
Ben Graham Centre's
Value Investing Conference
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The Importance of **Getting** **The** **Worst Case** **Right**

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“The function of the margin of safety is, in essence, that of rendering unnecessary an accurate estimate of the future.”

Ben Graham





1974 – Mrs. Welch’s Portfolio

\$60,000 was all the money she had (about \$450,000 in today’s money).

She was 65, divorced, and losing her eyesight.

With inflation running 10-12%, bonds were a concern.

She was understandably nervous about stocks. The S&P 500 Index had declined 48% and small cap stocks had declined about 75%.



Sample Company – We Determine a Pricing Structure

\$36	Private Market Value
\$30	Sell Point or Intrinsic Value
\$22.50	Fair Value
\$15	Buy Point
\$12	Worst Case

Pricing structure is based on Century Management's estimates and opinions, is subject to change, and cannot be guaranteed.



Sample Company – Buying Below the Buy Point

Price	Downside To Worst Case (\$12)	Upside to Sell Point (\$30)	Reward to Risk Ratio	Percentage to Downside	Percentage to Upside
\$15	\$3	\$15	5-to-1	20%	100%
\$14	\$2	\$16	8-to-1	14%	114%
\$13	\$1	\$17	17-to-1	7%	130%
\$12	---	\$18	---	---	150%

Source: Century Management. Numbers have been rounded.

***“Price
determines
return.”***

Ben Graham





Sample Company – Mrs. Welch vs. Average Client

Price	Downside To Worst Case (\$12)	Upside to Sell Point (\$30)	Reward to Risk Ratio	Percentage to Downside	Percentage to Upside
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\$12	---	\$18	Mrs. Welch Portfolio		150%

Source: Century Management. Numbers have been rounded.



We Use Many Methods to Determine Private Market Value or Intrinsic Value

Enterprise Value

Compared to:

Sales

EBITDA

EBIT

Price Compared to:

Book

Tangible Book

Sales

Net Current Assets

Operating Earnings

Cash Flow

Free Cash Flow

We average the 3 lowest years of applicable multiples.



We Track Inflation – CPI vs. Value Line 1700, S&P 500

1968
To
Today

Inflation (CPI)	VL 1700 P/E Median	S&P 500 P/E Median
0-1%	15.80	15.58
1-2%	17.30	17.95
2-3%	16.80	19.21
3-4%	15.15	20.43
4-5%	12.30	14.22
Over 5%	8.00	9.03
Lowest Multiples During High Inflation		
11-13%	4.80	6.90

Source: Bloomberg, Value Line, Standard & Poor's



History: Inflation of the 70s

Month	Inflation (CPI)	S&P 500 P/E Median
January 1973	2.76%	18.9
January 1974	4.93%	12.4
January 1975	11.54%	7.8

Source: Bureau Labor Statistics, Standard & Poor's. CPI is the Consumer Price Index.

***“Invest at the
point of
maximum
pessimism.”***

John Templeton





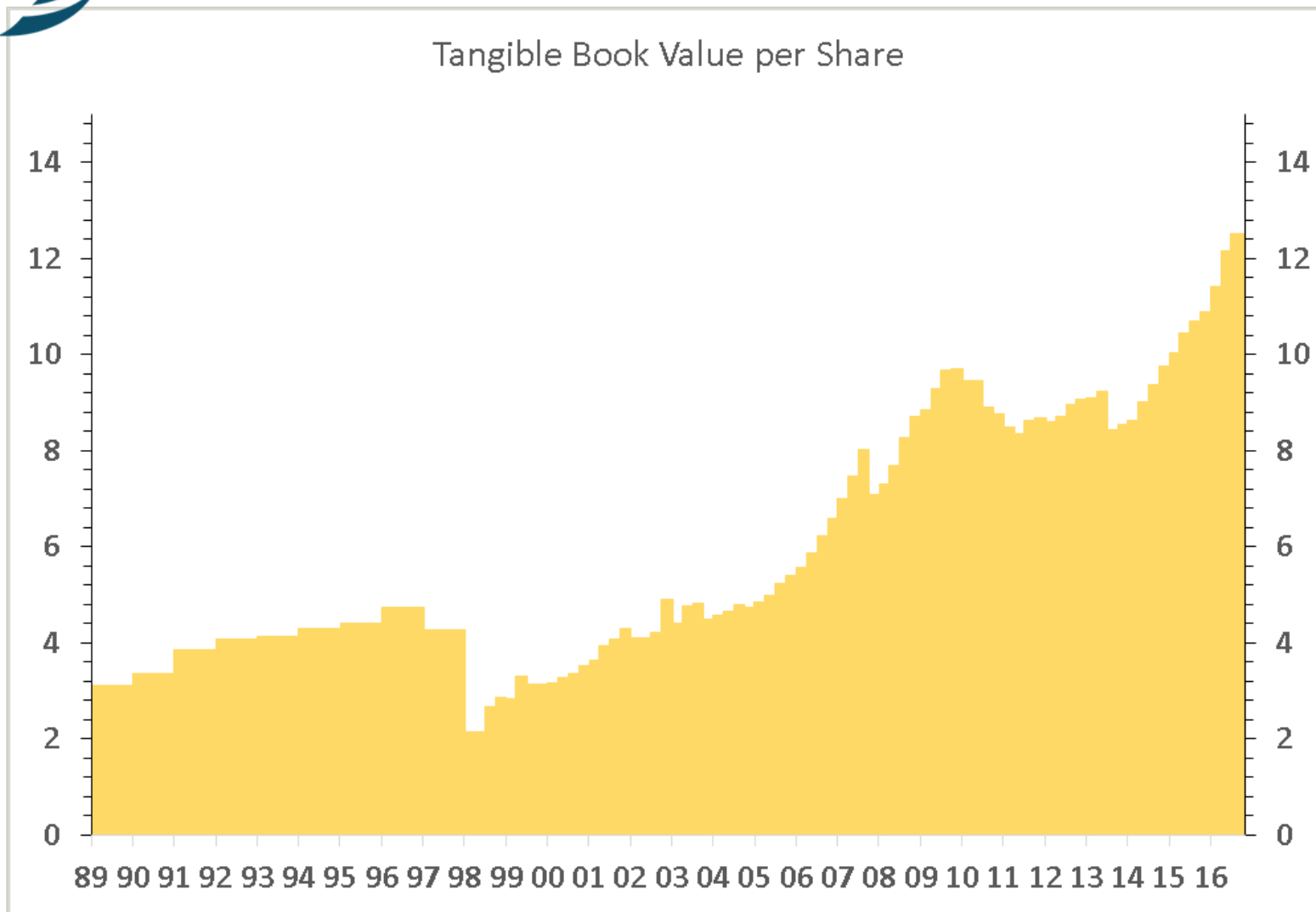
Historical Commodity Price Declines -from their Peaks-

Commodity	Maximum Decline	Maximum # of Days	Avg. Decline	Avg. # of Days
Average Metals	-63.6%	389	-37.4%	390
Average Energy	-73.4%	184	-38.3%	215
Average Agriculture	-61.1%	465	-36.9%	413
Average TOTAL Commodity	-65.1%	365	-37.4%	356

Time Frame: Starting dates vary for individual commodities. For example, gold and silver started in 1951, crude in 1983, agriculture in 1959, and the CRB Index in 1981. Ending date is March 24, 2017. Based on declines of at least 25%. Bottom defined as lowest price after 25% decline followed by an increase of 20%. Source: Bloomberg

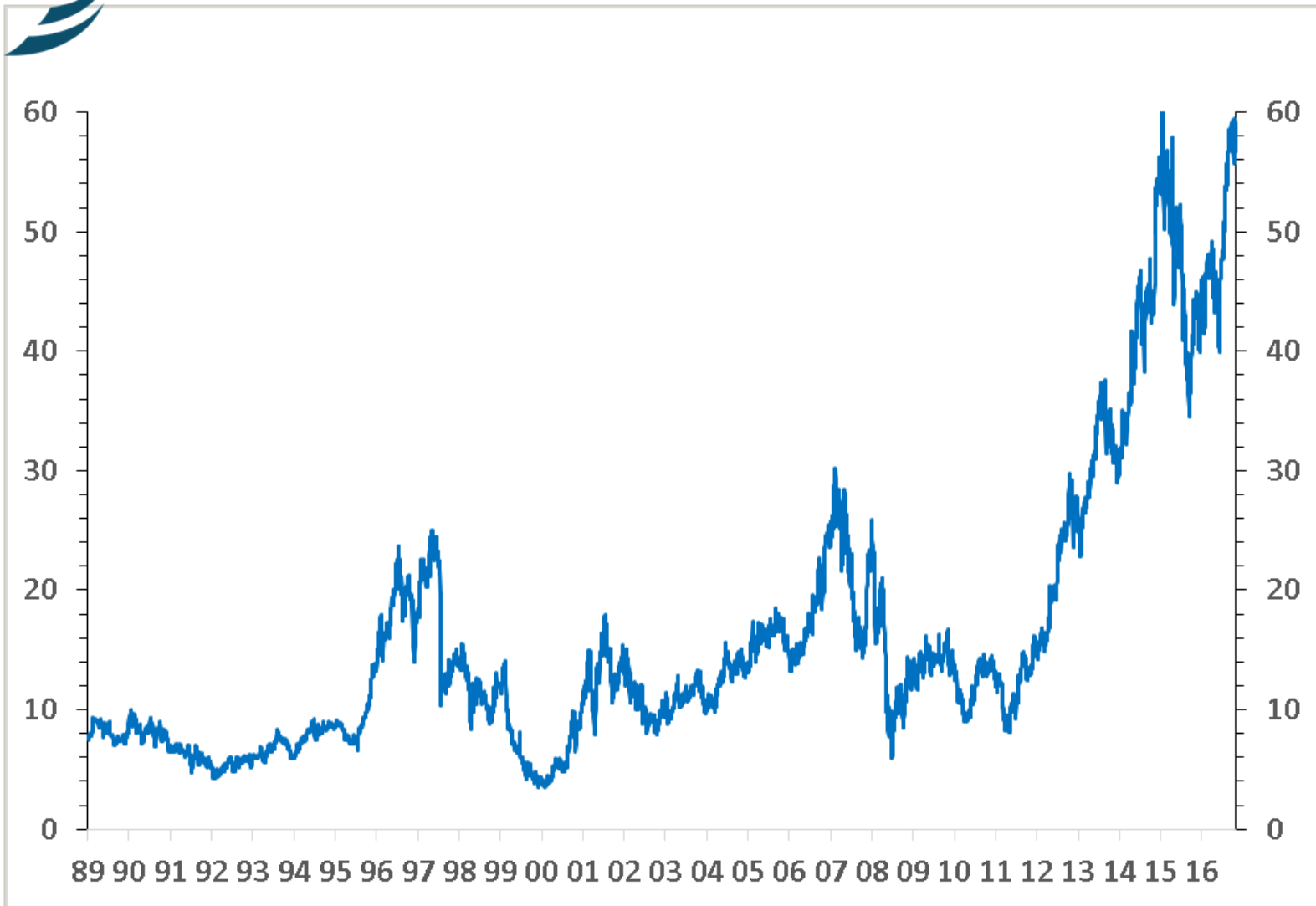


Sample Company – Tangible Book



Source: Bloomberg

CM Sample Company – Price

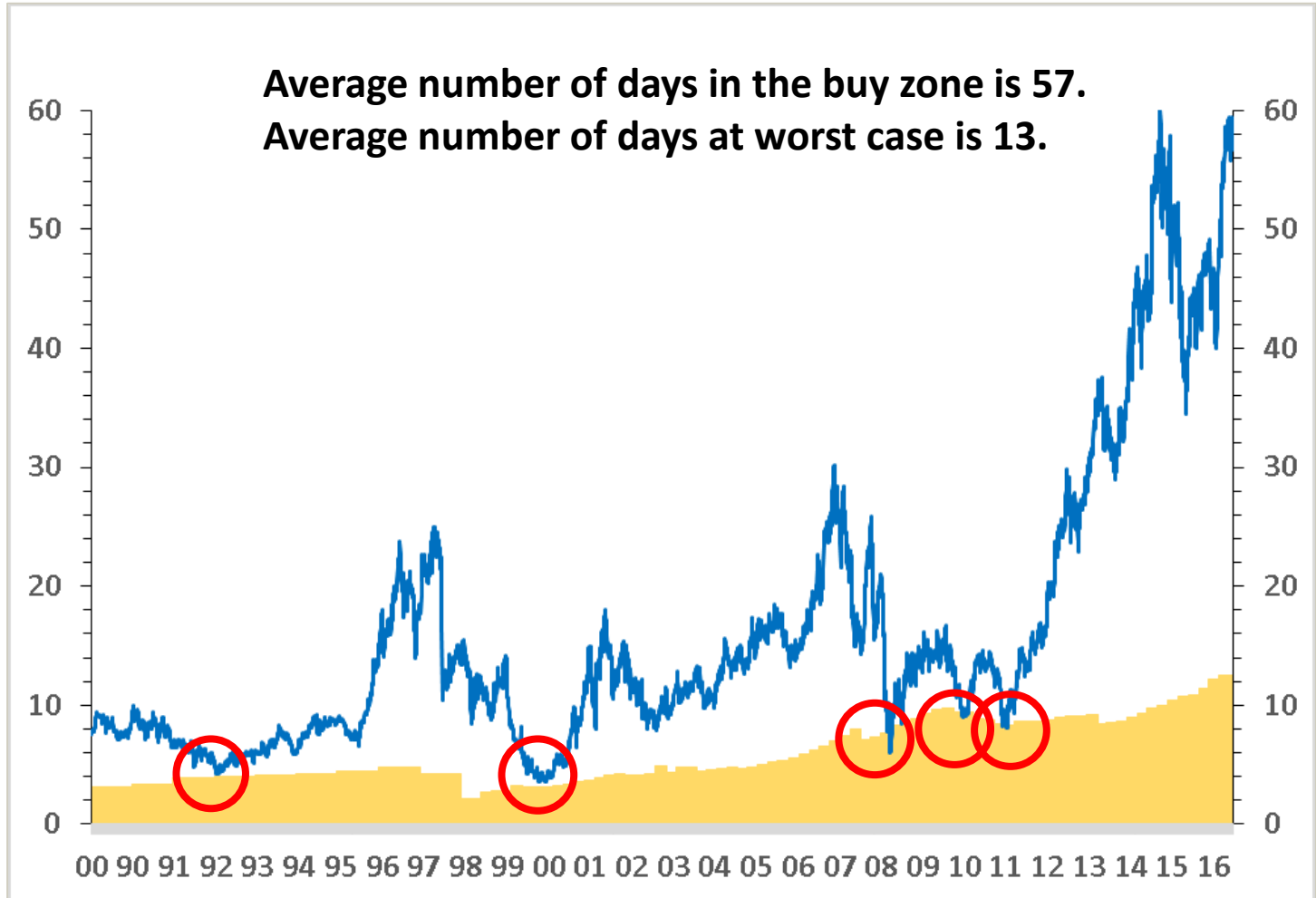


Source: Bloomberg



Sample Company – Price & Tangible Book

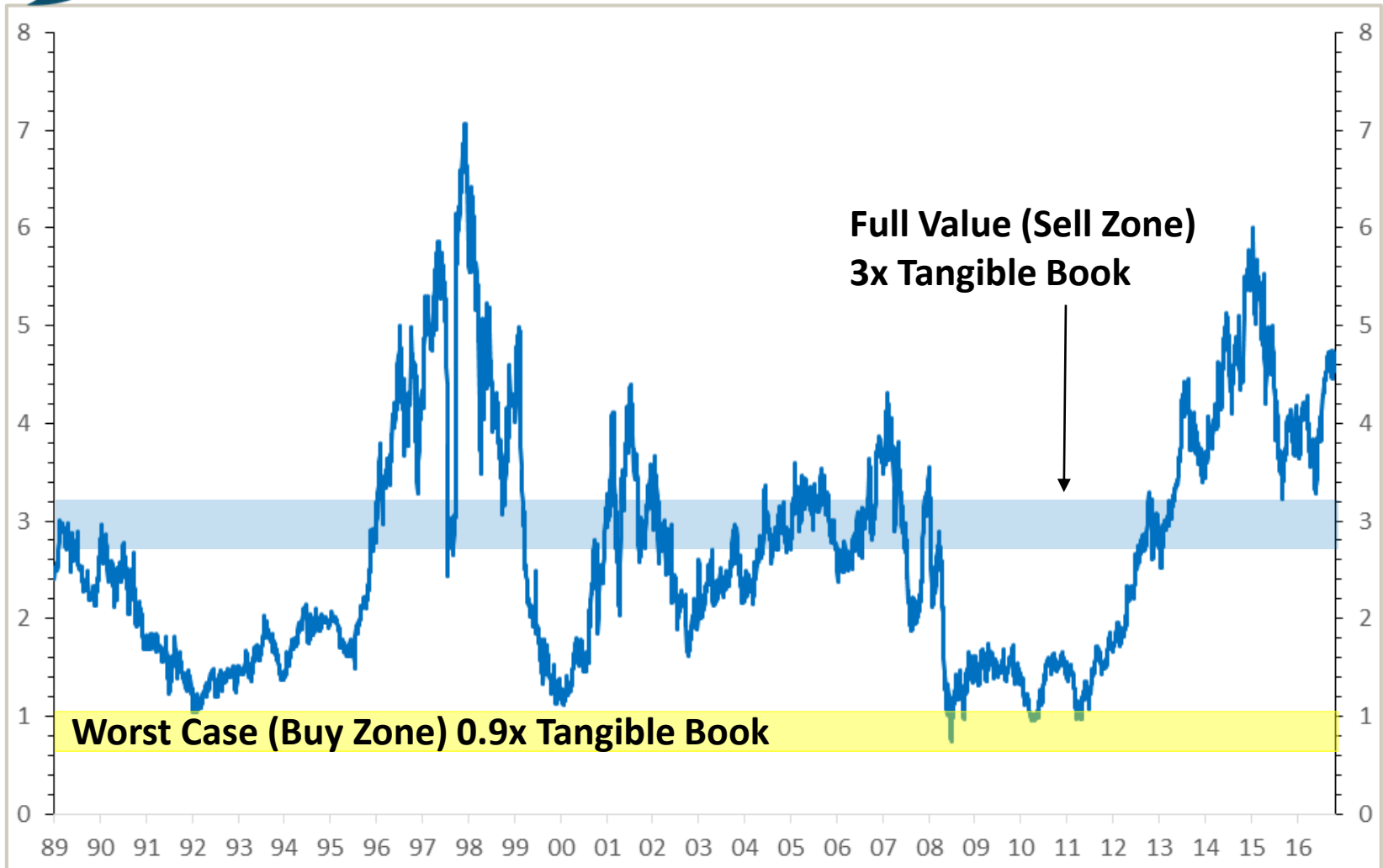
Price
reached
tangible
book value
5 Times in
27 Years.



Source: Bloomberg



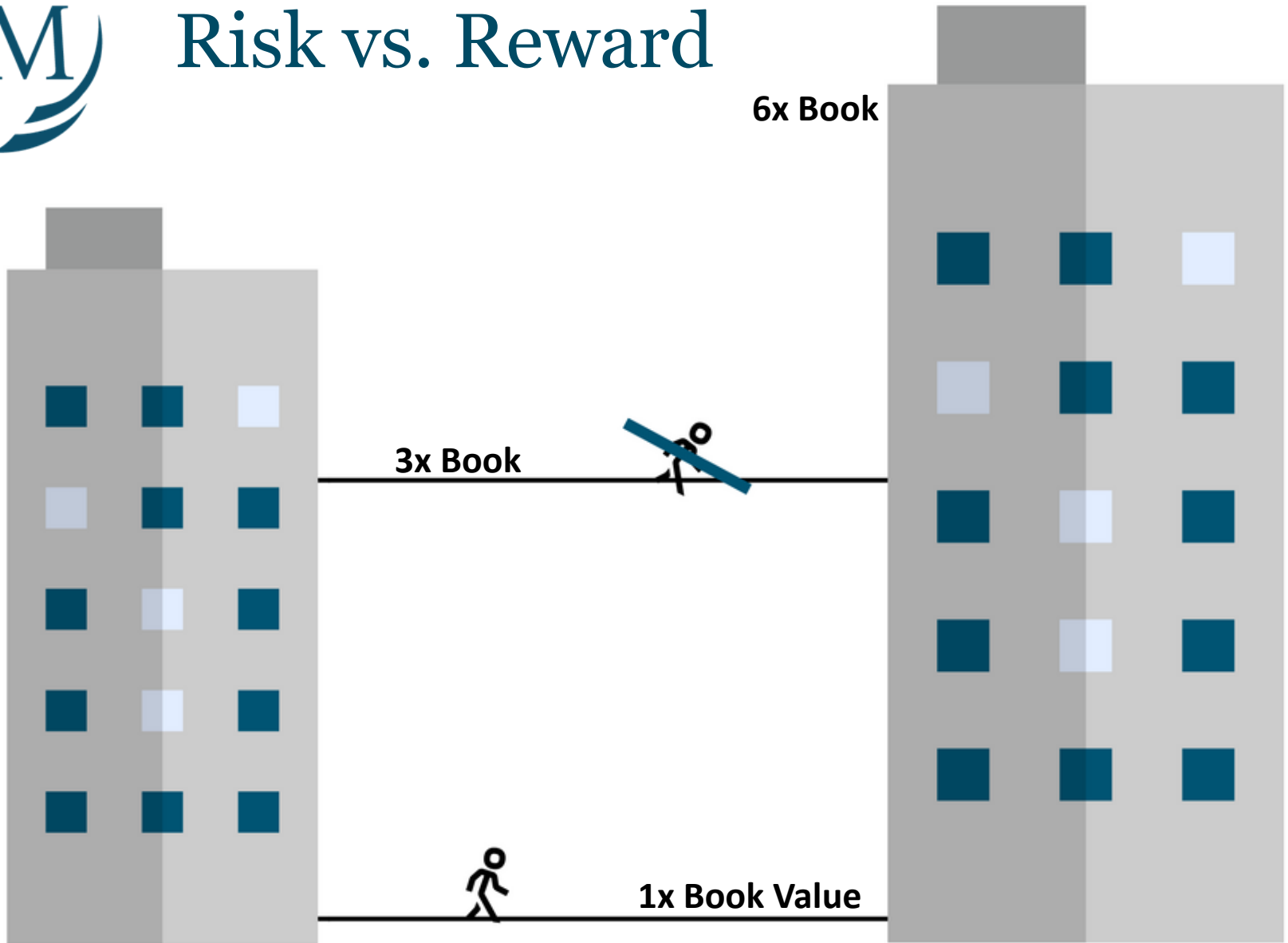
Sample Company – Price to Tangible Book



Source: Bloomberg



Risk vs. Reward





“There is comfort to be gleaned from the last 57 years. Through all the vicissitudes and casualties, as earthshaking as the were unforeseen, it remained true that sound investment principles produced generally sound results. We must act on the assumption that they will continue to do so.”

Ben Graham

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