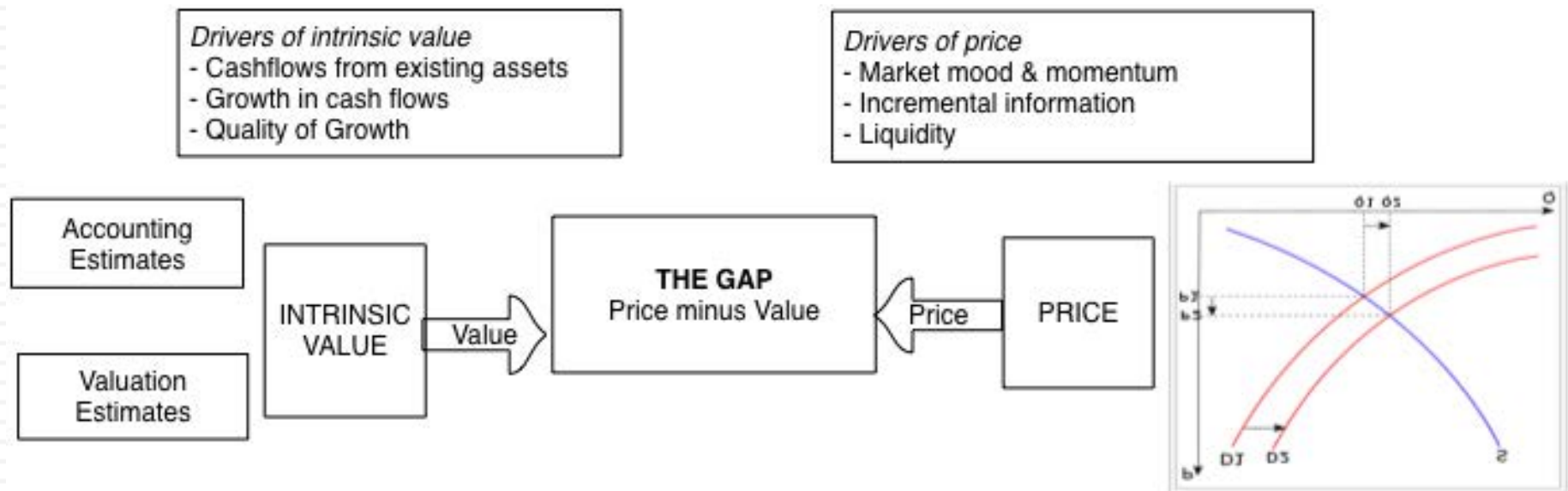
ICAHN EXITS, BUFFETT ENTERS, WHITHER APPLE? BIG NAME INVESTING AND YOU

Learning from smart money

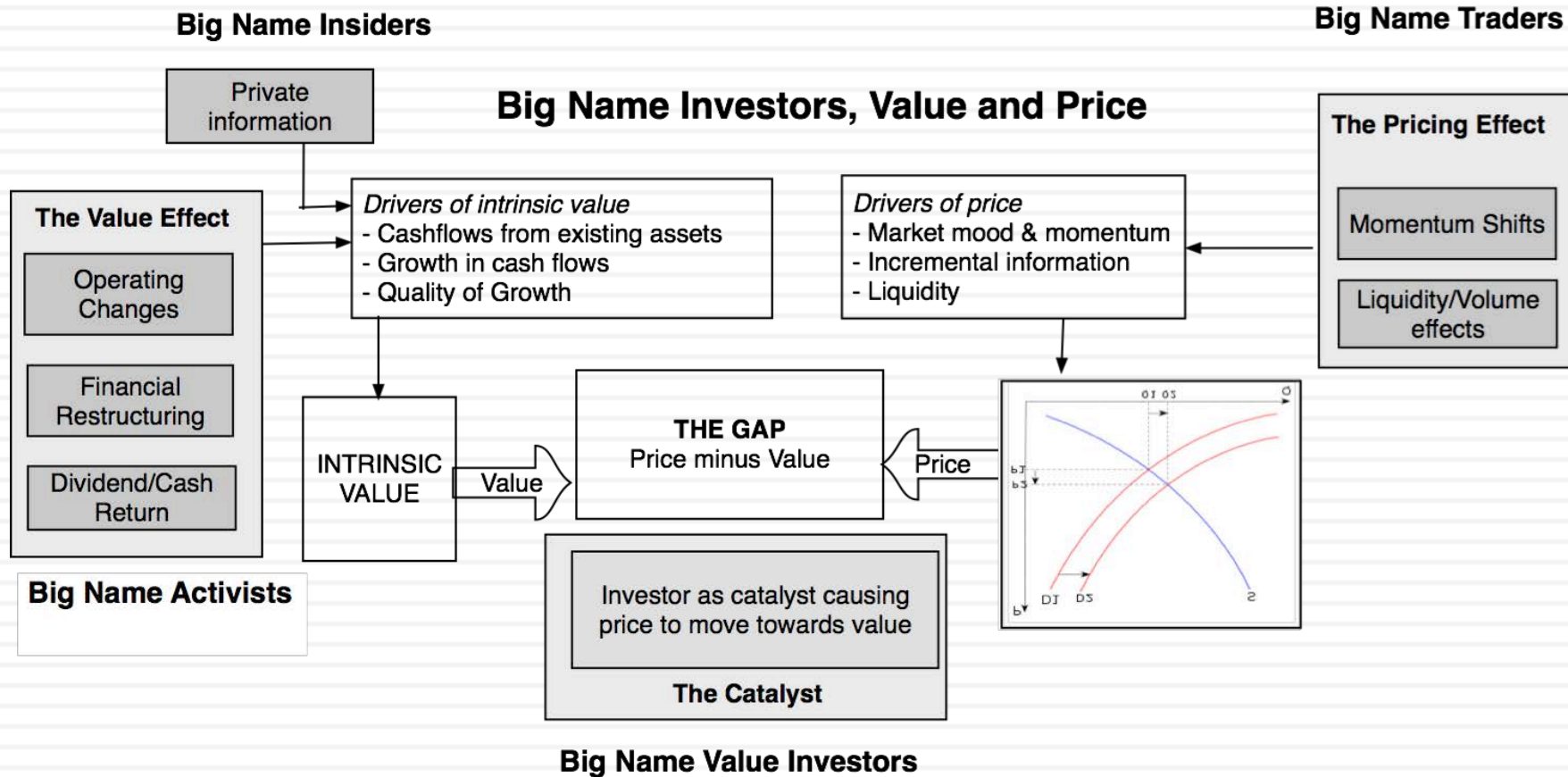
Setting the table

- In most investment classes, you are taught that to invest in a company, you assess its value to you, compare that value to the price and make a pricing judgment.
- That may be true, but what if right after you make that judgment, a “big name” investor makes a judgment on the same stock that is diametrically opposed to yours. Should you reassess or change your judgment?
- In an investment world, where big name investors are not only far more public in their investment judgments than they used to be and have the forums (TV, Newspapers, Social media etc.) to go public with them, this is a question that we increasingly face.

The Price Value Set up



How a big name investor can change your perspectives..

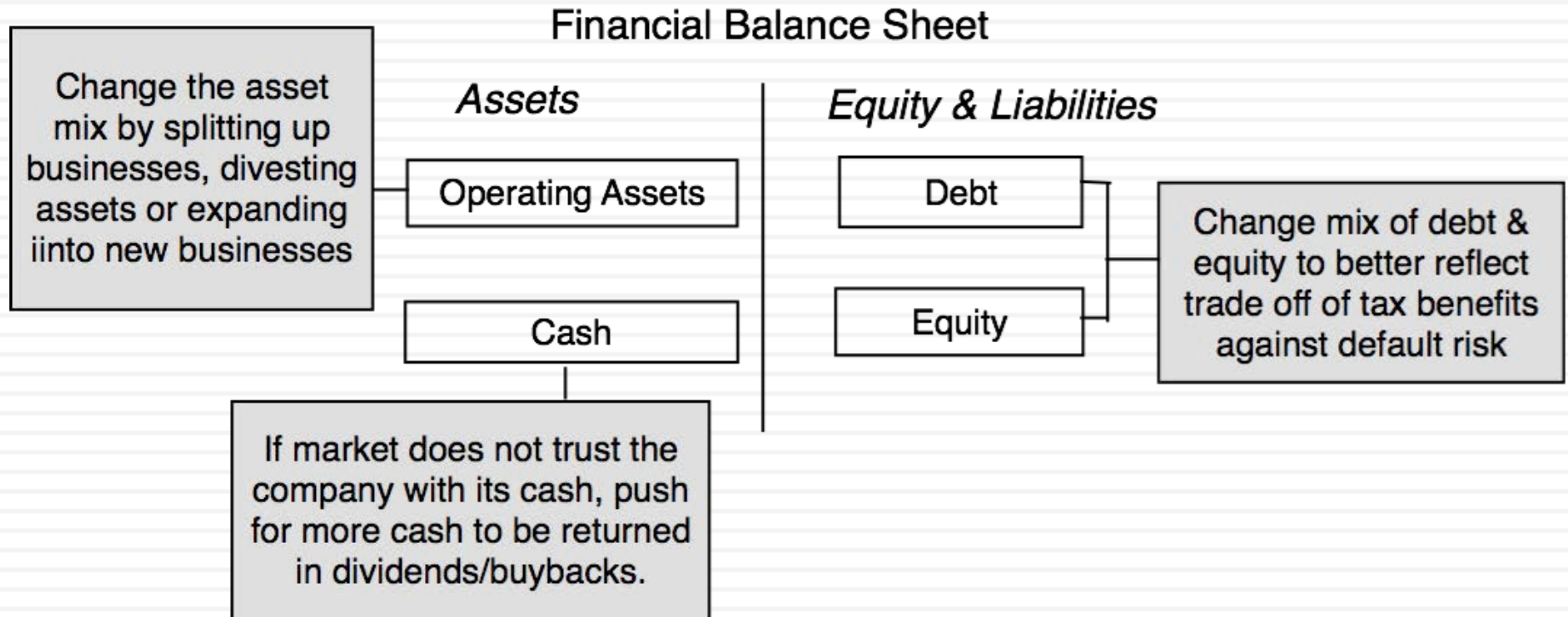


The Big Name Insider

- When an insider (a manager, an inside stockholder, someone close to management) buys or sells stock, it is natural to assume that they are doing so because they know something that the rest of us do not.
- With insider trading laws, the question of course is one of legality, since insiders are specifically prohibited from trading ahead of material information. However, they are not precluded from trading on diffuse information that is still of value to the rest of the market.

The Big Name Activist

The Activist Handbook



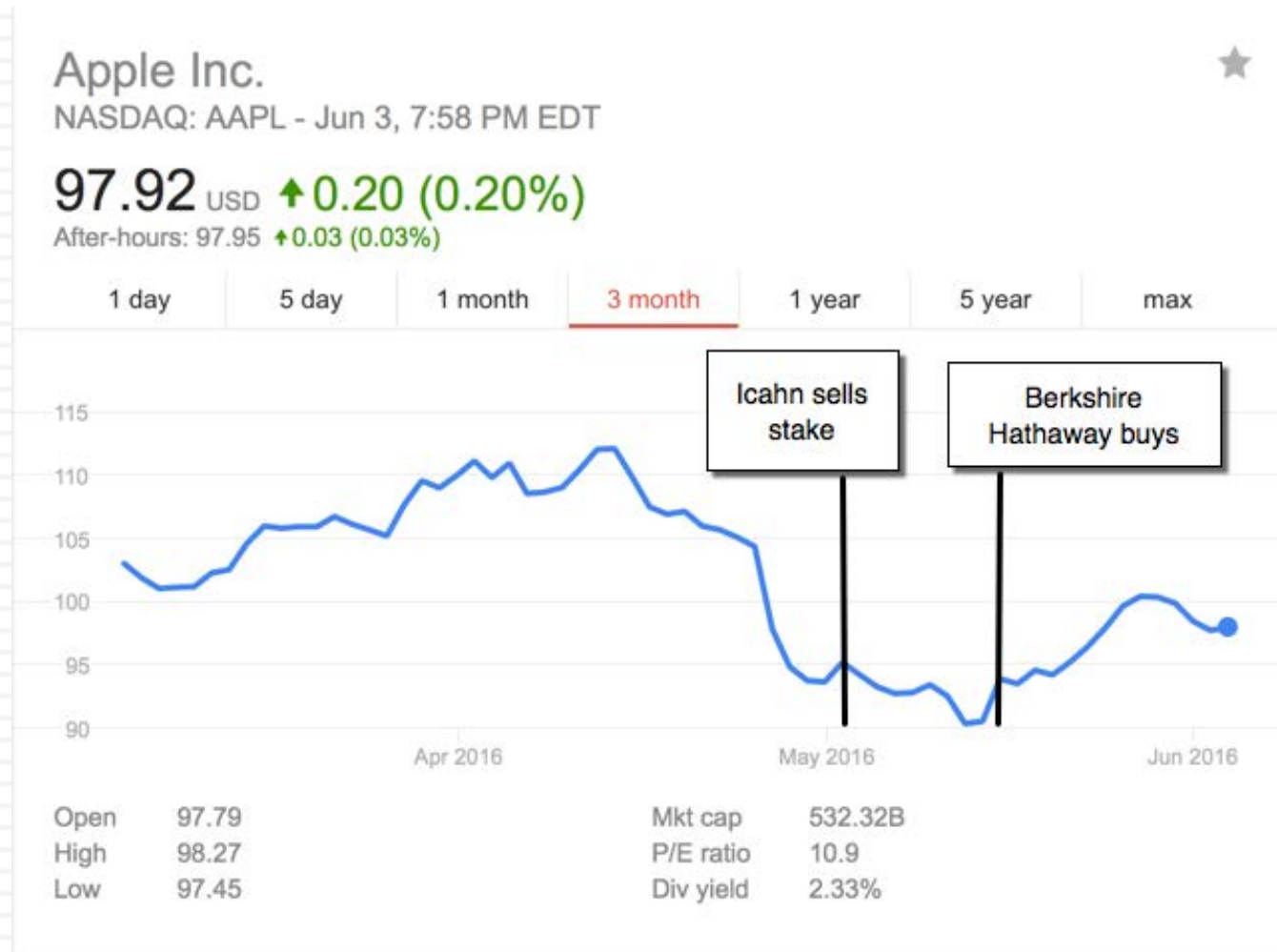
The Big Name Trader

- In some cases, the big name entering or exiting the stock is a trader, i.e., someone who is perceived as very good at playing the pricing game, where your skill set is detecting momentum (and its shifts).
- There are two reasons why that trading can affect prices:
 - ▣ The volume effect: If the big name trader has enough money to back his or her trade, there will be a liquidity effect, where a buy will push the price up higher and a sell will push it lower.
 - ▣ The bandwagon effect: To the extent that there are some in the market who perceive the big name trader as better at perceiving momentum swings than the rest of us, they will follow the investor in buying or selling the stock.

The Big Name Value Investor

- If you are a small value investor, the name of the game is finding companies where there is a gap (or at least a perceived gap) between price and value and investing in those companies.
- To make money, you have to
 - ▣ Be right in your assessments of value
 - ▣ Hope that the pricing gap will close
- When a big name value investor steps into the fray, you are hoping that his or her very appearance will be the catalyst for the gap to close.

Apple: The Big Name Effect?



Icahn, Activist Trader?

- He is an activist, albeit one who is more active on the financing/dividend dimensions than on the operating restructuring dimension.
- He is a trader, more than an investor. His investment rationale is couched in trading terms (looks cheap, relative to..) and the way he attaches numbers to companies is based on trading tools (per share earnings and multiples).
- He has a record of success, suggesting that he is very good in his targeting of companies (for his debt/cash push) and trading.

Buffett, Value Investor?

- Of course, but his valuation niche is companies that are mature or beyond mature, with strong earnings and high moats.
- When Buffett invests, it is reasonable to extrapolate that
 - ▣ The company looks cheap to him (i.e., that he perceives a pricing gap)
 - ▣ The company's best days are behind it, i.e., that your returns are likely to come from the cash cow part rather than the growth part of the business.

The Bottom Line

- It is impractical and unrealistic to argue that your investment decisions are yours and yours alone and that you will be unmoved by the investment decisions of others, especially when you respect and value the judgment of these “others”.
- That said, if you are constantly second guessing and changing your investment decisions based upon what Icahn, Buffett or anyone else is doing, your investment philosophy has no grounding.
- Make your best investment judgments and keep the feedback loop open.