



# **The Dangers of Investing & How To Reduce Losses**

**Protecting Your Money From The Next Market Crash**



**“It does not matter how frequently something  
succeeds if failure is too costly to bear.”**

**Nassim Taleb, Ph.D.**



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# What We'll Review

1. The Dangers of Investing
  2. The Obstacles to Success
  3. Why Stocks Rise?
  4. Why Stocks Fall?
  5. Can Investing Be Made Safe?
- Bonus Topics

# Is Investing Safe or Dangerous?

“Those who fail to learn from the mistakes of their predecessors are destined to repeat them.”

-George Santayana

So, let's learn from history!

1. An Unpredictable Roller Coaster
2. Is Investing Safe & Reliable? Are Results Predictable?
3. \$4 Trillion in Losses

# An Unpredictable Roller Coaster

This graph highlights most of the major changes.

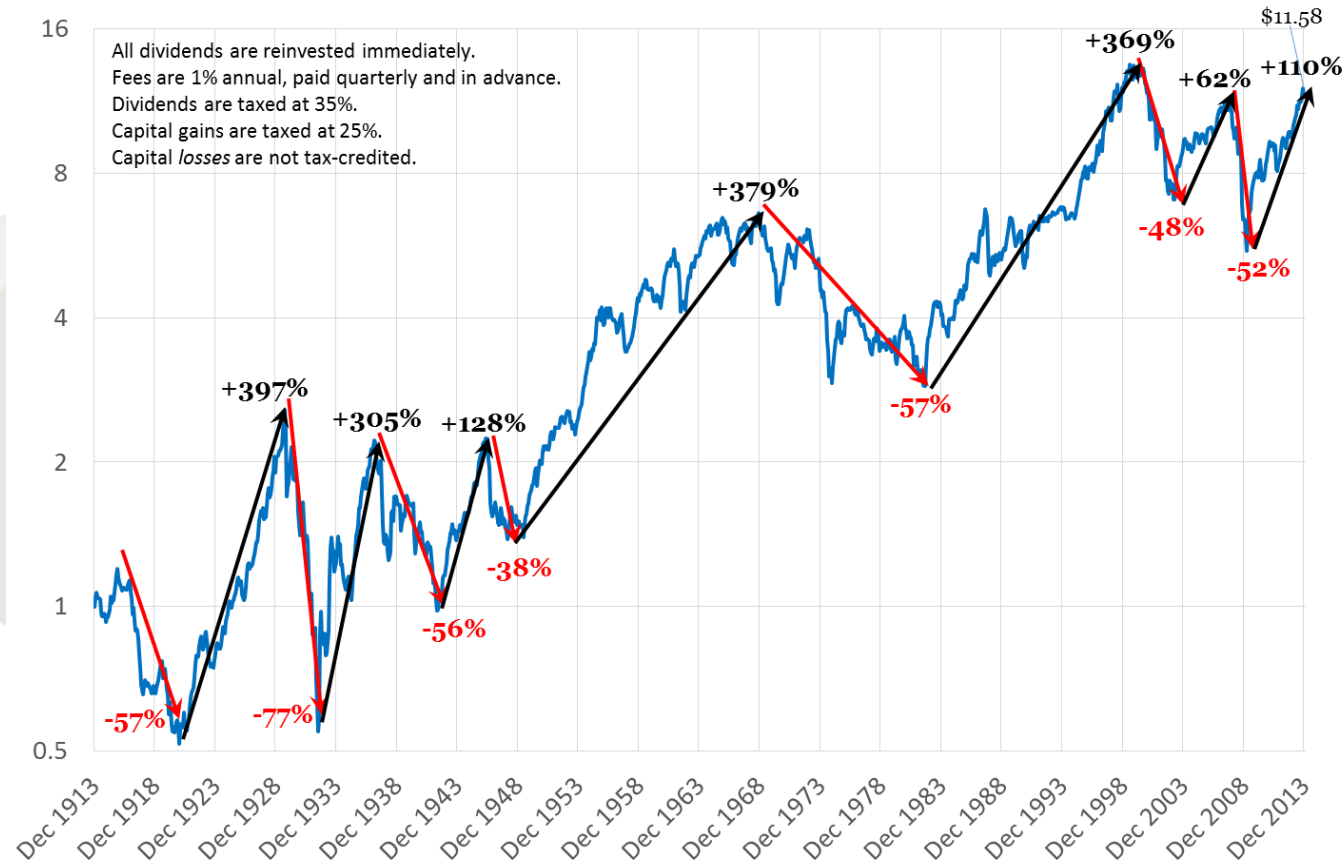
The market...

1. Very risky & unsafe
2. Inconsistent & erratic
3. Occasionally very rewarding
4. Often harsh
5. Unpredictable & volatile

Market declines have mostly followed major market increases.

Market increases have mostly followed major market declines.

**Real S&P, Adjusted For Inflation, Fees and Taxes**  
When Do You Make Money In The Stock Market?



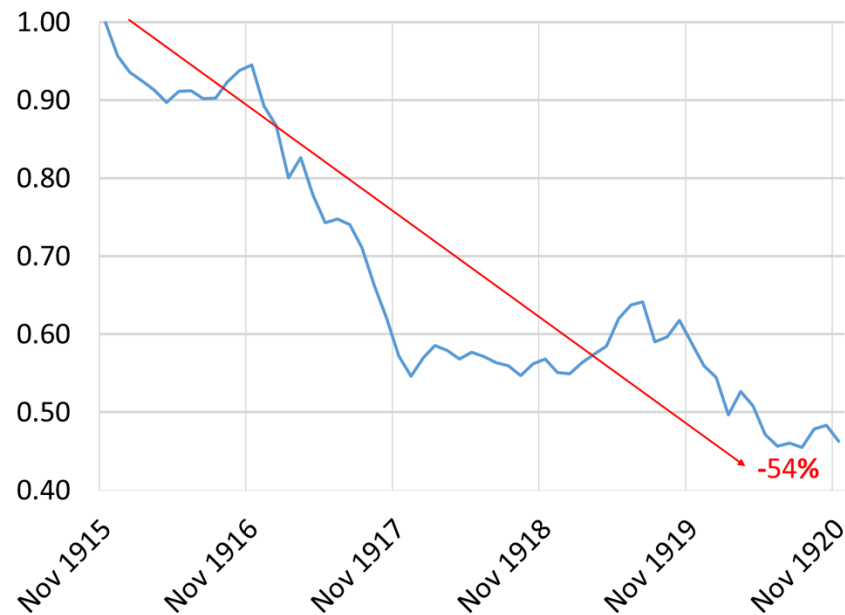
# Is Investing Reliable? Are Results Predictable?

Nov 1915 to Sep 1929:  
Nearly 14 years, 5.4% annually

Nov '15 - Dec '20

• 5 yrs & 1 mos

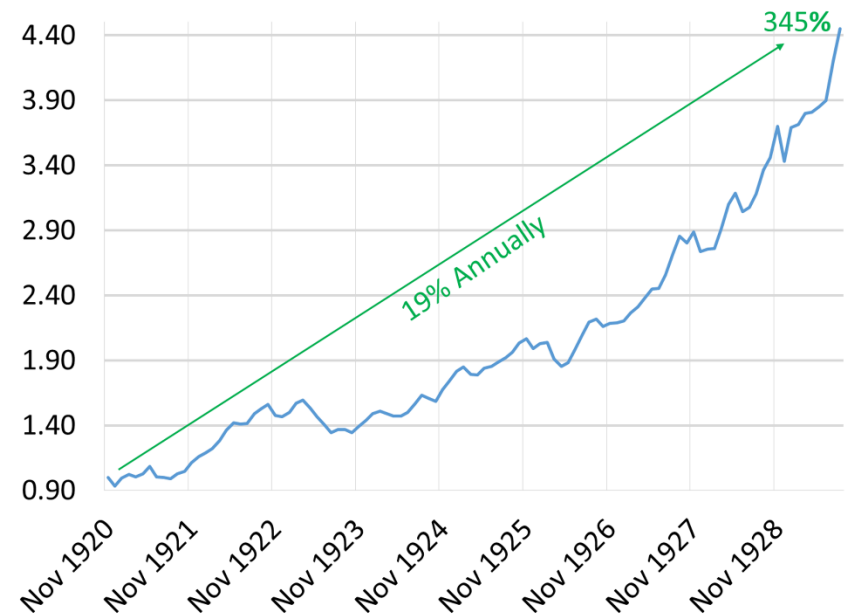
-54%



Dec '20 - Sep '29

• 8 yrs & 9 mos

19%



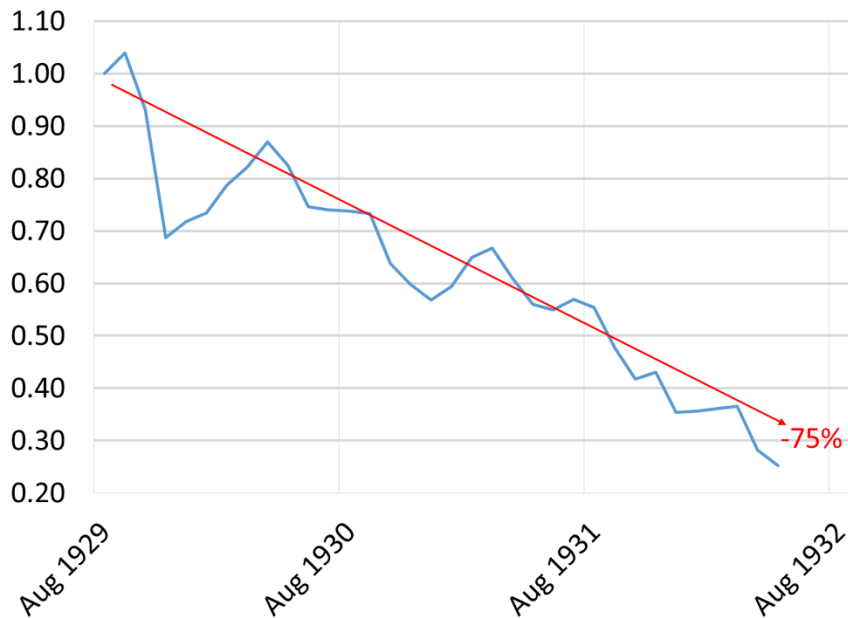
# Is Investing Reliable? Are Results Predictable?

Sep 1929 to Feb 1937  
Nearly 8 years, down 13%

Sep '29 - Jun '32

• 2 yrs & 9 mos

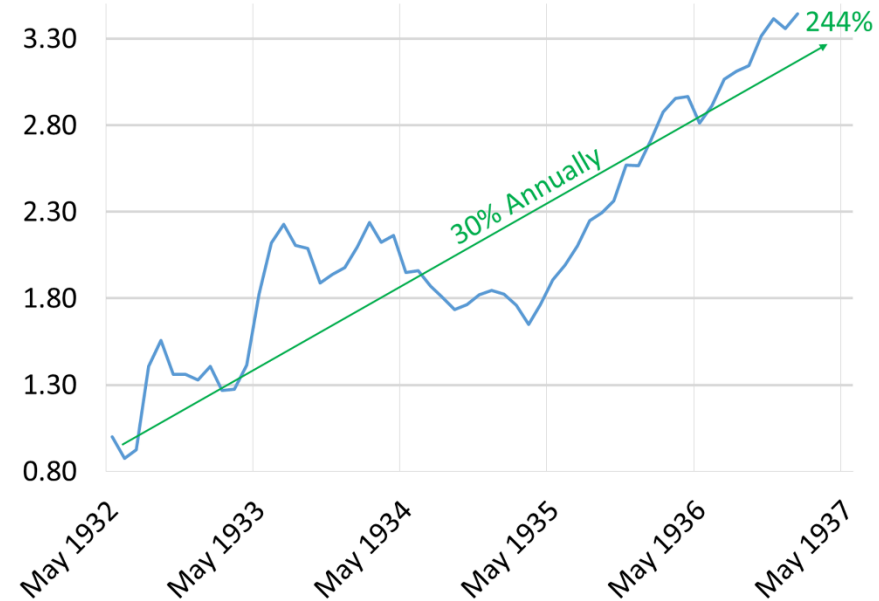
-75%



Jun '32 - Feb '37

• 4 yrs & 8 mos

30%



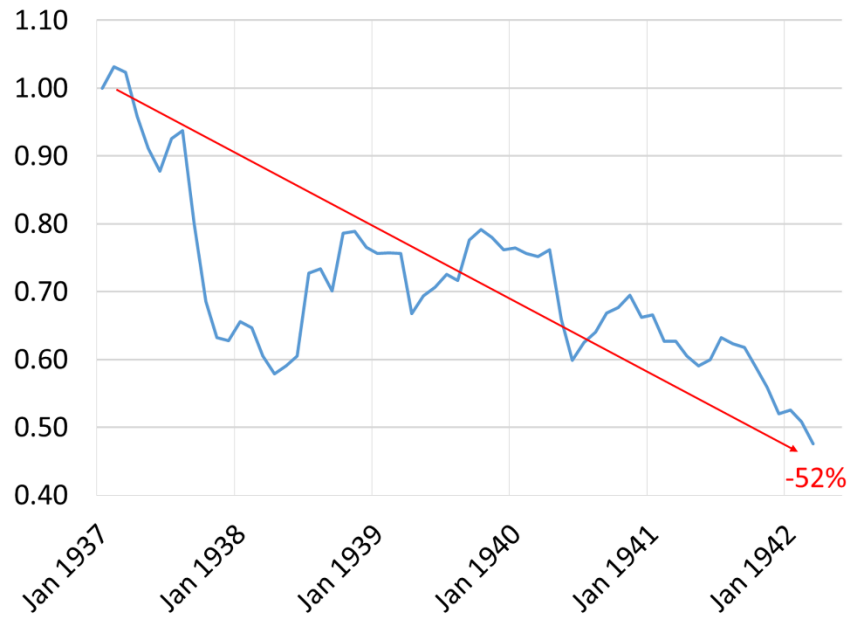
# Is Investing Reliable? Are Results Predictable?

Feb 1937 to Apr 1946:  
Just over 9 years, down 2%

Feb '37 - Apr '42

• 5 yrs & 2 mos

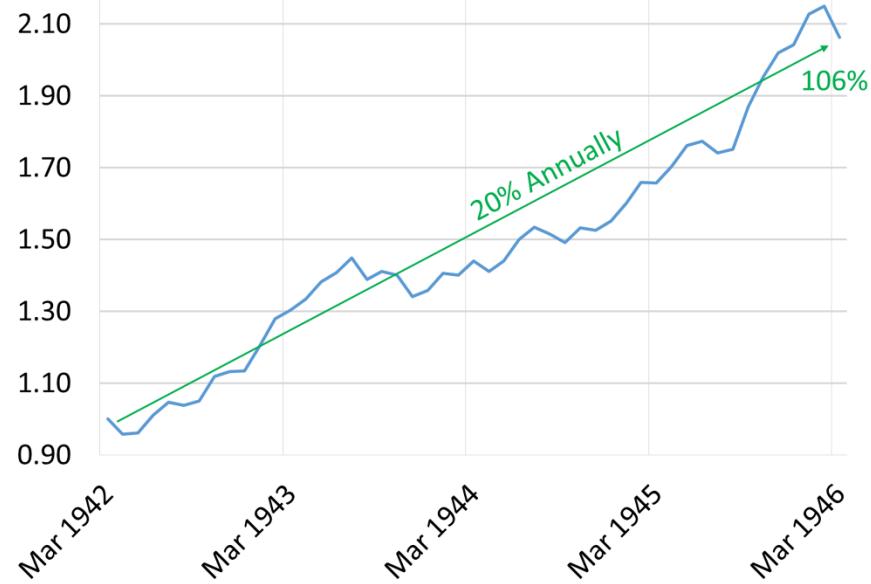
-52%



Apr '42 - Apr '46

• 4 yrs

20%





# Is Investing Reliable?

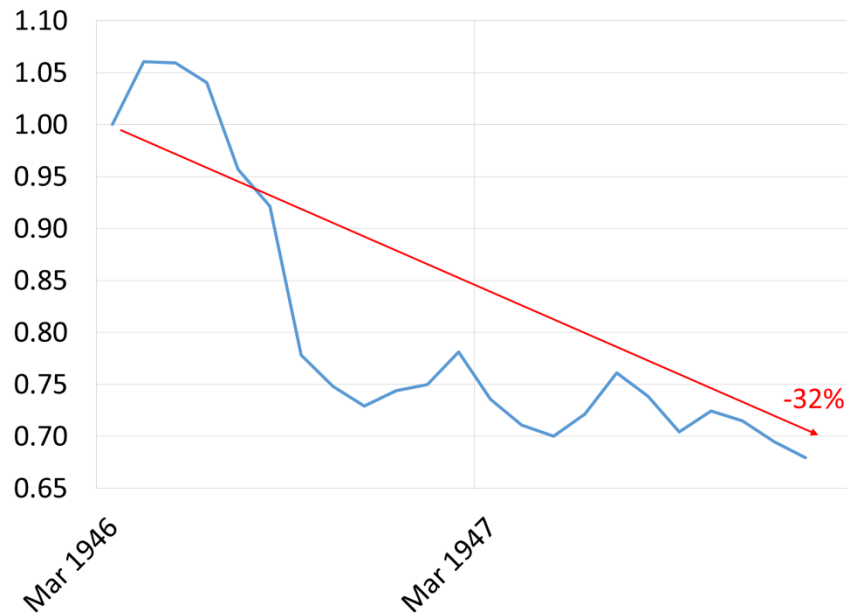
## Are Results Predictable?

Apr 1946 to Nov 1968:  
Nearly 23 years, 5.1% annually

Apr '46 - Feb '48

• 1 yr & 10 mos

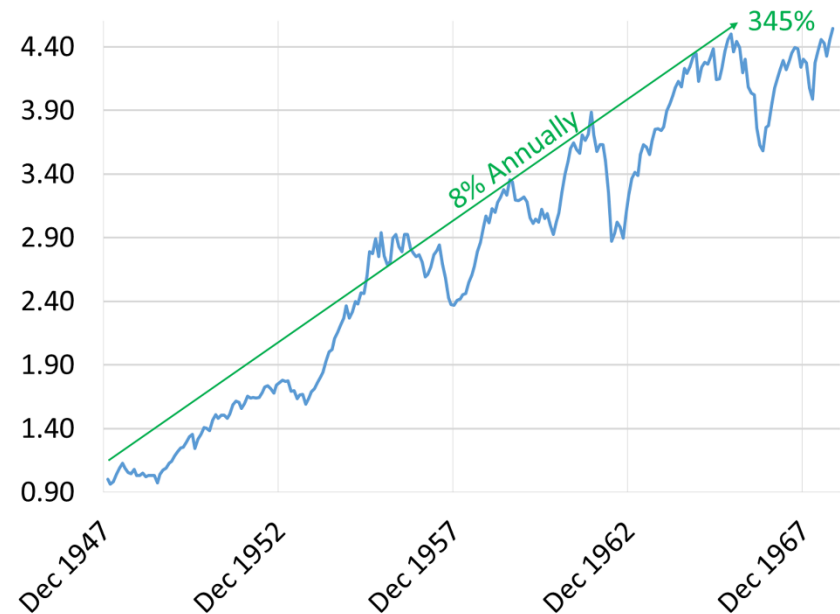
-32%



Feb '48 - Nov '68

• 20 yrs & 9 mos

8%



# Is Investing Reliable?

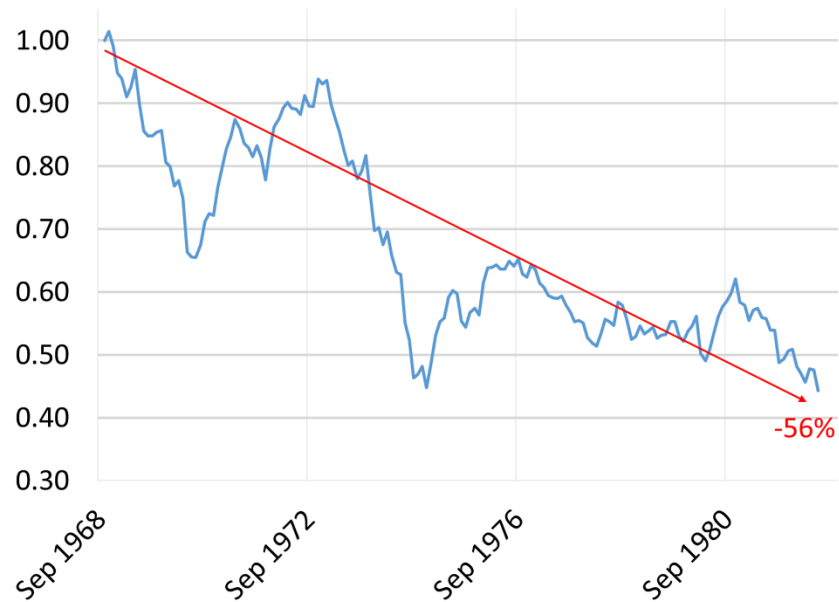
## Are Results Predictable?

Nov 1968 to Dec 1999:  
Over 31 years, 2.4% annually

Nov '68 - Jul '82

• 13 yrs & 8 mos

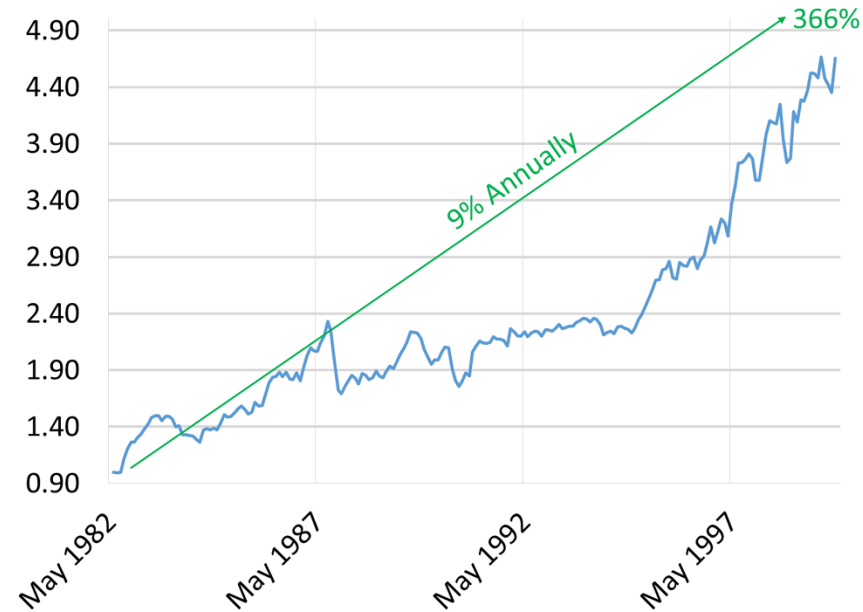
-56%



Jul '82 - Dec '99

• 17 yrs & 5 mos

9%



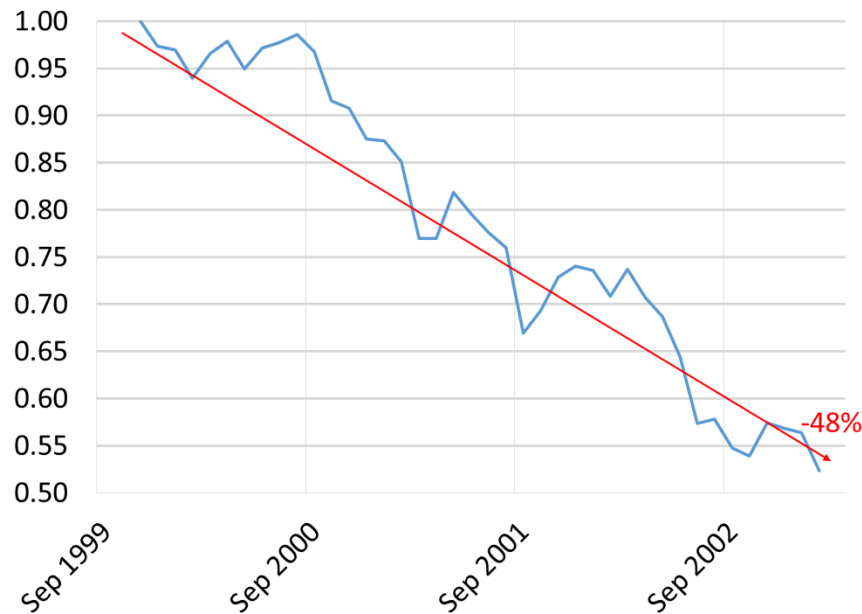
# Is Investing Reliable? Are Results Predictable?

Dec 1999 to Mar 2003:  
Nearly 12 years, down 12%

Dec '99 - Mar '03

• 3 yrs & 3 mos

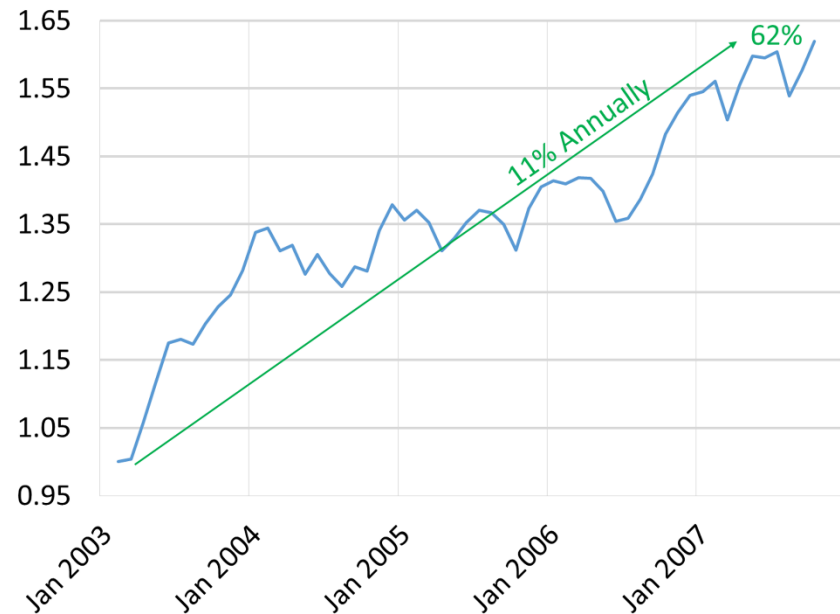
-48%



Mar '03 - Nov '07

• 4 yrs & 8 mos

11%



# Is Investing Reliable?

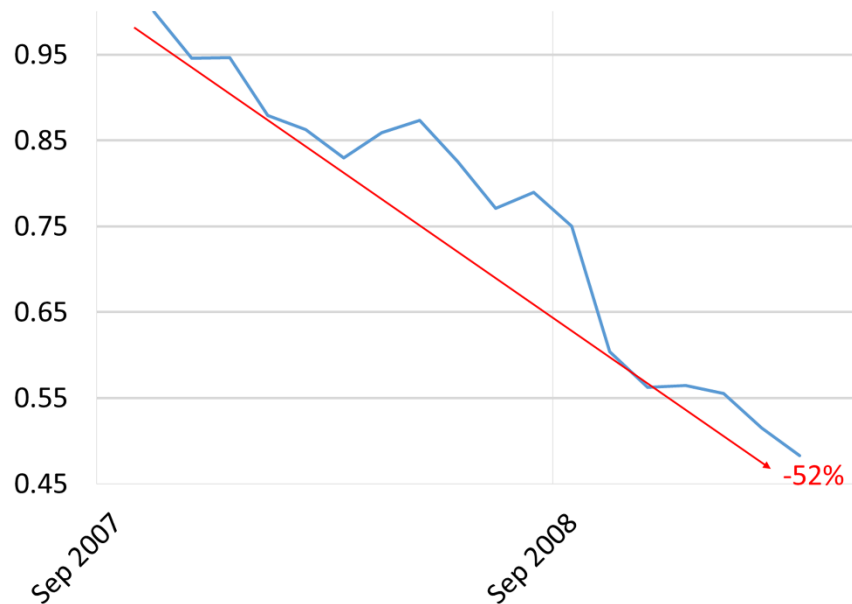
## Are Results Predictable?

Mar 2003 to Dec 2013:  
Just over 6 years, 0.2% annually

Nov'07 - Apr '09

• 1 yrs & 5 mos

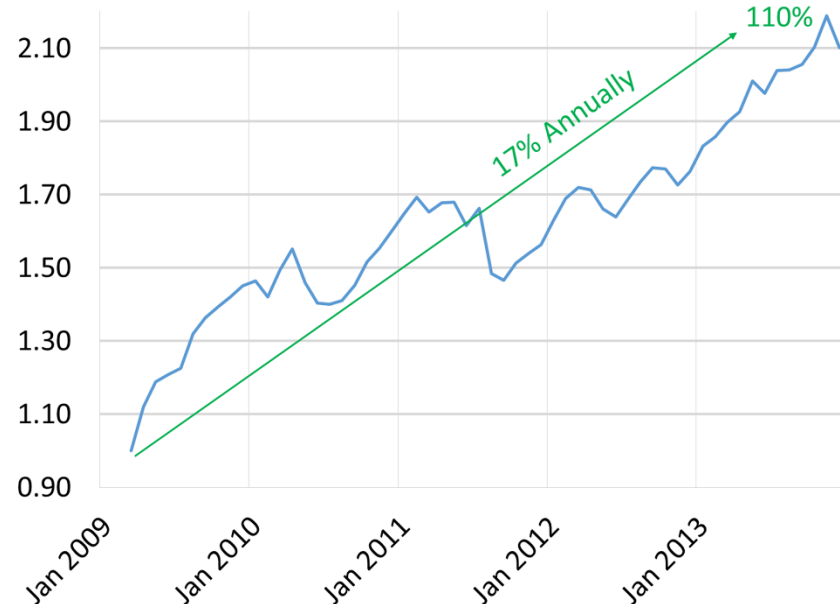
-52%



Apr '09 - Dec '13

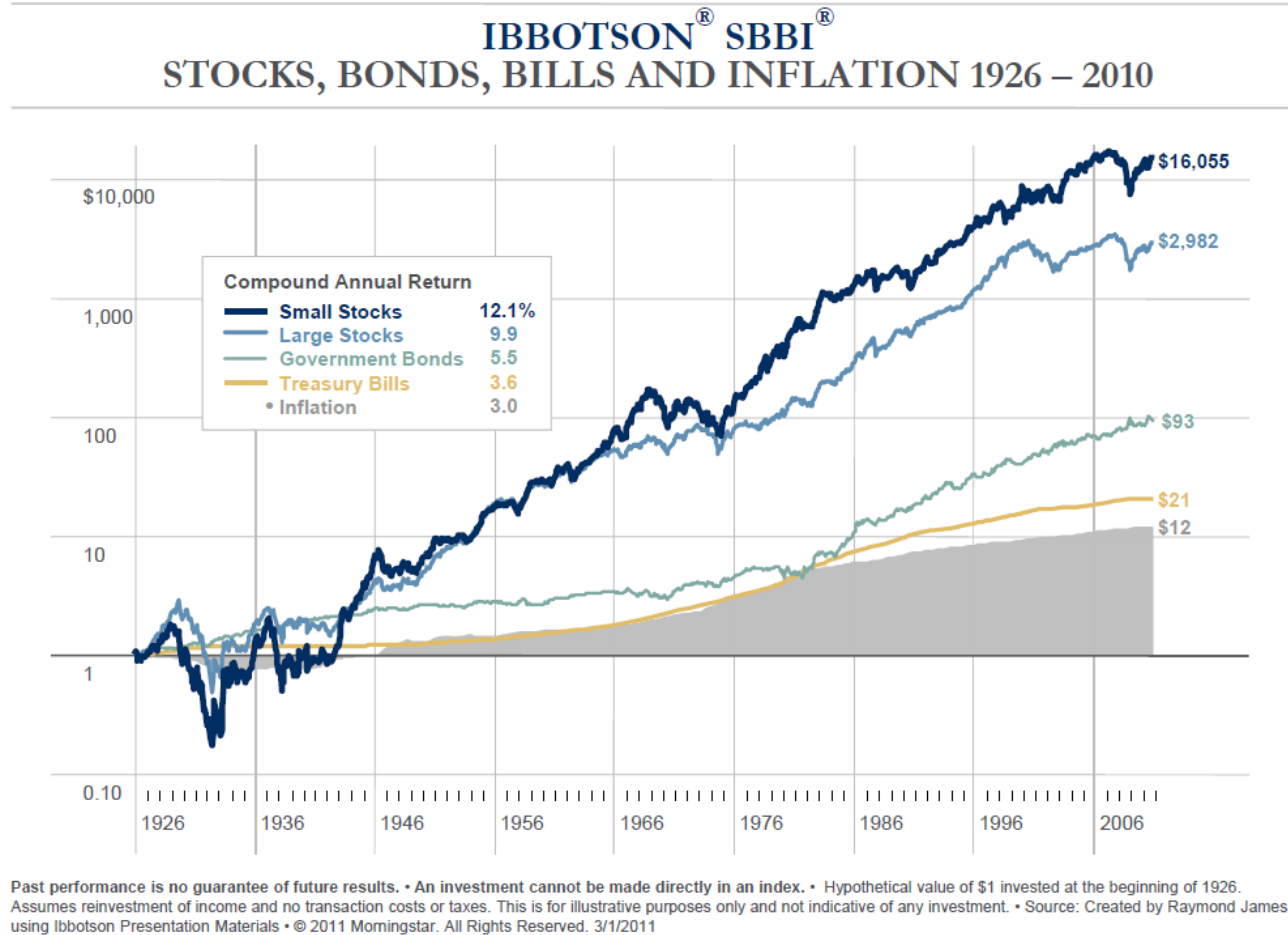
• 4 yrs & 8 mos

17%



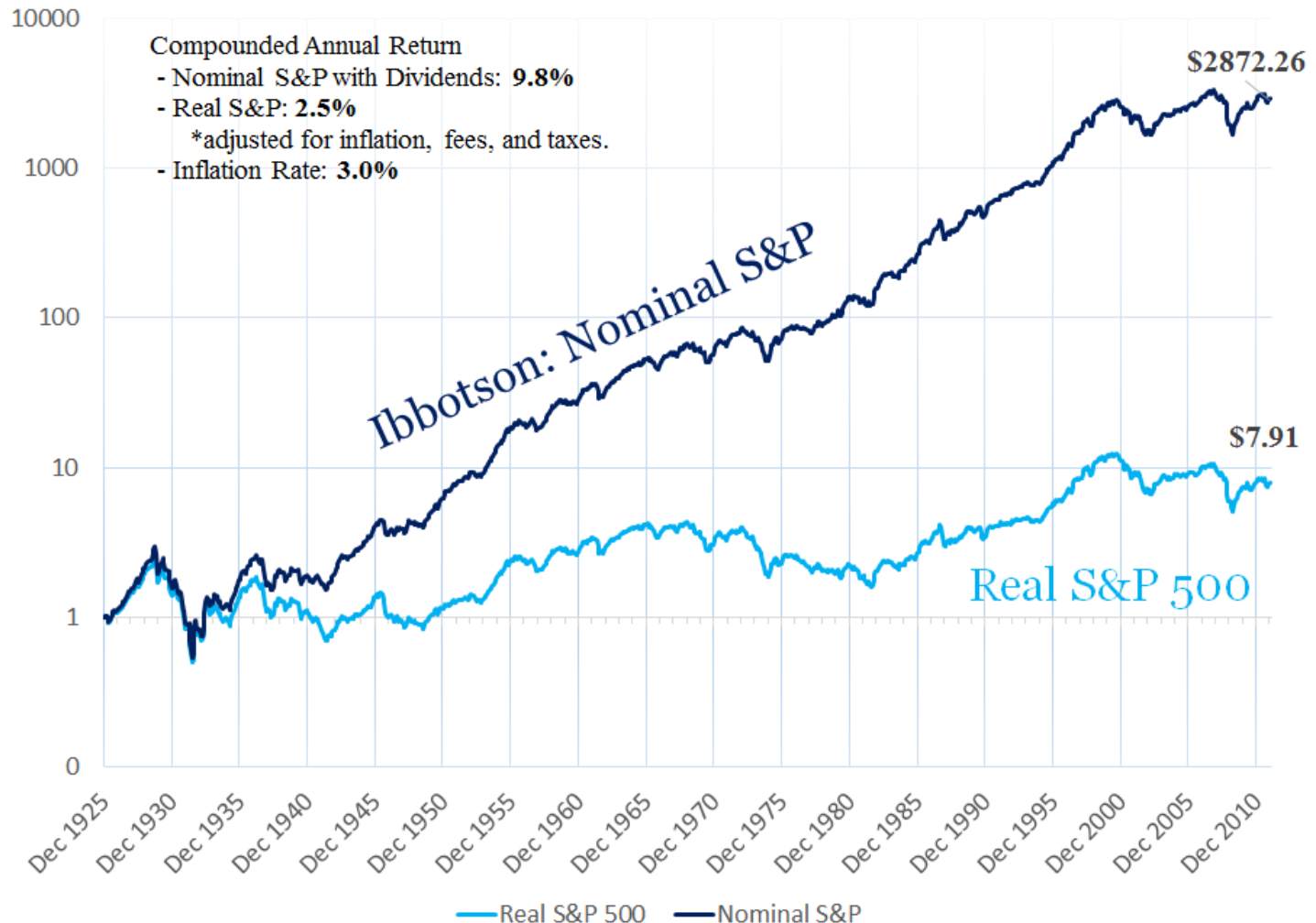
# What To Expect From The Stock Market?

## What Wall Street Will Show You:

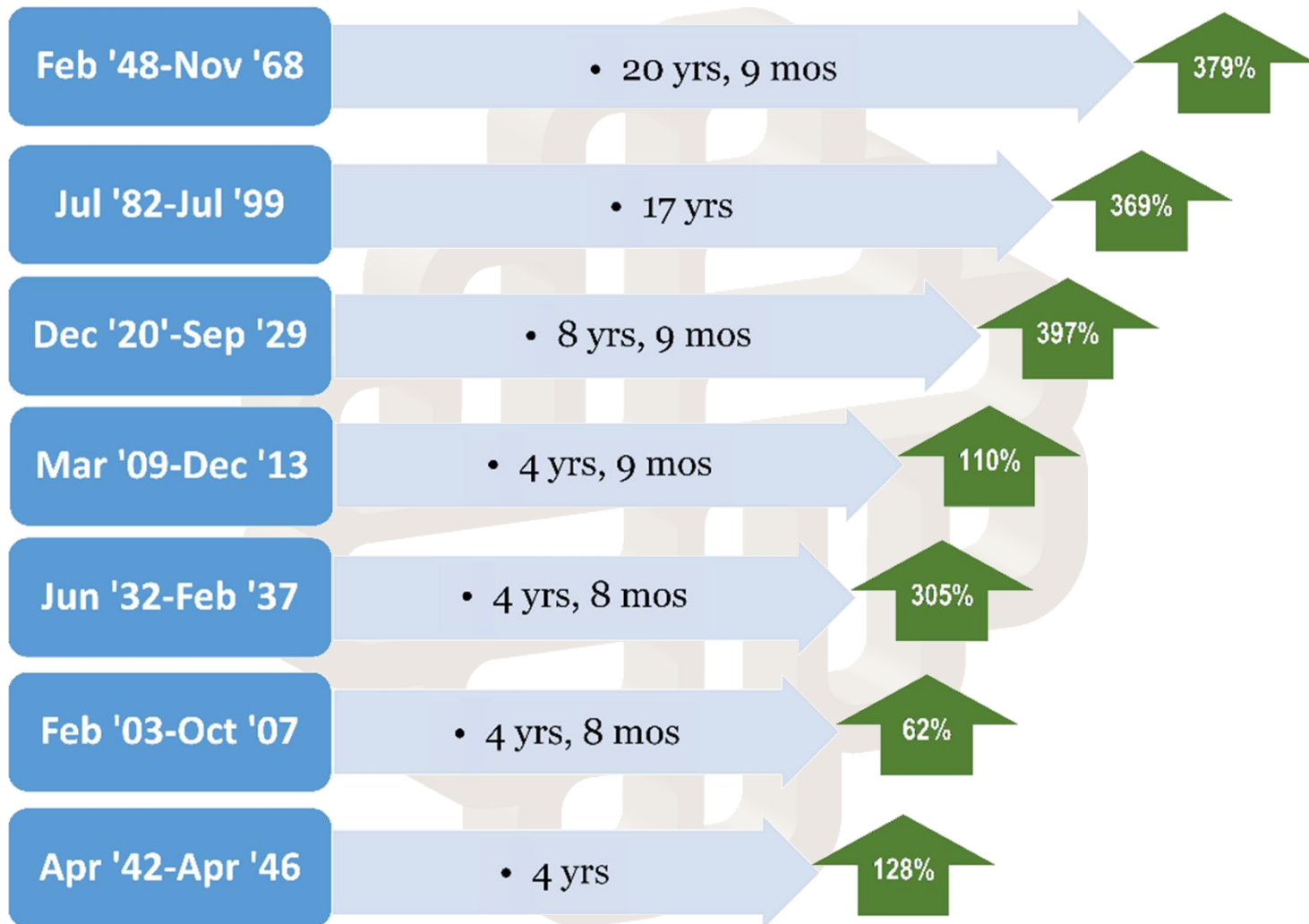


MORNINGSTAR

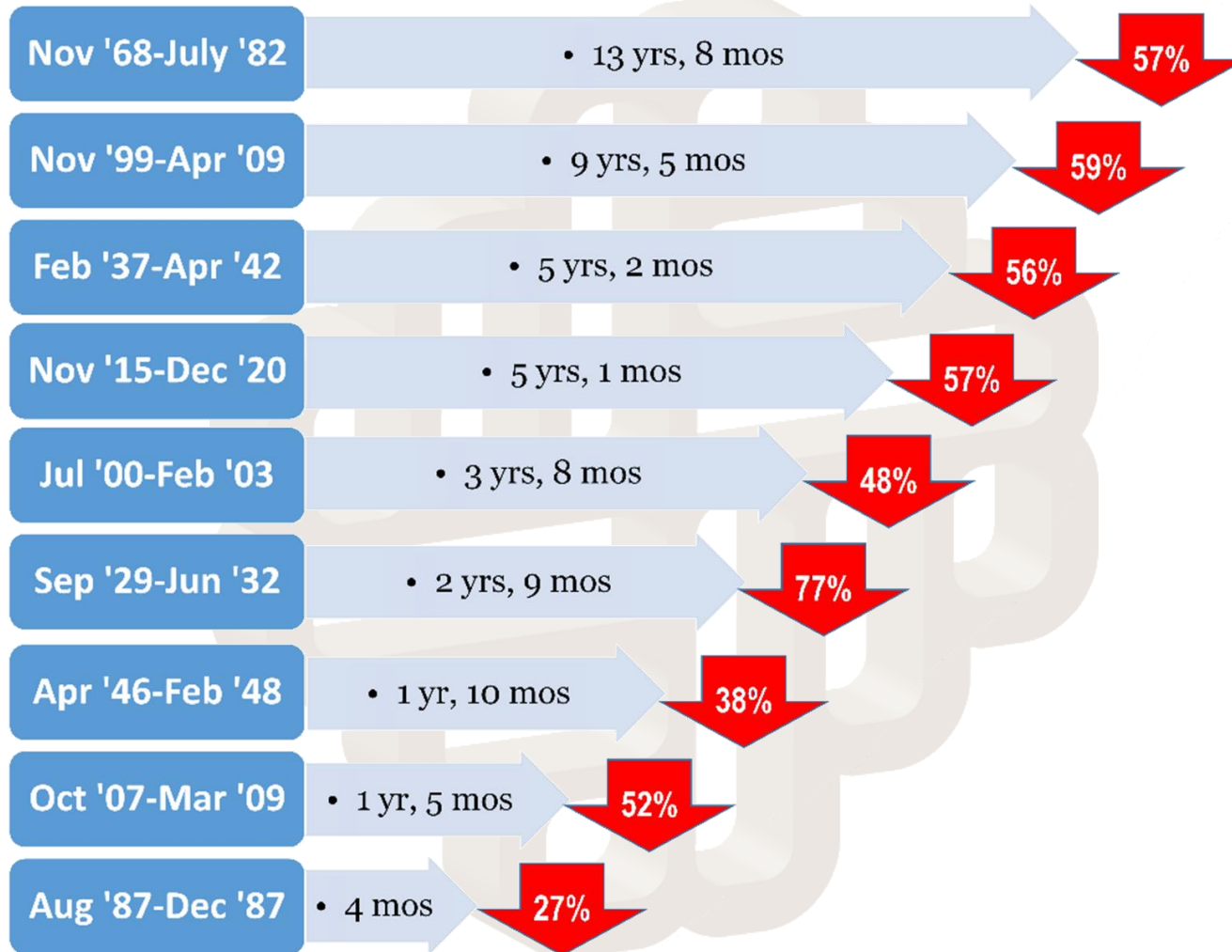
# When Adjusted for Inflation, Fees, and Taxes...



# The Tremendously Profitable Periods Financial Salesman Show to Lure You In

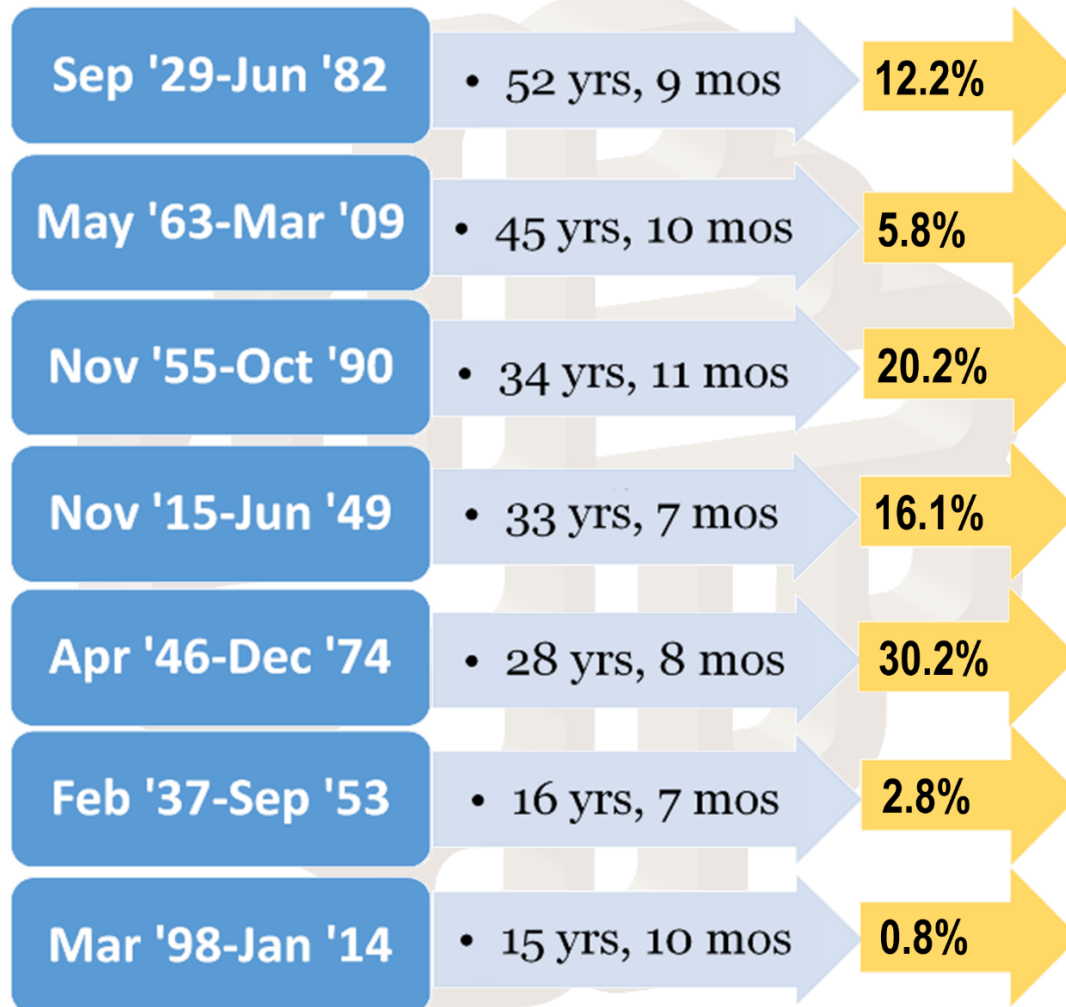


# Market Declines Which Have Destroyed the Lives of Millions of Families and Businesses





# Periods When You Would Have Waited, and Waited, and Waited...



# How Safe are “Blue-Chip” Stocks?

Stock	High Date	High Price	Low Price	Low Date	% Loss
Amer. Int'l Group	Nov-00	\$1,737.21	\$5.87	Jun-09	-100%
Apple	Dec-12	\$702.10	\$390.53	Jun-13	-44%
AT&T	Jul-99	\$58.00	\$20.06	Sep-02	-65%
Blackberry	Jul-07	\$230.52	\$5.88	Dec-13	-97%
Campbell's Soup	Nov-98	\$59.15	\$19.79	Jan-03	-67%
Cisco	Mar-00	\$77.31	\$15.81	Sep-02	-80%
Citicorp	Dec-06	\$564.10	\$10.20	Feb-09	-98%
Corning	Sep-00	\$113.22	\$1.33	Oct-02	-99%
Eastman Kodak	Oct-87	\$104.91	\$0.03	Jan-14	-100%
Ford	Apr-99	\$40.78	\$1.58	Jan-09	-96%
GE	Aug-00	\$60.25	\$6.66	Feb-09	-89%
GM	Apr-00	\$93.63	\$0.00	Jun-09	-100%
Hewlett Packard	Jun-00	\$67.44	\$11.16	Sep-02	-83%
Home Depot	Dec-99	\$68.75	\$20.53	Jan-03	-70%
Intel	Aug-00	\$74.88	\$12.74	Feb-09	-83%
International Paper	Jan-00	\$58.62	\$4.09	Apr-09	-93%
Microsoft	Dec-99	\$59.56	\$15.15	Feb-09	-75%
Oracle	Aug-00	\$46.31	\$7.32	May-02	-84%
Pfizer	Jun-00	\$48.94	\$11.87	Feb-09	-76%
Pitney Bowes	Jul-99	\$70.63	\$10.41	Dec-12	-85%
Time Warner	Dec-99	\$194.04	\$14.59	Feb-09	-92%
US Steel	Jun-08	\$186.93	\$17.10	Jun-13	-91%
Wal-Mart	Dec-99	\$69.75	\$43.63	Sep-07	-37%
Xerox	Jan-99	\$62.00	\$4.34	Mar-09	-93%
Yahoo!	Dec-99	\$118.75	\$4.54	Sep-01	-96%



# Obstacles to Success

1. Supply and Demand for Stocks
2. Conflicts of Interest
3. Lack of Time for Research
4. Ignorance of Facts about Investing
5. Lack of Reliable Data
6. Lack of clear and reliable methods to evaluate risk
7. Lack of technology which allows for screening, sorting, comparing, and filtering 2000 stocks based on comprehensive data from financial statements



# The Supply of Stocks

12,089

Total US Companies

2,435

...with a market cap greater than \$500M

1,777

...with earnings greater than \$25M

935

...priced under 5x NTE

276

...with debt less than half their Revenue

163

...with debt less than NTE

# The Demand for Stocks

~50 million

~\$18 Trillion

~629,000 FINRA

~100,000 + 1600

~20,000

~200

~6,000

~3,300

Retail Investors

in Pensions and IRAs

Investment Salesmen

Multi-Millionaires and Billionaires

Investment Firms

Largest Corporations in world

Mutual Fund and Insurance Co's

Private Equity Firms



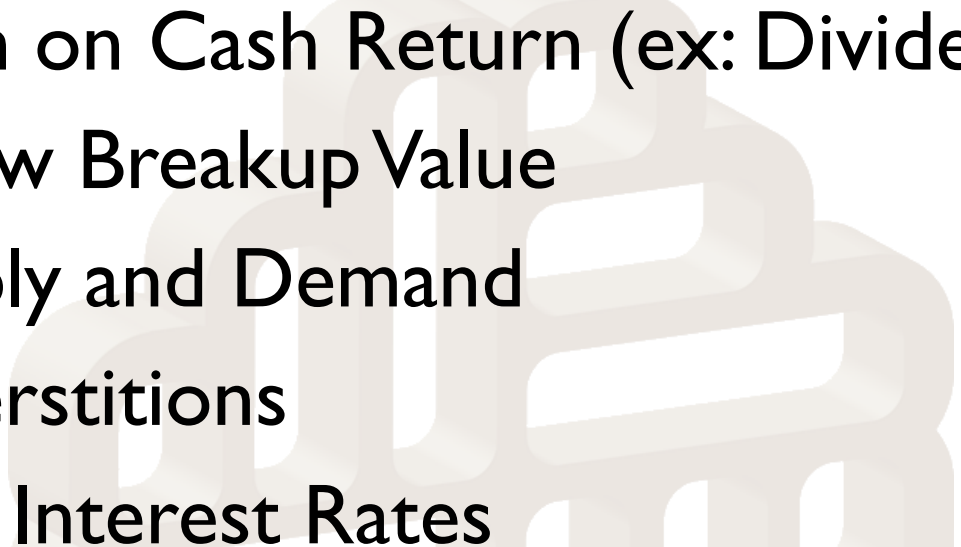
# Conflicts of Interest

## 3 Vital Services Wall Street Advisors Cannot Provide

1. An objective analysis of the risks and weaknesses of the products and services that *they* sell.
2. An objective analysis of the safety, costs, reliability, quality of service and potential for greater profits from competitors.
3. An objective analysis of completely different types of solutions from the solutions he sells.



# Why Stocks Rise

- 
1. Cash on Cash Return (ex: Dividends)
  2. Below Breakup Value
  3. Supply and Demand
  4. Superstitions
  5. Low Interest Rates



# Why Stocks Fall

1. Real Business Problems
2. Rising Interest Rates
3. Recessions
4. Inflation Expectations
5. Over Valuation
6. Competition from Other Investments
7. Domestic or International Political Events
8. Bad Timing & Panics





# Can Investing Be Made Safe?

**NO!**

**However, the more clearly we can identify the attributes of a safe stock,**

**AND**

**the more clearly we can identify the attributes that make a stock risky,**

**the greater our capacity to avoid risky stocks;  
which enables us to greatly reduce losses.**

**Reducing losses is the foundation of safe investing!**



# What are the Attributes of a Safe Stock?

1. **It is Very Solvent** (has little or long-term debt);
2. **It is Cash Rich** (has very high cash to total assets);
3. **It has at least 5 years of Stable Revenues;**
4. **It has Clear and Positive Trends on its Balance Sheet;**
5. **It has Income Congruency** (Net Income = Increases to Net Tangible Equity)
6. **Its Share Price is Close to its “Net Tangible Equity (NTE).”**
7. **Can be purchased below its average, historical Price/NTE ratio.**

**Which attributes of safety  
do you sacrifice when investing?**

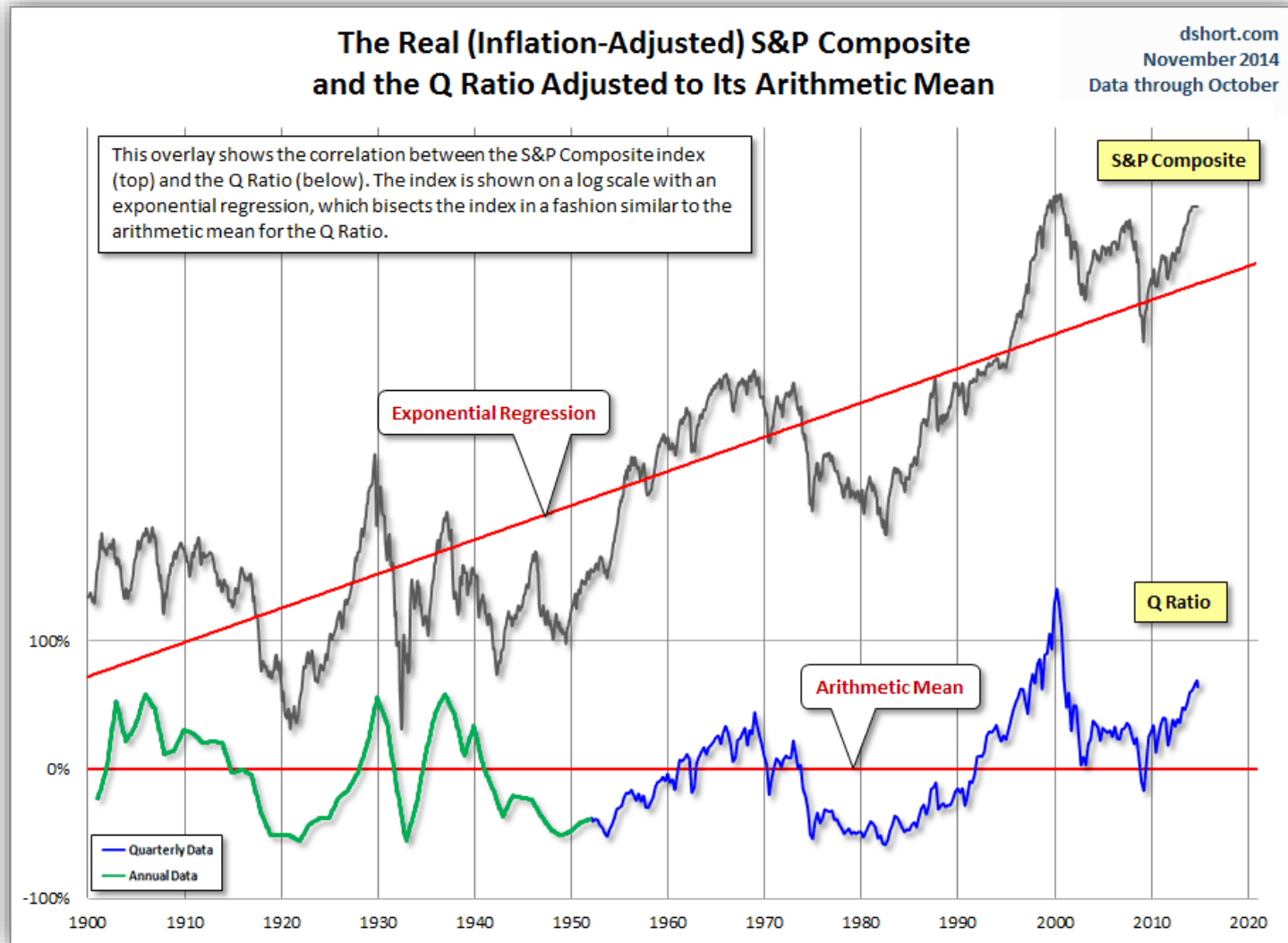


# The 3 Most Valuable Measures of Market Risk

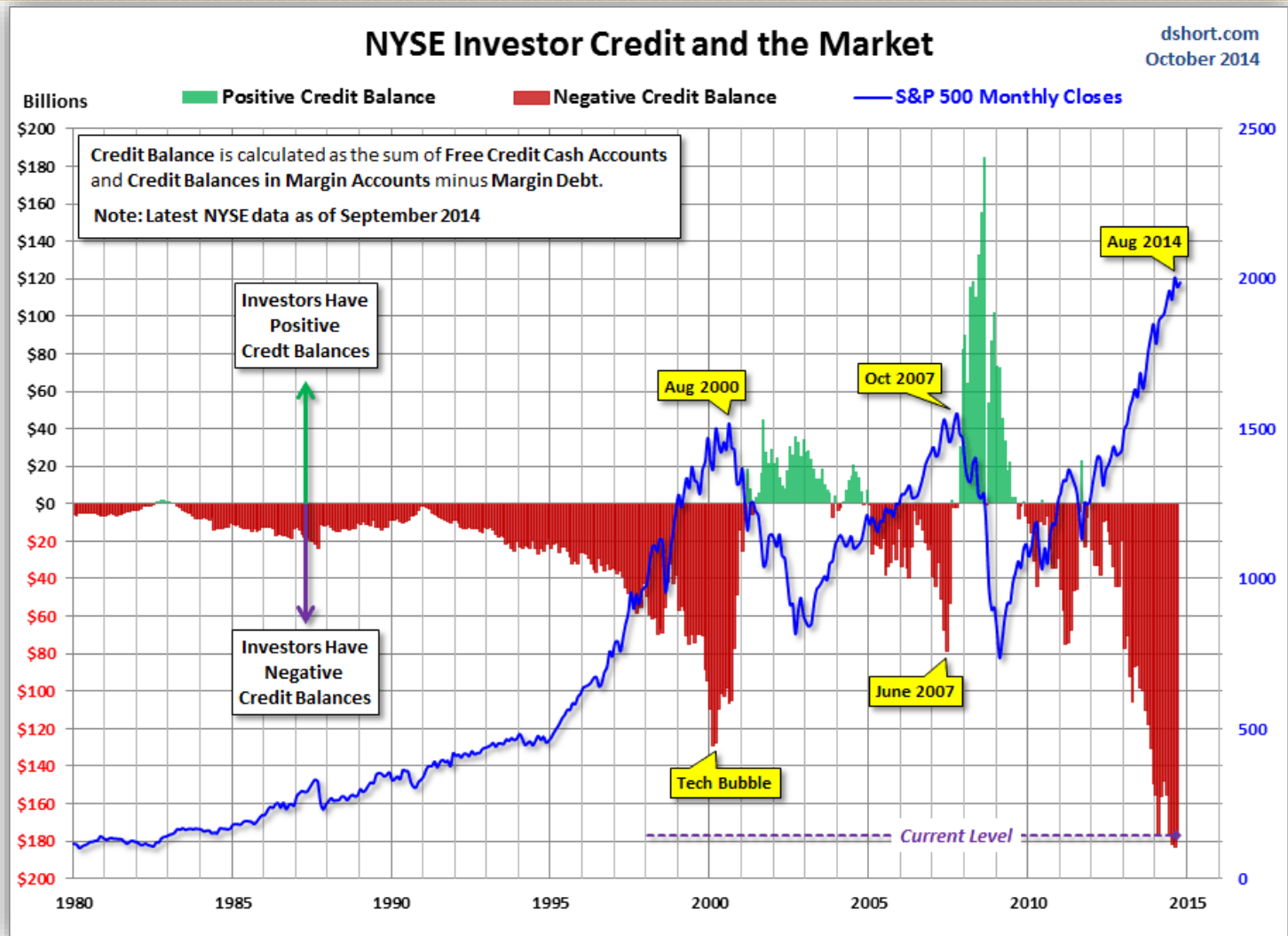
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1. The Q-Ratio
  2. NYSE Margin Debt
  3. Price to Sales Ratio of the S&P 500

# The Q-Ratio

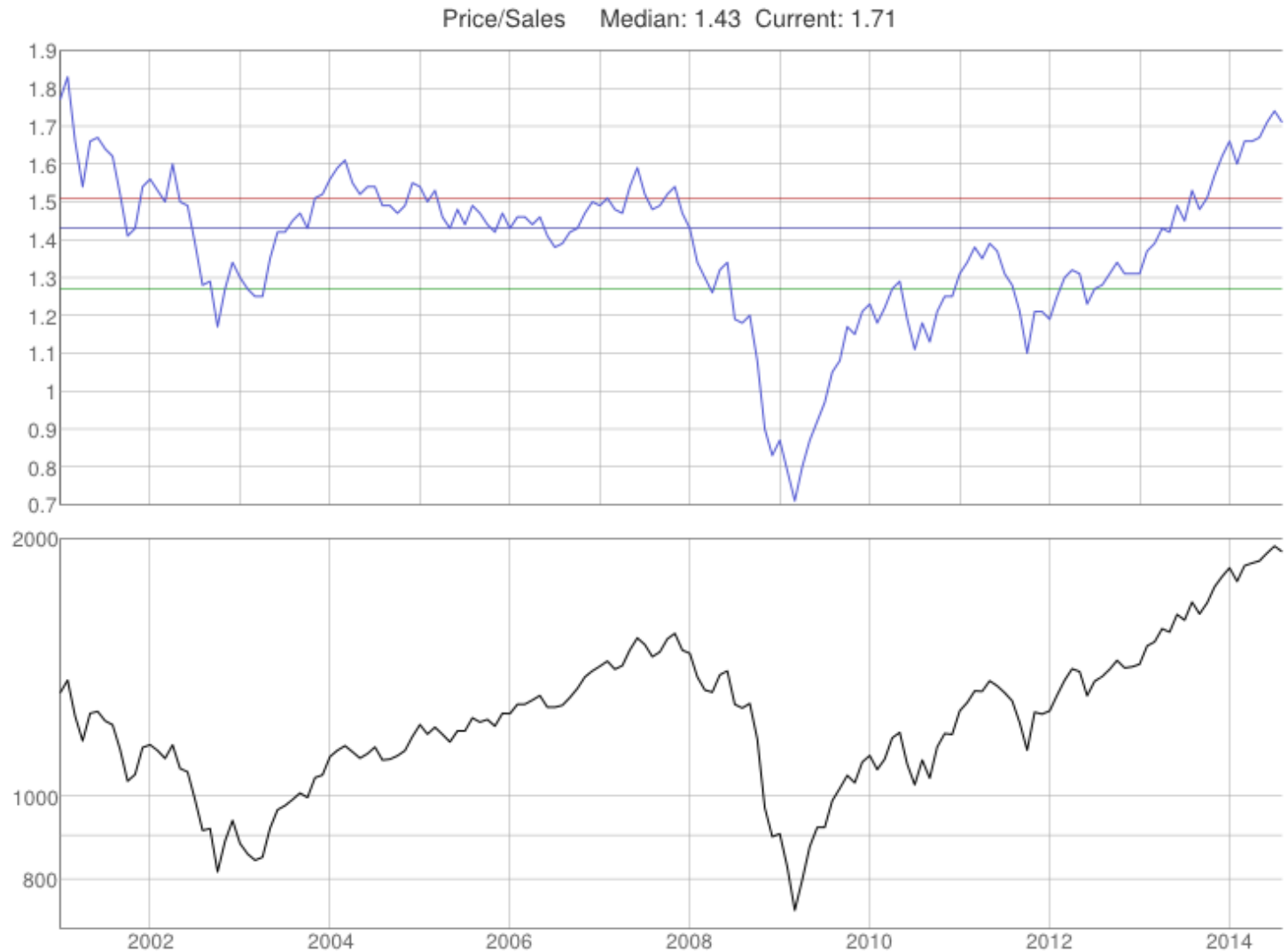
(developed by Nobel Laureate, James Tobin, Ph.D.)



# NYSE Margin Debt

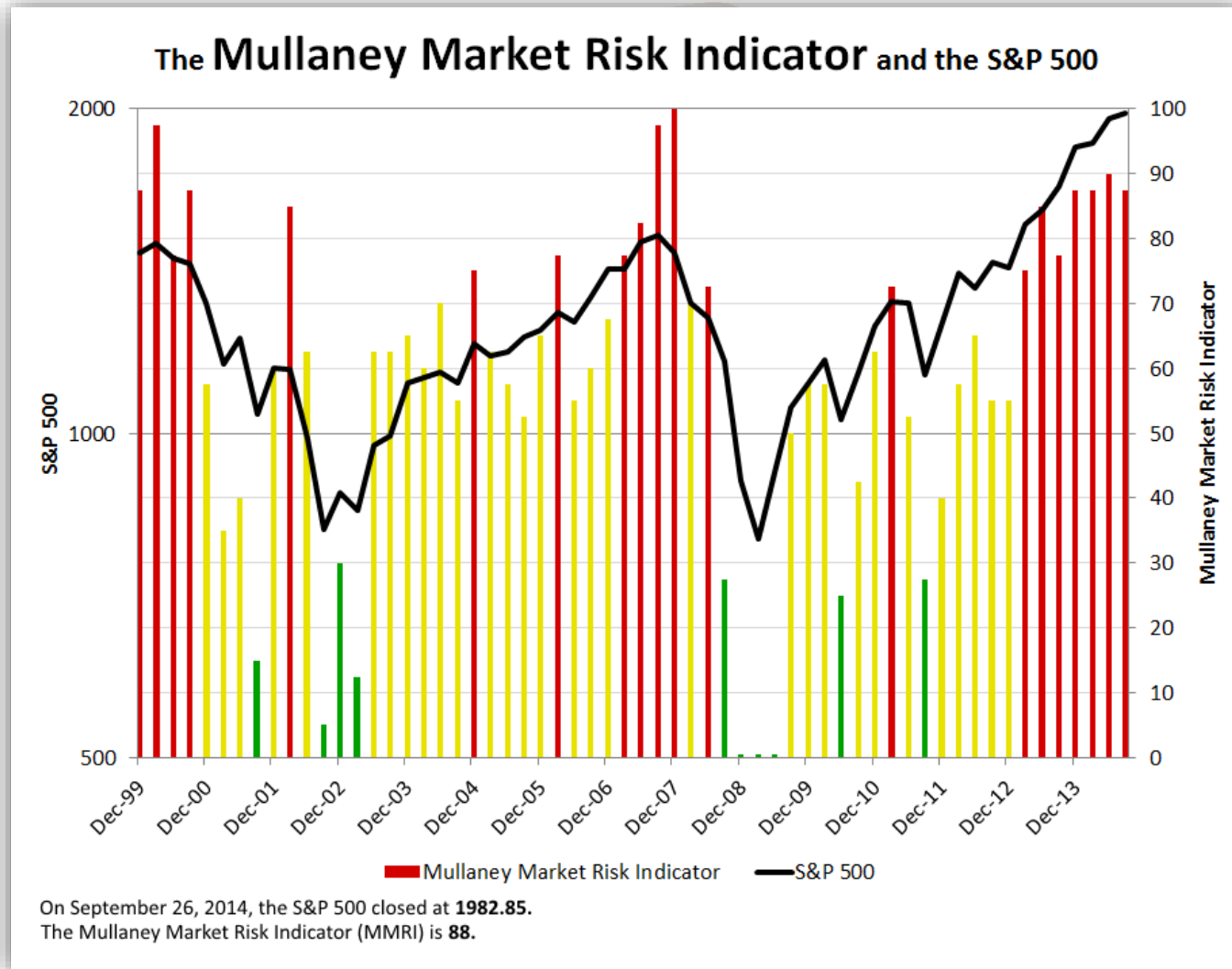


# Price to Sales Ratio of S&P500



# The Mullaney Market Risk Indicator

*see legal disclosures and limitations*



# Thank You

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"We look forward to serving you!"  
--Raymond M. Mullaney

