Most investors will never read this.

You’re doing more work than you need to.

And earning *less* than you should.

The **Wealth Winners**® Blueprint

The investors who consistently outperform aren’t smarter, luckier, or better connected. They think with a framework, not a feeling.

Howard Coleman and Dr John Price

teaminvest

Where serious investors think together.

This book contains letters selected from Finding Wealth Winners® the Teaminvest Way by Howard Coleman and Dr John Price, along with some bonus letters. You may purchase the full book from Amazon.

Five letters that change the way serious investors think.

The **Wealth Winners**® Blueprint

Howard Coleman and Dr John Price

teaminvest.com.au

INTRODUCTION

You've done the hard work. Now do it differently.

You built something. A business, a career, a portfolio. You understand risk, you read widely, and you've been managing your own investments for years.

And yet something still doesn't sit right.

Maybe the returns are inconsistent. Maybe you're spending more time on research than you'd like, and still second-guessing the big decisions. Maybe you've watched a stock you understood do something you didn't expect.

The problem isn't effort. You're putting in plenty of that. The problem is that self-directed investing — done in isolation — is harder than it needs to be.

> A recent study found that most investors spend less than six minutes researching a company before buying it for the first time.
>
> **Four and a half of those minutes are spent looking at price charts.**

Teaminvest was built on a different premise: that serious investors, thinking together with a rigorous framework and the right tools, consistently make better decisions than they would alone.

The five letters in this booklet were written by Howard Coleman and Dr John Price — two investors who between them have spent decades building businesses, studying markets, and developing a methodology that has helped hundreds of Australian and New Zealand investors find and hold the best businesses on the ASX.

Their goal has always been straightforward: consistent annualised returns of 15–20% over the long term, by identifying potential Wealth Winners® and steering well clear of Capital Killers™.

In these five letters, you'll find:

- Why Warren Buffett's core principles from 1998 are just as true today — and helped shape what Teaminvest does
- The three golden principles every serious investor needs before making another buy decision
- The answer to the question most investors get badly wrong: how many companies should you actually own?
- Why compounding rewards patience in ways most people never intuitively grasp — until it's too late to take full advantage
- How to think clearly about your portfolio when markets are falling and everyone around you is panicking

None of this requires a finance degree. It does require a willingness to think carefully, act on principle rather than emotion, and take a long-term view.

If that sounds like you — or like the investor you'd like to become — keep reading.

New to Teaminvest?
Here's what you need to know.
Teaminvest is a membership-based investment community for self-directed investors across Australia and New Zealand who are serious about their portfolios.

Members invest with the support of three things most self-directed investors don't have:

> **A rigorous framework.** Our Teaminvest methodology identifies potential Wealth Winners® — companies with the earnings growth, competitive moats, and management quality to compound returns over the long term — and helps members steer clear of Capital Killers™.
>
> **Proprietary tools.** The Conscious Investor® software platform gives members analytical capability that most individual investors don't have access to, including STRETD® — an estimate of the actual total return of investing in a company under a margin of safety.
>
> **A community of 700+ experienced investors.** Members participate in monthly MasterClasses, SMaRT Sessions (rigorous collaborative due diligence on individual companies), and bi-annual conferences. When you're stress-testing a thesis or staying rational during a downturn, it helps to be in the room with people who are doing the same thing.

The five letters in this booklet were written by Howard Coleman and Dr John Price — Teaminvest's co-founders, and two investors who between them have spent decades building businesses, studying markets, and helping hundreds of Australian and New Zealand investors find and hold the best companies on the ASX.

Read them in order. By the time you finish, you'll know whether the way you currently invest is the way you want to keep investing.

LETTER ONE

The Day I Became a Buffetteer

John Price

In 1998 I attended my first annual meeting of Berkshire Hathaway. This article describes some of the principles I learned back then and how they have shaped my investing since including developing Conscious Investor®, being involved with Teaminvest since its beginning, and being a co-founder of the Conscious Investor® Fund. (The article first appeared in Investor Journal in August 1998.)

A few days before attending my first Annual Meeting of Berkshire Hathaway in 1998, an acquaintance told me that he knew how Warren Buffett was so successful. He could buy in such large amounts and had such a following that whatever he bought would go up in price. Then he would sell and take a huge profit.

None of the 11,000 eager investors crowding into the Aksarben Stadium for the meeting in Omaha Nebraska would have committed such a blunder. To a person, they knew that Buffett patiently waits until Mr. Market offers to sell a great company with predictable earnings growth at a discount price. Then Buffett buys all that he can afford with the assumption that he will hold it for life.

Can such a simple-minded strategy really give worthwhile returns? Once again, ask those who attended the meeting. Most would know that when Buffett took over Berkshire Hathaway in 1965, it was trading at $18 per share. (He started buying shares three years earlier when it was US$7.50.) Using it as a vehicle for purchasing and investing in other companies, he has guided it to the level where it is now trading at US$70,000 per share, an annual return of 28 percent. [Recently the price crossed US$335,000.] Others would know simply that since they bought stock in this former New England textile company, it has been going up in both share price and equity per share at a very steady clip.

No one else comes close to Buffett's record over such an extended period covering every type of bull and bear market. He is also unique in that this has been accomplished without the use of derivatives, hostile takeovers or leveraged buyouts.

After dealing with the official business in around ten minutes, Buffett opened the meeting to questions. For almost six hours he told stories, joked and munched on See's Candies, while answering question after question with care, relevance and wisdom. Many questions were also dealt with by Charlie Munger, the Vice Chairman of Berkshire Hathaway.

The following is a selection of the answers given by this twosome fairly much taken straight from my notes. Enjoy!

» Avoid stocks with low returns on equity and capital.
» Time is the enemy of poor businesses, the friend of good businesses.
» With a poor business you may be lucky in that you pick the time that it gets taken over. However, it is no fun to own stock in a company in which you hope it liquidates before it goes bankrupt.
» Avoid "cigar butts," but we have had a lot of soggy butts in our time.
» When presented with a new company, we can say "no" within 10 seconds. Technology does not get through our filter.
» Our central role is (1) to motivate the CEO and chairmen of our companies to keep working even though they are already very rich, and (2) to allocate capital.
» Buy stocks that you never want to sell; when you get a good business, buy for life.
» Ideal purchase: buy more of what you already like and have because the price is right.
» Insurance is the most important business at Berkshire Hathaway.
» Political campaign spending is an underpriced commodity, it needs legislation to limit it.
» Berkshire Hathaway gets a 20 to 30% return on equity.
» Jack Welch (CEO of General Electric) gave his secret of life—go where the competition is weak. How do you beat Bobby Fischer? Play him at anything but chess.
» Fannie Mae and Freddie Mac could be hurt by rising interest rates but not nearly as much as people might think.

- Q. What keeps you awake at night? I don't worry. We do the best we can. We don't predict currents—just how different fish will swim in different currents.
- Coca Cola is the best large business in the world; amongst other things, it set the trend for a company to buy back its own stock.
- Is there a danger of Japan selling the U.S. Treasuries that it owns? When you ask such questions, always follow up with "and then what?" If Japan sold a billion dollars of U.S. Treasuries, what would they do with the money? They would have to invest in other U.S. securities.
- There are two questions managers of public companies must ask.

  1. Do you keep the earnings or return them to the shareholders.
  2. With the portion that you keep, what do you do with it?

- Not many analysts recommend Berkshire Hathaway—perhaps because it is not the stock for them to get rich on.
- Steps to selecting companies.

  1. We start by only looking at companies we understand.
  2. We observe whether or not the management is telling us the truth in the Annual Report and other publications. Are they the things we would want to know if we were buying 100% of the company? We avoid companies with annual reports full of PR gobbledygook. We want to be able to read the report and know the company better at the end.

- The Annual Report of Coca Cola is an enormously informative document. We first bought Coca Cola on the basis of its Reports and had no discussions with its management.
- Look for candid, clear, coherent prose. If a business has a problem, we would like to know about it. Honesty and openness is the best policy. We would like to see announcements at board meetings along the lines of "this is a very serious problem and we have no idea how to solve it."
- Because of the use of options and warrants, we estimate earnings for many companies could be 10% or more lower than what they state.
- Benjamin Graham was a wonderful teacher and said that you don't have to be right about every company. If I [Munger] taught a course on company evaluation, I would ask the following question on the exam, "Evaluate the following internet company." Anyone who gave an answer would be flunked.
- Current factors influencing market prices:

1. return on equity,
2. low interest rates,
3. market perceptions.

- A valid criticism is that we should have bought more shares of the companies we already own; perhaps we missed the boat in some cases. Also probably we have issued shares that we shouldn't have.
- Definitely think that the demand for silver exceeds the supply by approximately 150 million ounces per year. (At the time Buffett was buying silver. It was a small amount compared to the cash he had available.)
- Need various internal models to deal with reality. One model is not enough: "To a man with a hammer, every problem looks like a nail." [Munger]
- We try to assess managers as to whether they love the business or the money.
- Do not mind paying a manager a lot of money for good performance but I am bothered by mediocre managers getting large sums of money. Unfortunately, the system feeds on itself and there is not much that you can do to correct this problem. The original Vanderbilt didn't take any salary. These high management salaries have a pernicious effect.
- Can have a circle of competence for a particular industry, but not a circle of competence for individual companies within the industry.
- It easy to say that the manufacturing of PCs will grow enormously over the next decade, but hard to say which company will dominate.
- We have decentralized Berkshire Hathaway to the point of abdication. The only thing we have centralized is money.
- Discount future cash flows at the long treasury rate. Businesses get credit for free cash. With the best businesses, you don't need to keep putting in cash.
- Investing is the art of putting in cash now to get more cash later on.
- EBITDA [earnings before interest, taxes, depreciation and amortization] is a nonsense figure; it is absolute folly to take any notice of it.
- To understand a company, understand its products, its competition, and its earning power.
- The best way to teach finance is to focus on easy cases. For example, in 1904 anyone could see that NCR was a wonderful company.
- We like homey, Norman Rockwell types of companies.
- Learn all the accounting you can.

- The best book on my investment methods is by Larry Cunningham.
- He has done a first class job of organizing my letters to shareholders. If I had to pick a single book, this would probably be the one.
- I would be worried if I sold a stock at the top of the market because it would mean that I would be practicing the "greater fool" theory.
- It is instructive to do post-mortems, but don't get too carried away.
- My principle is to leave enough money for your children that they can do anything they want, but not enough so that they can do nothing.
- Volume, price actions, RSI (relative strength index) have no place in our calculations.
- Depreciation charges are a good indication of the required capital expenditures. Avoid companies that have to spend like crazy just to stay in competition.
- Good businesses throw up easy questions for the managers and the board, bad businesses throw up tough questions.
- We are willing to wait indefinitely for the right price for the right stock.
- Scuttlebutt—you can't do too much, but you should be interested in the company in the first place. It might form the last 10-20 per cent of the analysis. If it looks like a seven-foot hurdle to start with, don't touch it.
- Don't worry about risk the way it is taught at Wharton. Risk is a go/no go signal for us—if it has risk, we just don't go ahead. We don't discount the future cash flows at 9% or 10%; we use the U.S. treasury rate. We try to deal with things about which we are quite certain.You can't compensate for risk by using a high discount rate.
- We don't worry about volatility, if we are confident about the business. For example, Washington Post went down by 50% after we bought it; it was a volatile stock, but not a volatile business.
- The best criterion is to buy businesses on the assumption that you will hold them for life.
- Dairy Queen [recently purchased by Berkshire Hathaway] is a lot different than McDonalds. For example, it employs a lot less capital. Nevertheless, McDonald's still gets a good return on its capital.
- Is the market under-valued or over-valued? When Buffett was asked this, he replied that it depended on the level of interest rates.
- I don't mind paying taxes. It is much better on this side than to be on the other side receiving government assistance.

Added in November 2019:

Looking back I can see how every one of these points is either a principle or an example of a principle. They are just as true now as they were two decades ago, and many decades before that. And I, for one, love principles. Once you are confident in their validity, it makes investing decisions much simpler.

I noticed, though, there are times I could be a bit stricter with some of the principles. What about you? Are there any you feel you could adhere to more closely? What about favourites? Are there any you have found to be particularly helpful? Let me know.

The meeting was held on 4 May 1998. That night in my motel room I started developing Conscious Investor® (back then called Valuesoft) as a tool for incorporating and implementing the principles learned that day. It was the day I became a Buffetteer.

The Mousketeers was never this much fun, even though back then we got to wear big ears.

John

Charlie had always found the
investment aisle strangely limiting.

LETTER TWO

The Three Golden Principles for Successful Investing

John Price

Before you read this letter, here's why it matters to you.

Two investors can look at the same falling stock and reach completely opposite conclusions — one sells in a panic, the other sees a buying opportunity. The difference isn't access to better data. It's framework. This letter gives you the three-part structure that separates disciplined investors from reactive ones. By the time you finish it, you'll be able to identify which part of the framework most investors skip — and why that's costing them.

Fred and Jane are husband and wife who are both investors with their own portfolios. Fred believes that share prices have momentum: if they start to increase, they are likely to continue increasing, and if they start to decrease, they are likely to continue decreasing. In contrast, Jane believes that shares have a value based on the expected continuing growth of the sales and profitability of the company and that over time the share price will reflect these expectations.

Putting it in terms used by Benjamin Graham, Fred believes the market is a voting machine and Jane believes it is a weighing machine.

Suppose the share price of company XYZ starts dropping. Also suppose that an analysis of the company shows that it is well run with growing profits.

For both Fred and Jane the share price is the same and the company is the same. But what they "see" is quite different. Suppose both owns shares in XYZ. Fred sees a company that he should sell, and Jane sees a company that, assuming she already thought XYZ represented value, she should add to her holding.

The way to understand this is to step back from the sharemarket and consider what knowledge is. All knowledge consists of three components: the subject or knower, the object to be known, and the process or link between the two. It does not matter whether we are talking about the results of an experiment in quantum mechanics or simply the colour of print on a piece of paper. Without any one of these components, knowledge is partial and unreliable. For example, in quantum mechanics whether you "see" a particle or a wave depends on the measuring process, and what you “see” on a piece of paper depends on the colour of the light shining on the paper.

How does this apply to investing in the share market, particularly in down times? First, we need to know who we are as an investor (subject). Second, we need a range of information about the companies we are considering (object). Third, we require a process of linking these two which is the price (the link). The need to understand these three components I call the Three Golden Principles of Investing.

Let’s examine these principles in more detail.

Golden Principle #1: know yourself as an investor

What type of investor are you? What do you believe about the share market? For instance, are you more like Fred? Or more like Jane? Another belief is that the market is efficient meaning that share prices are a fair representation of the all the information that is available.

There is, as well, a whole raft of beliefs related to behavioural biases including:

» You can’t go wrong taking a profit.

» If the price goes down, you should hold on until, at least, you get your money back.

» The more diversified the portfolio, the safer it is.

» You need to check the prices of the stocks in your portfolio at least once an hour/day/week/month/quarter/year.

» You need to be actively buying and selling to be successful.

What do you believe? Why? With a bit of thought, some of the above statements start to become less reasonable. For example, for most of us, what is important is the money we make year after year. So selling simply to “lock in a profit” is often foolish since investors tend to rush any profits into stocks that underperform what they just sold.

Other beliefs in the above list are shown to be fallacious through established research. For example, studies show that, on average, the more a person trades, the poorer the results (and not just because of trading and taxation costs).

There are no answers that are going to be right for all people. What is important is to know the reasons for your beliefs.

Another area of Rule #1 is to know your own strengths and weaknesses, likes and dislikes. Are you a “numbers” person? Or do you prefer meeting people associated with companies you are interested in? Do you worry if prices drop by 10 percent? What about 20%? What business experience do you have? What is your circle of competence?

Investors who don't have a clear understanding of their own beliefs tend to be tossed around by the plethora of articles and TV shows on the share market.

Golden Principle #2: know the company

For this Principle we need to be an investigative reporter, preferably with at least minimal understanding of accounting principles and the roles of key ratios, plus general business savvy.

In the Conscious Investor® Fund, here are some of the general areas we look at:

» How does the company make money?

» To ensure a thorough understanding of the business, questions that are considered at this stage include:

» How does the company make money?

» What is the business of the company?

» Who are its customers?

» What are its main sources of revenue?

» What drives the results of the business?

Investments should be like castles with deep moats

Does the company have any unique features of the business that separates it from its competitors both nationally and globally? These factors form the sustainable competitive advantage or economic moat of the business. The stronger and more durable this inherent ring of protection around an investment, the greater confidence we can have that any growth of the company will continue.

Risks need to be identified

All businesses face risks that could weaken the continuing success of their operations. In the Fund we identify risks and score them according to their likelihood of occurring over the next economic cycle and their potential damage if they did.

Enduring products, not buggy whips

Does the company have products and services that will be needed over the long-term — or are they likely to be outmoded in a limited time?

Is management honest, open and rational?

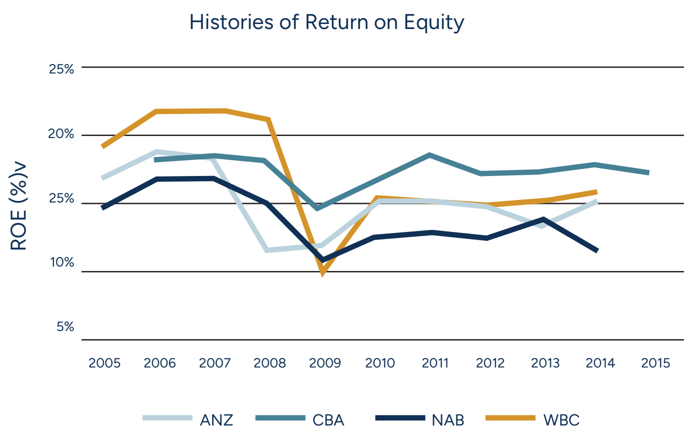
Are communications from the company clear, candid and informative, or obscure, guarded and unhelpful? Does the board and senior management have demonstrated business savvy? Do they really believe in the company and use their own money to buy its shares?

Financial fundamentals of the business

As well as the general areas, to understand the business we also need to look at key financial fundamentals. Every year Buffett announces that he looks for companies with high return on equity with little or no debt. So looking at the history of return on equity is a good place to start.

Conscious Investor® provides a useful series of charts that you can use to get an historical picture of key financial such as ROE. Here is a chart for the history of ROE for the four major banks:

As the chart shows, since 2009 ROE for CBA has been higher than for the other banks. This has helped to drive its superior share price performance



Stability of the growth of sales and earnings

Another criterion for Buffett is that he prefers companies with "demonstrated consistent earning power". This is why Conscious Investor® has a tool called STAEGR® which measures the historical stability of sales and earnings growth.

The goal of step #2 is to find companies for which you have confidence in their current and continuing profitability. The final step is to determine if the current price indicates a successful investment.

Golden Rule #3: use the forecast return to make a decision

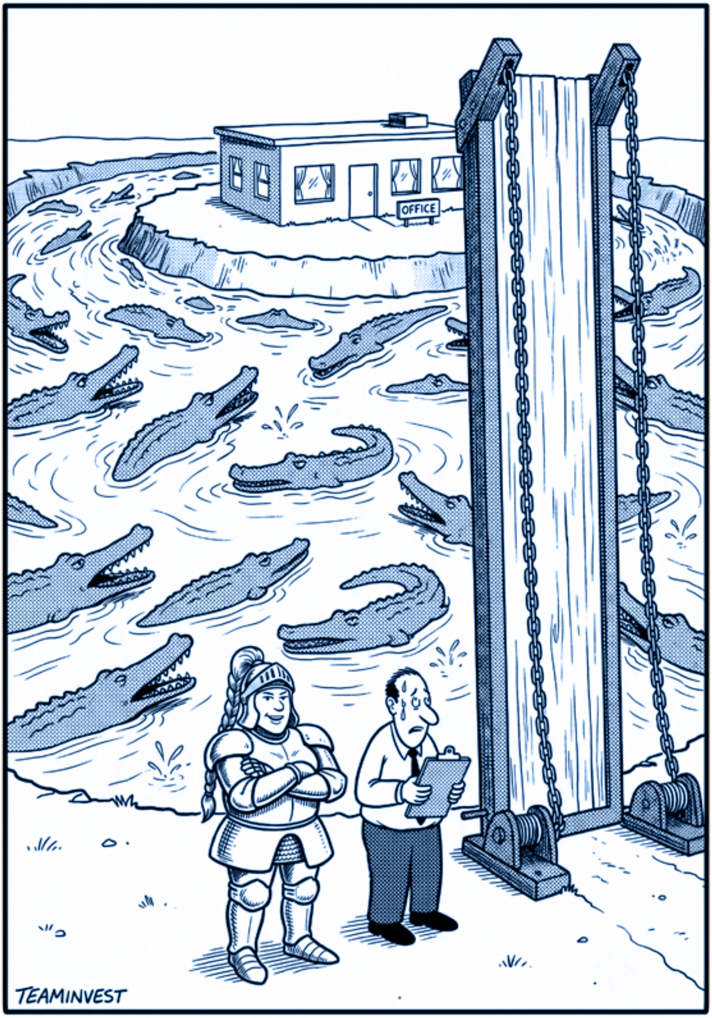
Once you have covered steps #1 and #2, there are many ways of linking them via share price and value. In my book The Conscious Investor® (Wiley 2011) I describe several dozen valuation methods, along with their strengths and weaknesses. Which one you choose, if any, depends upon your beliefs (Principle #1) and the information you have put together as an "investigative reporter" (Principle #2).

As you will read in other articles, Conscious Investor® focusses on STRETD®. It is an estimate of the actual total return of investing in each company under a margin of safety in the areas company performance, market sentiment and board dividend policy. But it can only be applied when you know your know yourself as an investor and when you know the company extremely well.

The moral of the story is to get the best results over time, we need clear investing principles. The three Golden Principles is a good place to start.

Wishing you great success in your investing,

John



Brenda had finally found her economic moat.

LETTER THREE

How Many Companies to Own?

Howard Coleman

Before you read this letter, here's why it matters to you.

This is the most personal question in investing. There is no universal answer — which is exactly Howard's point. The number that's right for you depends on two things: how deeply you understand your companies, and how well you'd sleep if one of them did something unexpected. This letter gives you a framework to answer both, honestly. It also challenges some academic portfolio theory that sounds rigorous but doesn't survive contact with the real world.

In volatile times, what's the ideal number of companies to own?

Too few and you risk a big loss if you get one wrong, too many and you diworsify your returns.

To answer the question, divide it into two parts:

1. What's the ideal number of companies for me to own? and
2. How should this be different in volatile times?

Academic background.

Academics postulate, and design mathematics to show, that one can optimise returns and risk, while holding as few as eight perfectly uncorrelated investments.

I expect we'd all love to follow only eight investments while combining high returns with minimal risk. Is this feasible?

Risk in academia and in Teaminvest.

Academics measure volatility as a proxy for risk. To us, volatility provides opportunities: we evaluate risks on the likelihood and damage to the profits of the company.

Many of us achieved high returns in the past with acceptable risks while owning only one company – the business we personally built and ran. Now we've swapped those long hours dealing with the daily intricacies of our own business, for a more relaxed lifestyle relying on great management to deal with these intricacies in the best investee companies.

What if we now invested in only one company: Could we be as confident of wonderful returns when our single company was run by others? Could we be sure they'd act in our best interests? Would they always keep us promptly and fully informed, or could they tend to gloss over bad news?

Picking single companies can sound wonderful in hindsight.

Newsletters and tipsheets use hindsight as bait for attracting subscribers, with things like: "If you'd invested in XXX only Y years/months ago, today you'd have had returns of ZZZ%. Let me show you how".

This is like saying: if we'd picked TNE in 2009 as a one-company-portfolio, our returns today would have been around 5000%. But who in the depths of the GFC in 2009, would have risked their wealth in only one company? And who would have picked tiny TNE? It passed the filters, but so did 60 others. Who could have predicted TNE would outperform the other 59 and generate returns of 5000%?

Academics don't rely on hindsight, but postulate that one can optimise returns and risk (measured by volatility) with as few as ***eight perfectly uncorrelated investments.***

How volatility becomes a suitable proxy for risk for know-nothing investors.

A recent study showed most investors spend less than six minutes researching any company before choosing to buy it for the first time – and four and a half minutes of this is spent looking at price charts! Such 'investors' may think:

"others know more than me, so when the share price rises or falls, I should follow the herd".

However, for Teaminvest members, who know far more than the market about the best businesses, it pays to be greedy when others are fearful. Volatility becomes our friend.

The phrase 'eight perfectly uncorrelated investments', also raises questions:

1. Which investments are correlated?
2. Can we find perfectly uncorrelated investments?

Conscious Investor® (our brilliant software) lists 2,000 companies for Australia. The ASX groups these in categories they regard as 'similar' or 'correlated'.

For example, two of the big four banks; two IT businesses; two miners of iron ore; two retailers offering similar products; two networked platforms; two health providers, or two manufacturers. The companies in each pair are listed as similar. Much of academic theory treats these pairs as correlated.

Yet experience tells us that a single pair may consist of one Wealth Winner®, and another which wallows in mediocrity or becomes a Capital Killer™.

The real world throws up large disparities from apparently correlated businesses.

Team sports show the same disparities.

Some sports impose rules on recruiting players to match teams more evenly. Yet despite salary caps and draft selections, a few teams win most of their matches over many seasons, while others lose most of their matches – often by large margins.

Yet players and viewers don't need mathematical models, academic theory, or analysts to tell them who won or lost a sporting match.

If correlation is so ineffective in sport after the best efforts to make teams equal, how can we expect supposedly correlated businesses to deliver similar profits?

Businesses don't have salary caps and draft selections to make them equal. Businesses also choose where, when, how, and how often to compete. This isn't imposed on them by administrators. It's ludicrous to expect similar businesses to perform equally - even when they seem 'correlated' on the surface.

When stuck for an answer, "invert, always invert".

Charlie Munger – one of the greatest minds of our time – advised 'invert, always invert'.

If we can't find perfectly correlated investments, perhaps we can find perfectly uncorrelated investments.

When we see the word 'perfectly' applied to any human endeavour, we'd be wise to think "that's unlikely to work in the real world?"

Over the years, many investments have been postulated as being uncorrelated (notably by Nobel Prize recipients), only to find later that they're correlated enough to lose lots of money for clients. Finding eight perfectly uncorrelated investments has so far proved a pipedream.

Here's a cheeky suggestion: Let's put on our thinking caps and try to construct a list of eight perfectly uncorrelated investments for discussion in a MasterClass.

With 600 intelligent members, perhaps we could come up with something that merits nomination for a Nobel Prize in Economics. Wouldn't that be fun ....

Putting aside my dreaming, how many investments should we hold in our real-world portfolios?

For your investments, I suggest your main considerations should be:

1. How many you can fully understand and follow; and
2. How much loss you're comfortable with, while still sleeping at night.

These two requirements will most likely pull you in opposite directions.

Consider this through the eyes of three hypothetical members, Janice, Jordon and Jules.

1. How many they understand and follow:

Janice may reason. I've been a member for fifteen years and participated in most SMaRT (due diligence) meetings in my city. I've learnt a lot about the companies we follow and presented a few Reviews. I understand perhaps twenty-five of the businesses that pass our filters, and fifteen of them in depth. I'm comfortable owning these fifteen, knowing that each is likely to prove a Wealth Winner® in the next five years. If a major risk triggered or one went off the rails, I should recognise this early, so I sleep well at night owning (for me) a low-risk portfolio.

Jordon may reason. I've been a member for two years and haven't attended all SMaRTs in my city. I understand at best a dozen of the businesses that pass our filters, and perhaps only five in real depth. I could easily make mistakes when choosing potential Wealth Winners®, so I'm spreading my risk by investing in twenty-five great companies while I learn.

2. Sleeping at night

Janice may also reason. I started with a $2m portfolio. With excellent returns (18% p.a.) my portfolio of fifteen companies now has a market value of $24m. If a major risk triggers, or one of my companies does something stupid, even if it destroys half its' value before I sell, I'd only be losing half of one-fifteenth of $24m or $0.8m – an amount that wouldn't change my life. So, I'd continue sleeping well at night.

Jordon may reason. My portfolio has grown from $2m to $2.5m in the two years I've been a member, and I'm rather nervous I could be making mistakes – especially as the market seems so volatile. What if I'm wrong with several of my companies and they plunge in price? I better not have too much invested in any one company.

Maybe I should hold more than twenty-five companies to sleep well at night - perhaps all the companies members discuss in MasterClasses and Triages.

What about Jules who is comfortable with risk?

Jules may reason. I've been a member for many years, but because my family enjoys the high life, my portfolio isn't as big as other long-term members. We draw out lots of money each year and could always use more cash for our lifestyle. With my always small portfolio I can't get excited about generating annual returns of 15-20% – after all, some entrepreneurs become paper billionaires in a few years. Only by picking a few absolutely brilliant prospects, will I finally have more money than I need.

How many companies is ideal for YOU?

The examples of Janice, Jordon and Jules, show that 'one size doesn't fit all'. Academics can construct a mathematical model that is teachable to students in a hypothetical world, but it wouldn't suit most investors in the real world.

"How many companies make an ideal portfolio?" isn't the right question. The correct question should be: "How many companies make an ideal portfolio for me?"

Consider how much time you'd be happy to devote to understanding your companies in depth, and how easily you'd sleep at night should any experience a major risk triggering, or if any management did something stupid – which research shows perhaps 15% of them will, over five years.

How many companies do most Teaminvest members hold?

Most members own between ten and twenty-five companies. Let's look at this range.

An upper limit of twenty-five is sensible. Rarely do more than twenty-five pass our filters and processes in most cities. So going beyond twenty-five is a recipe for diworsification. Furthermore, it's tough to gain a deep understanding of moats and risks of even twenty-five companies.

A lower limit of ten is also sensible. Fewer than ten companies could severely damage your wealth if management gets naughty with an agency problem, or a major business risk triggers. This could cause a loss of sleep for many members. Few members study their companies in enough depth to feel comfortable with fewer than ten.

Of course, some successful members fall outside this range: a few own fewer than ten, another few more than twenty-five. The former study their companies in huge depth, attend AGMs, and frequently contact their companies to question them on announcements. The latter choose the risk of diworsifying, as preferable to losing any sleep at night.

In summary.

It may be attractive to own as few as eight investments. Yet this is unlikely to suit most of us.

Most Teaminvest groups seem comfortable watching twenty to twenty-five potential Wealth Winners®. And most individual members hold from ten to twenty-five of these, with a small number of members outside this range.

Since this contradicts much of modern academic portfolio theory, it deserves further consideration.

In the interim as always, may greater volatility continue providing us with wonderful opportunities. I wish you all enjoyable and profitable investing in the months ahead.

Kind regards,

Howard

Jordon had always found fifty companies perfectly relaxing.

LETTER FOUR

Long-term Compounding and Higher Returns

Howard Coleman

Howard explains why Teaminvest deliberately avoids cyclical businesses — requiring three perfectly-timed decisions versus just one for a Wealth Winner®. He then explores the magic of compounding, challenging members to intuitively grasp how a 20% annual return transforms $200,000 over 15 years into annual gains exceeding the original investment.

Indices, the Market and Cyclical Businesses

The market index (All Ords) stood at around 7,700 when I wrote in December 2021. As I write over a year later, it's a little lower at 7,300.

However, we don't invest in the index. We aim to own the most likely Wealth Winners®, those we're confident will grow Earnings Per Share through an economic cycle.

By defining Wealth Winners® in terms of ***through an economic cycle,*** we deliberately choose to exclude cyclical businesses.

Why exclude cyclical businesses?

Cyclical businesses may become good investments if bought at the right time in the cycle. Wealth Winners®, on the other hand, should compound their earnings and prove good investments no matter when you buy them – you simply need to be comfortable with their current STRETD® (Total shareholder return with dividends reinvested) each and every time you buy or add to them over the years.

We deliberately excluded cyclical businesses in our definition of Wealth Winners®, since they belong in the too hard basket for two rational reasons and two emotional biases:

Rational Reason 1: We know of no way of reliably predicting the beginning or the end of any economic cycle in any industry. Tens of thousands of highly paid economists around the world offer these predictions, with results not much better than a coin-flip. Since we seek considerably higher odds in our favour, we'd be foolish to rely on predictions about cycles or cyclical businesses.

Rational Reason 2: Even if we could get our timing right about inflections in a cycle, it needs three times as many wise decisions to profit from Cyclical Businesses over a full cycle: You need to buy wisely at the low point in the cycle, then sell wisely at the high point in the cycle, and then buy wisely again at the next low point in the cycle. This is fraught with at least three times the likelihood of costly errors.

Emotional Bias 1: The history of investing shows that when cyclical businesses are on the way up, humans are infected with FOMO and rush to invest.

Emotional Bias 2: The history of investing also shows that when those same cyclical businesses are on the way down, people catch endowment bias, and hold on until the share price has collapsed.

On the other hand, non-cyclical Wealth Winners® offer higher odds of success: You only need one good decision to buy. Thereafter, you simply monitor that they maintain (or strengthen) their moats and that no damaging risks have occurred.

Since their earnings usually have a steadier trajectory on the way up, you're less likely to be infected with FOMO, and since their earnings rarely head downwards, you're less likely to suffer endowment bias.

We knew this when we started Teaminvest!

Fifteen years ago, we wanted to minimise obvious costly mistakes and their consequently Capital Killing losses. To do so, we deliberately defined Wealth

Winners® in a way that excluded cyclical businesses. How? By using the words "be confident that EPS would be materially higher in five to ten years".

Despite this, emotional biases mean MasterClasses consume much unproductive time discussing cyclical businesses, especially when the cycle turns down and members start agonizing over losses.

Cyclical Businesses – is there another approach?

I'm not smart enough to make three times as many wise decisions in every economic cycle. I expect most members feel the same. So how can we rationally invest in a cyclical business without having to be super smart on timing?

We can do this in three steps:

1. Use Conscious Investor® and your own research to identify a business where the cyclicality is cream on the top. In other words, a business which has a non-cyclical income stream that you're confident will grow materially faster than inflation over many years. The non-cyclical part should also have a moat causing any potential competitor to suck in their breath at the cost of competing. In other words, a major part of the business would fit the definition of a Wealth Winner®.

2. Buy into the business when it is suffering bad news in the cycle, and the STRETD® (Total shareholder return with dividends reinvested) under the Automatic Margin of Safety is highly attractive.

3. Then hang on to this cyclical business for the ride through ups and downs of profits, share prices and dividends, for as long as you remain confident that the non-cyclical income stream is continuing to grow materially faster than inflation. This requires strong intestinal fortitude.

If this is your thinking with Mineral Resources Ltd (MIN), then most members should accept it's rational and appropriate for a partly cyclical business. However, if you bought into MIN when the market was loving it and you were infected by FOMO, or if your intention is to dance in and out of it by timing the cycles, then you need to be confident in your ability to make three times as many wise decisions.

What about owning several partly-cyclical companies in your portfolio?

Cyclical companies don't fit our proven Teaminvest philosophies. Nevertheless, most members own MIN – I do too – and I expect at one point we were very happy!

However, our proven philosophies rely on investing in companies that pass our definitions of potential Wealth Winners® as well as the Conscious Investor® filters. So, it's wise to heed the centuries old warnings: "One swallow doesn't make a summer", and "Don't put all your eggs in one basket".

A final comment: We could use our time more productively by accepting that cyclical businesses are cyclical, and use the time saved to focus on more reliable businesses that meet our definition of potential Wealth Winners®. After all, it's rare that a cyclical business can compound earnings growth over time.

This leads to the second theme of this letter: why it's so important to develop a more instinctive understanding of compounding and how this more instinctive feel can be so beneficial to returns. As an added benefit, developing a better feel for compounding makes decisions about cyclical companies so much easier and less stressful.

Compounding: How to develop a more instinctive feel to improve your returns.

We'll start with a thought exercise for every long-term investor:

Assuming you invest $200,000 in a potential Wealth Winner® and achieve a steady 20% annual return from capital gains and dividends. In the first year, your total return would, of course, be $40,000. (20% of $200,000)

Without doing any calculations, try to quickly guess in which year your one-year return alone will exceed $500,000 – in other words, your return alone in one single year, will exceed two and a half times your entire original investment!!

That's the magic of compounding when owning a great business for many years! If you instinctively knew the answer, or guessed close to correctly, very well done!

Don't be hard on yourself if you couldn't answer without doing calculations. Humans aren't genetically programmed to instinctively assess the results of compounding: such an ability wouldn't have provided our ancient ancestors with any advantage in survival or in passing on their genes.

The correct answer is: in the 15th year. Send me an email if you immediately knew this!

Developing a better instinctive feel for compounding makes investment decisions easier.

If you wish to be a highly successful long-term investor, a more instinctive understanding of the magic of compounding is an essential part of your toolkit.

Unlike our ancient ancestors, you need to see growth rates, or inflation rates, or total profits, or market size, or any other potentially compounding number, and have a feel for what the implications of compounding this would be over say five, 10 or more years. Or of course, you need to take the time to work it out.

Without a deeper understanding of the results of compounding, you're likely to be seduced by FOMO from media hype on the latest fad or theme, or by some seemingly spectacular growth rate, only to later realise it couldn't compound at that rate for long.

In addition, without a better feel for compounding, it may seem rational to jump in and out of businesses - rarely holding any great business long enough for it to deliver fully as a Wealth Winner®.

Remember, the grass may only seem greener on the other side because it's been temporarily covered with manure.

Tax can reduce net returns

The big beneficiaries of investors not yet having a deeper understanding of compounding, are brokers and the ATO – both stand to benefit when traders dance in and out of stocks.

Intelligent investing is about maximising your probabilities for after-tax success. Selling great businesses to buy them back cheaper may work occasionally, but the long-term probabilities are against you when you need to make three times as many wise decisions.

When your pre-tax earnings are compounding, the longer you can rationally delay paying tax on capital gains, and the more money you have compounding for you in the interim.

Never compound returns from poor businesses.

If you own mediocre companies whose earnings are static, then selling is rational when their prices have risen. And if you own companies with falling earnings, then selling at any time is sensible. In these cases, it's cheaper to pay tax than to continue compounding mediocre or negative returns.

A valuable exercise for your portfolio

To develop a better feel for compounding, and the difference made by a few extra years, or a few extra percent, here's an exercise I suggest you do with your portfolio as training to develop a better instinct for the benefit of compounding. It will also give you a quick comparison of your companies and their likelihood of proving Wealth Winners® over five, 10 and 15 years.

1. Make a table of the Share Price of each company in your portfolio and its current HGROWTH (the average annual growth rate of earnings using all the data points and not just the first and last point).
2. Then calculate what the Share Price would compound to, if it continued growing at the rate of the HGROWTH for another five, 10 and 15 years. For this exercise we're not concerning ourselves with changes in P/E – we're assuming that P/Es are the same at the end of each of these periods of five, 10 and 15 years.
3. Then calculate how much their dividends would become in five, 10 and 15 years at the same rate of growth.

Although these are totally hypothetical figures, they mathematically should help you develop a better instinct for compounding over longer time periods - and the difference made by a few extra years and/or a few extra percent of return over five, 10 and 15 years.

I expect you'll find the exercise enlightening and impressive! The knowledge you develop should provide a large boost to your future returns. It should also make your investment decisions easier and less stressful.

Why look as far as 15 years?

Our best Wealth Winners® are those we can identify and hold for the longest time – providing of course they maintain high Return on Equity, low Debt, and per share earnings growing materially faster than inflation. Those of us who are long-term members, probably each have a few that are close to 15 years (I do) – wouldn't it be wonderful if they continue for as many years to come!

Some words of warning!

Rational investing is not simply a matter of calculating numbers, it also requires a dose of logical thinking. So, before any investment decision based on the result of compounding over 10 or 15 years, ask yourself the crucial, rational question: "Is the size of the potential market large enough for this company to continue compounding at this rate for another 10 or 15 years?" If it isn't large enough, it's irrelevant what the mathematics shows!

Kind regards,

Howard

Roger had planted his Wealth Winner® fifteen years ago. It was really starting to take hold.

LETTER FIVE

Investing When Markets are Falling

Howard Coleman

In this letter, Howard warns members that all the signs of a market bubble are visible; new technology meeting easy credit, FOMO reaching fever pitch, and crowds convinced “this time is different.” He outlines rational investing strategies for three scenarios: slow deflation, quick pop, or continued rise, urging members to review portfolios now.

My recent letters have suggested we may be near the end of a bubble. And that this bubble may soon deflate or pop.

In response members have asked how we should invest in three different scenarios:

1. If the bubble deflates slowly?
2. If the bubble pops quickly? and
3. If the market continues to rise.

I’ve divided this letter into two parts.

Part One provides a short background to help us recognise bubbles on the way up – and before they deflate or pop. Part Two provides investing strategies for each of these three scenarios.

Part One: Bubbles on the way up and down.

How bubbles have started in the past?

No pistol is fired to signal the start of a bubble, yet almost all historical bubbles began when the ignition of a new technology or financial innovation, coincided with the fuel of easier credit. Just what we’ve experienced recently.

How bubbles inflate beyond rationality?

Bubbles inflate when human emotions (usually about the ignition of the new technology) cause FOMO to start slowly, then take hold on a larger scale. Easy credit is then the fuel that leads people to hear about others making money, and over time, even previously rational investors decide they just have to join the party.

Rationality then flies out of the window to be replaced by a mania of crowds - people buying into investments because everyone else is buying. These investments 'just have to go up from here' - after all 'just look at how much they've gone up already!'

Bubbles and mania.

Bubbles were also referred to as 'manias' until the 1920's, and many books have been penned about manias or bubbles since the 1600's in the western world – including the tulip mania, the South Sea bubble, the Mississippi land bubble, the canal mania, the railway bubble, the bicycle mania, the electricity bubble, the telephone bubble, the nifty fifty, the Japanese stock market bubble, the dotcom bubble, the sub-prime housing bubble, and so on.

However, the most quoted in history became remembered for its end in the Great Crash on Wall Street – a popping bubble which most people erroneously believe caused the Great Depression.

With all the news about the imposition of tariffs, you may want to reread about the consequences for investors of the Smoot-Hawley tariffs in the early 1930's.

How can we tell a bubble may soon deflate or pop?

Bubbles begin when the ignition of a new technology (or financial innovation) meets the fuel of easier credit. Bubbles end soon after the biggest herd of people suffer peak FOMO and clamour to join the party. Their mantras becoming "we have to get in before it's too late" and their previous doubts dispelled by convincing themselves "this time (or technology) is different".

Yet by the time the masses "have to get in before it's too late" and believe "this time is different", the small number of earliest partygoers have already realised the party is nearing an end. The wisest take their profits, eagerly gifted to them by the masses clamouring to take their place.

The new technology continues to change the world, but the early partygoers enjoy the champagne and leave it to the late comers to pay for the mess.

All the signs of this bubble coming to an end are now there to see.

Part Two now covers the three scenarios and briefly lays out a rational investing strategy for each – a thought starter for deeper discussion in our next MasterClasses.

Part Two: Investing strategies for each of the three scenarios.

1. Investing if the bubble deflates slowly.

Most bubbles in history deflated slowly over time – taking several years. If this now happens, how should we invest?

The slow deflation gives us the benefit of time. Starting today, we can prepare by looking deeply at each company in our own portfolios, asking ourselves two key questions:

1. If the bubble deflates, do I expect this company would suffer a big fall in revenue and profits? and

2. If the bubble deflates, would it be rational to expect that the share price of this company would fall dramatically more than, or dramatically less than, other companies I own.

Ask yourself these two crucial questions totally independently of one another. For example:

Some companies, like those selling discretionary products, eg Tesla selling cars, or Flight Centre selling travel, may suffer a bigger fall in revenue and profits than companies whose products are less discretionary, like say CSL selling blood products or PME providing software for radiology.

Similarly, companies with very high P/E ratios are likely to experience a greater percentage fall in their P/E ratios than companies on a relatively lower P/E. It's easier to fall a long way from a P/E of 100, than from a P/E of less than 20.

Fortunately, we have the best tool to make these comparisons. The automatic Margin of Safety on Conscious Investor® is built to provide for worst-case scenarios. When the MOS shows a P/E much lower than the current P/E, and an expected return (STRETD®) below what you accept, it's warning you of disappointment ahead if the bubble deflates while you own this company.

As I wrote in my recent letter, you may be better off exiting and moving to a company with lower risk (towards the left on your Business Riskiness Indicator), or to a company offering higher STRETD® with similar business risk. In times of elevated risk, it's never wise to move right and take on higher risk for a few percentages of higher STRETD®!

2. Investing if the bubble pops quickly.

For our purposes, popping quickly means in less than a few months. As prepared investors, and a few months should be sufficient for us to treat this as if the bubble deflates slowly.

We can prepare for a bubble which pops in only a few weeks (extremely rare in history) by avoiding having much of your portfolio in 'exciting stocks on high P/E ratios' or in companies with too much debt.

Teaminvest members shouldn't own companies with too much debt, and 'exciting stocks on high P/E ratios' can be avoided by viewing their expected return (STRETD®) in the automatic Margin of Safety in Conscious Investor®.

Again, if your review establishes you should exit any companies you hold, you should do so by 'exiting left' or to higher STRETD® without higher risk, as explained in more detail in the earlier letter.

3. Investing if the market continues to rise further.

Bubbles can go on longer than rationality suggests. The current bubble may also continue longer.

However, when one sees herds pouring into a small number of companies, and one sees companies trading at their historically high P/Es, and when so many people believe they can get rich quickly from belatedly following the herd, and when otherwise rational people assert "this time is different", all signs point to the current bubble coming perilously close to its end.

If our companies surprise us and their prices continue rising longer, we still have the wonderful Conscious Investor® to identify the few companies the market misunderstands in our favour – companies where we're able to add to our holdings at attractive STRETD®s.

And of course, in the longer-term, our potential Wealth Winners® should again deliver wonderful compounding returns for many years after the FOMO ends in tears for the late comers.

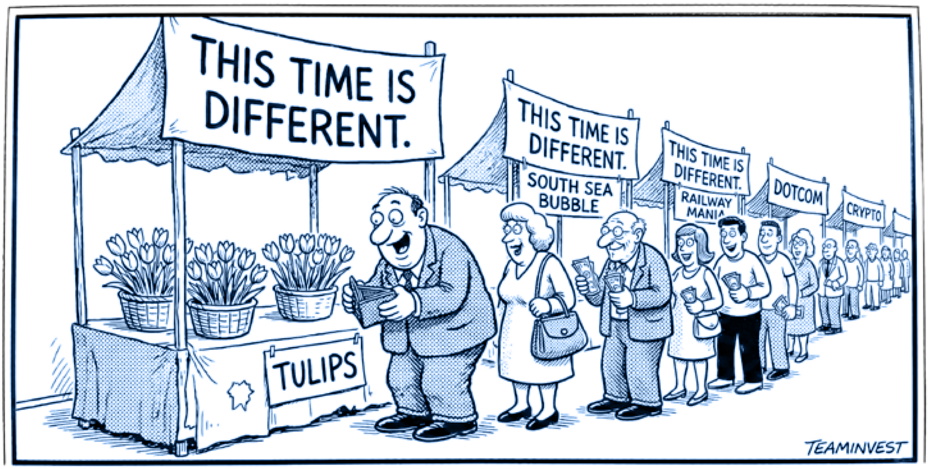
Even if you're convinced the share prices of your companies will rise in the next few months, it may be wise to keep some dry powder for the inevitable misunderstanding or mispricing by Mr Market.

As we regularly say in MasterClasses "volatility is the friend of the knowledgeable investor."

I wish you all the avoidance of FOMO. May your investing remain knowledgeable, rational, profitable and happy in these volatile times.

Kind regards,

Howard



Harold was again convinced by market sentiment that this time would be different...

WHERE TO FROM HERE?

If you've read this far, you already think differently from most investors.

You read financial information critically. You think in frameworks, not tips. You understand that compounding rewards patience, that cyclical businesses require three times as many good decisions, and that the quality of a business matters more than the noise of the market.

You probably also know the frustration of doing all this work alone.

Researching companies takes time. Stress-testing a thesis takes a second opinion. Staying rational during a downturn is significantly easier when you're surrounded by 700 other investors who are doing the same thing.

That's what Teaminvest is.

A membership-based investment community for self-directed investors who are serious about their portfolios. We combine rigorous education, proprietary analytical tools, and a community of like-minded investors to help you invest with greater confidence, discipline, and clarity.

WHAT MEMBERSHIP INCLUDES

A framework that removes guesswork.

Monthly MasterClasses across Australia and New Zealand give you structured, collegial sessions where members apply the Teaminvest methodology to real companies, in real time. You leave with sharper thinking, not just more information.

The analytical tools serious investors need.

Full access to the Conscious Investor® software platform — the same tools Howard and John use to identify potential Wealth Winners® and calculate STRETD® returns. Stop making buy decisions on intuition. Start making them on evidence.

Due diligence you don't have to do alone.

SMaRT Sessions are collaborative deep-dives on individual companies, run by members for members. When you've done your own analysis and want to stress-test it against 700 experienced investors, this is where you do it.

A community that makes you a better investor.

Over 700 experienced investors across Australia and New Zealand — people who built businesses, ran departments, and now take their portfolios seriously. Staying rational during a downturn is significantly easier when you're surrounded by people who are doing the same thing.

Ongoing access, not a one-time course.

Member communications, webinars, and the annual Wealth Winners® conference mean you're never without context, perspective, or a second opinion when the market does something unexpected.

Membership is not open to everyone.

Teaminvest is a selective community. Potential members are assessed on their investment mindset and their genuine willingness to contribute — not just to receive. We've found that the quality of that selectivity is a significant part of what makes membership valuable.

If you're the kind of investor who reads critically, thinks in frameworks rather than tips, and wants to invest with greater discipline and confidence — you're likely the kind of investor our members want in the room.

where serious investors think together.

Book your 15-minute discovery call

teaminvest.com.au/blueprint