

# Asset Management IV

Week 4

This Online Course

10 Weeks

Prof. George Mentz

# Today's Objectives

- What Creates Success?
- Who is Successful in Finance and Business
- Why are they successful? Industries, Focus, Etc.
- Who got in Trouble?
- Insider Trading Analysis and Case Studies

# Books

- **Books in the Course Materials Section**
- I. Wealth Management Guide (Mentz)

# Buffett

- **Warren Edward Buffett** (pronounced [/'bʌfɪt/](#); born August 30, 1930) is an American [investor](#), [industrialist](#) and [philanthropist](#). He is widely regarded as one of the most successful investors in the world. Often called the "legendary investor, Warren Buffett", <sup>[4][5]</sup> he is the [primary shareholder](#), [chairman](#) and [CEO](#) of [Berkshire Hathaway](#).<sup>[6]</sup> He is consistently ranked among the [world's wealthiest people](#). He was ranked as the world's second wealthiest person in 2009<sup>[7]</sup> and is currently the third wealthiest person in the world as of 2010.<sup>[8]</sup>
- Buffett is called the "Oracle of Omaha"<sup>[9]</sup> or the "Sage of Omaha"<sup>[10]</sup> and is noted for his adherence to the [value investing](#) philosophy and for his personal [frugality](#) despite his immense [wealth](#).<sup>[11]</sup> Buffett is also a notable philanthropist, having pledged to give away 99 percent<sup>[12]</sup> of his fortune to philanthropic causes, primarily via the [Gates Foundation](#). He also serves as a member of the board of trustees at [Grinnell College](#).<sup>[13]</sup>

# Lynch

- **Peter Lynch** (born January 19, 1944(1944-01-19)) is a [Wall Street stock investor](#). He is currently a research consultant at [Fidelity Investments](#). Lynch graduated from [Boston College](#) in 1965 and earned a [Master of Business Administration](#) from the [Wharton School](#) of the [University of Pennsylvania](#) in 1968. In 1977, Lynch was named head of the then obscure [Magellan Fund](#) which had \$18 million in assets. By the time Lynch resigned as a fund manager in 1990, the fund had grown to more than \$14 billion in assets with more than 1,000 individual stock positions. "Invest in what you know,"

# Templeton

- **Sir John Marks Templeton** (November 29, 1912 – July 8, 2008)<sup>[1]</sup> was an [American](#)-born [British stock investor](#), [businessman](#) and [philanthropist](#). Templeton graduated in 1934 near the top of his class. He attended [Oxford University](#) as a [Rhodes Scholar](#) and earned an [M.A.](#) in law.
- Templeton became a billionaire<sup>[3][4][5][6][7][8]</sup> by pioneering the use of globally diversified [mutual funds](#). His Templeton Growth, Ltd. ([investment fund](#)), established in 1954, was among the first who invested in Japan in the middle of the 1960s.<sup>[9]</sup> He is noted for buying 100 shares of each company for less than \$1 (\$16 in current dollar terms) a share in 1939 and making many times the money back in a 4 year period.<sup>[10]</sup> In 2006 he was listed in a 7-way tie for 129th place on the [Sunday Times Rich List](#). He rejected [technical analysis](#) for stock trading, preferring instead to use [fundamental analysis](#).<sup>[6]</sup>

# Cramer

- **James "Jim" J. Cramer** (born February 10, 1955) is an [American](#) television personality, a former [hedge fund](#) manager, and a best-selling author. Cramer is the host of [CNBC](#)'s [Mad Money](#) and a co-founder and chairman of [TheStreet.com](#), Inc.
- Cramer retired from his hedge fund in 2001, finishing with a 24% average annual return over 14 years and having "routinely [taken] home \$10 million a year and more."<sup>[6]</sup>
- In 1996, Cramer co-founded [TheStreet.com](#), Inc. with [The New Republic](#) editor [Martin Peretz](#), one of his hedge fund's original clients. Cramer is currently a market commentator and adviser to the [TheStreet.com](#), and is its second largest shareholder

# Pres. B. Obama

- In December 2007, [\*Money\*](#) magazine estimated the Obama family's net worth at \$1.3 million. [\[251\]](#) Their 2009 tax return showed a household income of \$5.5 million—up from about \$4.2 million in 2007 and \$1.6 million in 2005—mostly from sales of his books. [\[252\]](#)[\[253\]](#)
- On October 9, 2009, the [Norwegian Nobel Committee](#) announced that Obama had won the [2009 Nobel Peace Prize](#) US\$1.4 million "for his extraordinary efforts to strengthen international diplomacy and cooperation between peoples". [\[223\]](#) Obama accepted this award in Oslo, Norway on December 10, 2009. Later donated to Charity...



# Pres. Bush

- Bush moved his family to Washington, D.C. in 1988 to work on his father's campaign for the U.S. presidency.<sup>[58][59]</sup> He worked as a campaign adviser and served as liaison to the media;<sup>[54]</sup> he assisted his father by campaigning across the country.<sup>[54]</sup> Returning to Texas after the successful campaign, he purchased a share in the [Texas Rangers](#) baseball franchise in April 1989, where he served as managing general partner for five years.<sup>[60]</sup> He actively led the team's projects and regularly attended its games, often choosing to sit in the open stands with fans.<sup>[61]</sup> The sale of Bush's shares in the Rangers in 1998 brought him over \$15 million from his initial \$800,000 investment.<sup>[62]</sup>

# Oprah

- **Oprah Winfrey** (born **Orpah Gail Winfrey**; January 29, 1954) is an American television host, actress, producer, and philanthropist, best known for her [self-titled, multi-award winning talk show](#), which has become the highest-rated program of its kind in history.<sup>[1]</sup>
- **Personal wealth** - Born in rural poverty, then raised by a mother on welfare in a poor urban neighborhood, Winfrey became a millionaire at age 32 when her talk show went national. Winfrey was in a position to negotiate ownership of the show and start her own production company because of the success and the amount of revenue the show generated. At age 41, Winfrey had a net worth of \$340 million and replaced [Bill Cosby](#) as the only African American on the [Forbes 400](#).<sup>[83]</sup> Although black people are just under 13% of the U.S. population,<sup>[84]</sup> Winfrey has remained the only African American to rank among America's 400 richest people nearly every year since 1995.<sup>[85]</sup> With a 2000 net worth of \$800 million, Winfrey is believed to be the richest African American of the 20th century. Due to her status as a historical figure, Professor Juliet E.K. Walker of the [University of Illinois](#) created the course "History 298: Oprah Winfrey, the Tycoon."<sup>[86]</sup> Winfrey was the highest paid TV entertainer in the United States in 2006, earning an estimated \$260 million during the year, five times the sum earned by second-place music executive [Simon Cowell](#).<sup>[87]</sup> By 2008, her yearly income had increased to \$275 million.<sup>[88]</sup> Forbes' international rich list has listed Winfrey as the world's only black billionaire from 2004 to 2006 and as the first black woman billionaire in world history.<sup>[83]</sup> According to Forbes, in September 2010 Winfrey was worth over \$2.7 billion<sup>[89]</sup> and has overtaken former [eBay](#) CEO [Meg Whitman](#) as the richest self-made woman in America.<sup>[90]</sup>

# Trump

- Real estate developer, mogul. Born Donald John Trump, on June 14, 1946, in Queens, New York, the fourth of five children of Frederick C. and Mary MacLeod Trump. Frederick Trump was a builder and real estate developer who came to specialize in constructing and operating middle income apartments in the Queens, Staten Island, and Brooklyn. He entered Fordham University and then transferred to the Wharton School of Finance at the University of Pennsylvania from which he graduated in 1968 with a degree in economics.
- In its October 7, 2007 Forbes 400 issue, "Acreage Aces," Forbes valued Trump's wealth to \$3.0 billion.<sup>[2]</sup> Trump is known for his many properties.
- Trump has authored many books including:
  - *Trump: The Art of the Deal* (1987)
  - *Trump: Surviving at the Top* (1990)
  - *Trump: The Art of Survival* (1991)
  - *Trump: The Art of the Comeback* (1997)

# Pickens

- **Thomas Boone Pickens, Jr.** (born May 22, 1928), known as **T. Boone Pickens**, is an [American financier](#) who chairs the [hedge fund BP Capital Management](#). He was a well-known [takeover](#) operator and [corporate raider](#) during the 1980s. With an estimated current net worth of about \$1.4 billion, he is ranked by [Forbes](#) as the [290th-richest person in America](#) and ranked 880th in the world.
- He graduated from Oklahoma A&M with a degree in [geology](#) in 1951. Following his graduation, Pickens was employed by [Phillips Petroleum](#). He worked for Phillips until 1954.<sup>[4]</sup> In 1956, following his period as a [wildcatter](#), he founded the company that would later become [Mesa Petroleum](#).<sup>[4]</sup>

# Larry Page

- **Lawrence "Larry" Page**<sup>[2]</sup> (born March 26, 1973) is an American [computer scientist](#), software developer and [entrepreneur](#) who, with [Sergey Brin](#), is best known as the co-founder of [Google](#). As announced on January 21, 2011 through a blog post,<sup>[3]</sup> he will be in charge of Google's day-to-day operations as [Chief Executive Officer](#), effective April 4, 2011.<sup>[4]</sup>
- Larry Page Born Lawrence "Larry" Page March 26, 1973 (1973-03-26) (age 37) [East Lansing, Michigan](#)  
[University of Michigan](#) [Stanford University](#) Occupation Computer scientist, technology innovator, entrepreneur Known for Co-founder of [Google](#) Inc. Net worth [US\\$15 billion](#) (2010)<sup>[1]</sup>

# Billionaires

#	Name	Net worth (USD)	Sources of wealth
1	<a href="#">Bill Gates</a>	\$57 billion ▲	Microsoft, Cascade Investments LLC
2	<a href="#">Warren Buffett</a>	\$50 billion ▼	Berkshire Hathaway
3	<a href="#">Larry Ellison</a>	\$22.5 billion ▼	Oracle Corporation
4	<a href="#">Jim Walton</a>	\$23.4 billion ▲	Wal-Mart
5	<a href="#">S. Robson Walton</a>	\$23.3 billion ▲	Wal-Mart
6	<a href="#">Alice Walton</a>	\$23.2 billion ▲	Wal-Mart
7	<a href="#">Christy Walton &amp; family</a>	\$23.2 billion ▲	Wal-Mart Inheritance
8	<a href="#">Michael Bloomberg</a>	\$20 billion ▲	Bloomberg L.P.
9	<a href="#">Charles Koch</a>	\$19 billion ▲	Koch Industries
10	<a href="#">David Koch</a>	\$19 billion ▲	Koch Industries
11	<a href="#">Michael Dell</a>	\$17.3 billion ▲	Dell Inc.
12	<a href="#">Paul Allen</a>	\$16 billion ▼	Microsoft
13	<a href="#">Sergey Brin</a>	\$15.9 billion ▼	Google
14	<a href="#">Larry Page</a>	\$15.8 billion ▼	Google
15	<a href="#">Sheldon Adelson</a>	\$14.7 billion ▼	Las Vegas Sands

# Milken

- **Michael Robert Milken** (born July 4, 1946) is an [American](#) financier and philanthropist noted for his role in the development of the market for [high-yield bonds](#) (also called [junk bonds](#)) during the 1970s and 1980s, for his 1990 guilty plea to felony charges for violating US securities laws, and for his funding of medical research.<sup>[2]</sup>
- Milken is a 1968 [University of California, Berkeley](#) graduate with a [B.S.](#) with highest honors, and was elected [Phi Beta Kappa](#) and was a member of the [Sigma Alpha Mu](#) fraternity.<sup>[7]</sup> He received his MBA from the [Wharton School](#) at the [University of Pennsylvania](#). This was one of the first times RICO was used against an individual with no ties to [organized crime](#).

# Conviction – Pled Guilty

- On April 24, 1990, Milken pleaded guilty to six counts of securities and tax violations.<sup>[5]</sup> Three of them involved dealings with Ivan Boesky to conceal the real owner of a stock.<sup>[10]</sup>
- Aiding and abetting another person's failure to file an accurate [13d statement](#) with the SEC since the schedule was not amended to reflect an understanding that any loss would be made up.
- Sending confirmation slips through the mail that failed to disclose that a commission was included in the price.
- Aiding and abetting another in filing inaccurate broker-dealer reports with the SEC.
- Two other counts were related to tax evasion in transactions Milken carried out for a client of the firm, David Solomon, a fund manager.<sup>[10]</sup>
- Selling stock without disclosure of an understanding that the purchaser would not lose money.
- Agreeing to sell securities to a customer and to buy those securities back at a real loss to the customer, but with an understanding that he would try to find a future profitable transaction to make up for any losses.
- The last count was for conspiracy to commit these five violations.



# Fines

- As part of his plea, Milken agreed to pay \$200 million in fines. At the same time, he agreed to a settlement with the SEC in which he paid \$400 million to investors who had been hurt by his actions. He also accepted a lifetime ban from any involvement in the securities industry. In a related civil lawsuit against Drexel he agreed to pay \$500 million to Drexel's investors. [\[12\]](#)[\[13\]](#) In total this means that he paid \$1.1 billion for all lawsuits related to his actions while working at Drexel.

# Martha Stewart Case

- **Martha Helen Stewart** (née Kostyra; born August 3, 1941) is an American business magnate, media personality, author, and magazine publisher. As founder of Martha Stewart Living Omnimedia, she has gained success through a variety of business ventures, encompassing publishing, broadcasting, and merchandising. Her syndicated talk show, Martha, is broadcast throughout the world, she has written numerous bestselling books, and she is the publisher of Martha Stewart Living magazine.
- In 2004, she was convicted of lying to investigators about a stock sale and served five months in a West Virginia federal prison camp.

# Stewart 2

- According to [U.S. Securities and Exchange Commission](#) (SEC), Stewart avoided a loss of \$45,673 by selling all 3,928 shares of her [ImClone Systems](#) stock on December 27, 2001, after receiving [material, nonpublic information](#) from [Peter Bacanovic](#), who was Stewart's broker at [Merrill Lynch](#). The day following her sale, the stock value fell 16%.<sup>[16]</sup>

# Stewart Case

- After a highly publicized five-week jury trial that was the most closely watched of a wave of corporate fraud trials, Stewart was found guilty in March 2004 of conspiracy, obstruction of an agency proceeding, and making false statements to federal investigators, and was sentenced in July 2004 to serve a five month term in a federal correctional facility and a two year period of [supervised release](#) (to include five months of [electronic monitoring](#)).<sup>[20]</sup>

# Stewart Civil Case

- In August 2006, the SEC announced that it had agreed to settle the related civil case against Stewart. Under the settlement, Stewart agreed to a five-year bar from serving as a director, [CEO](#), [CFO](#), or any other officer role responsible for preparing, auditing, or disclosing financial results of any public company.<sup>[24]</sup> In June 2008, the [UK Border Agency](#) refused to grant her a visa to enter the United Kingdom because of her criminal conviction for obstructing justice. She had been planning to speak at the [Royal Academy](#) on fashion and leisure industry matters.<sup>[25]</sup>

# Insider

- **Insider Trading**
- "Insider trading" is a term that most investors have heard and usually associate with illegal conduct. But the term actually includes both legal and illegal conduct. The legal version is when corporate insiders—officers, directors, and employees—buy and sell stock in their own companies. When corporate insiders trade in their own securities, they must report their trades to the SEC. For more information about this type of insider trading and the reports insiders must file, [please read "Forms 3, 4, 5"](#) in our Fast Answers databank.

# Insider Trading

- Illegal insider trading refers generally to buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, nonpublic information about the security. Insider trading violations may also include "tipping" such information, securities trading by the person "tipped," and securities trading by those who misappropriate such information.

# Insider Examples

- Examples of insider trading cases that have been brought by the SEC are cases against:
- Corporate officers, directors, and employees who traded the corporation's securities after learning of significant, confidential corporate developments;
- Friends, business associates, family members, and other "tippees" of such officers, directors, and employees, who traded the securities after receiving such information;
- Employees of law, banking, brokerage and printing firms who were given such information to provide services to the corporation whose securities they traded;
- Government employees who learned of such information because of their employment by the government; and
- Other persons who misappropriated, and took advantage of, confidential information from their employers.



# 10B51

- The SEC adopted new Rules [10b5-1](#) and [10b5-2](#) to resolve two insider trading issues where the courts have disagreed. Rule 10b5-1 provides that a person trades on the basis of material nonpublic information if a trader is "aware" of the material nonpublic information when making the purchase or sale. The rule also sets forth several affirmative defenses or exceptions to liability. The rule permits persons to trade in certain specified circumstances where it is clear that the information they are aware of is not a factor in the decision to trade, such as pursuant to a pre-existing plan, contract, or instruction that was made in good faith.

# 10B52

- Rule 10b5-2 clarifies how the misappropriation theory applies to certain non-business relationships. This rule provides that a person receiving confidential information under circumstances specified in the rule would owe a duty of trust or confidence and thus could be liable under the misappropriation theory.

# Hedge funds

- **Largest hedge fund managers**
- The 25 largest hedge fund managers had \$519.7 billion in assets under management as of December 31, 2009. The largest manager is [JP Morgan Chase](#) (\$53.5 billion) followed by [Bridgewater Associates](#) (\$43.6 billion), [Paulson & Co.](#) (\$32 billion), [Brevan Howard](#) (\$27 billion), and [Soros Fund Management](#) (\$27 billion).<sup>[6]</sup>

# Fees

- Typically, hedge funds charge 20% of returns as a performance fee.<sup>[12]</sup> However, the range is wide with highly regarded managers charging higher fees. For example [Steven Cohen's SAC Capital Partners](#) charges a 35-50% performance fee,<sup>[13]</sup> while [Jim Simons'](#) Medallion Fund charged a 45% performance fee.

# Fees of Fees

- Hedge Fund Managers routinely hire independent contractors and give them business cards.
- Managers hire people who are rainmakers
- People with big names.
- Ex. Chelsea Clinton or other.
- Managers can pay 25 basis points to a rainmaker etc.

# Management fees

- As with other [investment funds](#), the management fee is calculated as a percentage of the fund's [net asset value](#). Management fees typically range from 1% to 4% per annum, with 2% being the standard figure. <sup>[7]</sup> <sup>[8]</sup> Management fees are usually expressed as an annual percentage, but calculated and paid monthly or quarterly. This can be for a long fund or hedge fund.

# Financial Laws

- Privacy Laws
- Laws about Communication
- Laws about accurate skill and services
- Laws about Risk Analysis & Laws about Tolerance
- Material Information, Scieneter, Insider Trading
- Laws about Suitability
- Laws about descretion.
- Laws about promoting products and services.
- Other Compliance rules that apply to you. i.e. Conflicts

# Other Rules

- Fiduciary Duty
- Duty of Care
- Diligence
- Advertising rules
- FINRA RULES
- SEC RULES
- CPA Rules
- Attorney Rules



# Investment Philosophy

- **William J. O'Neil** (born March 25, 1933) is an [American entrepreneur](#), [stockbroker](#) and [writer](#), who founded the business newspaper [Investor's Business Daily](#) and the stock brokerage firm [William O'Neil + Co. Inc.](#) He is the author of the books *How to Make Money in Stocks* and *24 Essential Lessons for Investment Success* and is the creator of the [CAN SLIM](#) investment strategy. He holds one of the highest performing track records in the stock market

# 20 Rules of IBD

- If all of IBD's 20 rules are carefully followed (not just the ones you like), your investment results should materially improve:
- 1. Consider buying stocks with each of the last three years' earnings up 25%+, return on equity of 17%+ and recent earnings and sales accelerating.
- 2. Recent quarterly earnings and sales should be up 25% or more.
- 3. Avoid cheap stocks. Buy higher quality stocks selling \$15 a share and higher.
- 4. Learn how to use charts to see sound bases and exact buy points.
- 5. Cut every loss when it's 8% below your cost. Make no exceptions so you can always avoid huge, damaging losses. Never average down in price.
- 6. Follow selling rules on when to sell and take profit on the way up.
- 7. Buy when market indexes are in an uptrend. Reduce investments and raise cash when general market indexes show five or more days of volume distribution.
- 8. Read IBD's Investor's Corner and Big Picture columns to learn how to recognize important tops and bottoms in market indexes.

# 20 Rules

- 9. Buy stocks with a Composite Rating of 90 or more and a Relative Price Strength Rating of 85 or higher in the IBD SmartSelect® Corporate Ratings.
- 10. Pick companies with management ownership of stock.
- 11. Buy mostly in the top six broad industry sectors in IBD's New High List.
- 12. Select stocks with increasing institutional sponsorship in recent quarters.
- 13. Current quarterly after-tax profit margins should be improving, near their peak and among the best in the stock's industry
- 14. Don't buy because of dividends or P-E ratios.
- 15. Pick companies with a superior new product or service.
- 16. Invest mainly in entrepreneurial New America companies. Pay close attention to those with an IPO in the past 8 years.
- 17. Check into companies buying back 5% to 10% of their stock and those with new management.
- 18. Don't try to bottom guess or buy on the way down. Never argue with the market. Forget your pride and ego.
- 19. Find out if the market currently favors big-cap or small-cap stocks.
- 20. Do a post-analysis of all your buys and sells. Post on charts where you bought and sold each stock. Evaluate and develop rules to correct your major past mistakes.

# Thoughts about Success and Asset Management and Creation

- Desire
- Enthusiasm
- Education
- Planning
- Work and Attention to Detail
- Persistence & Calculated Risk
- Taking Action
- Saving and Investing
- Serving Others and Solutions

# Class Discussions

- Thanks to everyone who made posts to the discussions on efficient portfolio management.
- We have a new discussion posted there for this week.

Ethics and Professionalism Discussion: What would you do if you had a conversation with a CEO and they told you that “They were not selling their stock and they have great products coming out later this year...”

# End of Class

- Thanks for being here, and see you next Wednesday.

Kindest Regards, George Mentz, JD, MBA, CWM, QFP

# References

- [Forbes 400 \(2008\) - Forbes.com](#)
- Investopedia
- IRS.gov
- SEC.gov
- [Insider Trading http://www.sec.gov/answers/insider.htm](http://www.sec.gov/answers/insider.htm)
- www.investors.com