



FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Investing the Templeton Way

I just finished reading [Investing the Templeton Way: The Market-Beating Strategies of Value Investing's Legendary Bargain Hunter](#) (4 stars) by Lauren Templeton and Scott Phillips, which was published in 2008. From the dust jacket: "Called 'the greatest stock picker of the century' by *Money* magazine, legendary fund manager Sir John Templeton is revered as one of the world's premiere value investors, widely known for pioneering global investing and out-performing the stock market over a five-decade span. [This book] provides a never-before-seen glimpse into Sir John's timeless principles and methods."

The book's lessons include:

- Invest at the point of maximum pessimism.
- Keep a cool head when other investors overreact to bad news.
- Buy the stocks emotional sellers wish to unload and sell them what they are desperate to buy.
- Search worldwide to expand your bargain inventory.
- Protect your portfolio from yourself through diversification.
- Rely on quantitative instead of qualitative reasoning (i.e., numbers instead of stories).

The authors say that people have an “innate affinity for storytelling and accumulating and then sharing knowledge. Companies are easy to talk about in story form and translate well into future conversations with others....[which] strokes our egos and makes us feel smart in conversation....Fanciful or catchy stories about companies and their accompanying popularity often lead to investing disaster....[Stockbrokers'] bosses compel them to talk about things that get investors' attention, and interesting companies and their vibrant prospects go a lot further in that effort than stale reams of statistics, ratios, data and calculations of a company's fair value: the things that matter most in the investment decision process. Wall Street brokers supply what the majority of investors actually demand: intelligent stories about a company's prospects....Buying stocks solely on the basis of stories about companies is like letting the mythological sirens entice you onto the rocks of the shoreline...[which] is scattered with the bodies of investors who listen to stories.”



The painting “Ulysses and the Sirens” is in my office to remind me to ignore their seductive songs.

The authors write that value investors must be able to think for themselves and stand against the crowd: “Bargain hunters who consistently buy stocks for less than they are

worth need to get used to the idea of people not confirming or agreeing with their actions....the only way a stock price can fall substantially is for people to sell the stock, and the primary reason people sell stocks is that [they] have become unpopular. The best bargain hunters do not need confirmation from a multitude of others that they are correct to buy a stock. To buy something unpopular, you must be independent-minded and capable of relying on your own judgement.”

Value investors also must be willing to carefully consider situations that automatically repel other investors. The authors write, “...a differentiating factor between an average investor and a great investor is a willingness to buy what others do not....If you can train yourself to think in this manner and fight the innate tendency to avoid bad-looking situations without further scrutiny, you have won a major battle that most investors...consistently lose.”

The authors also emphasize “the importance of studying the situation ahead of time....people tend to panic when they are caught off guard.” Having information about stocks “is the best way to create a psychological fortress for decision making” about those stocks. “Accumulating and processing this business information ahead of time will give you the conviction necessary to purchase a stock when it falls....If you are going to invest in a situation in which the outlook is negative, you need to have the psychological fortitude to stand pat under the most imposing, darkest clouds and not run for the hills. In value investing, the price of success is paid in advance.” This is why I track (and constantly update) a significant number of data points about 1,500 dividend-paying stocks from around the world on a massive spreadsheet.

The authors explain the benefits of making your purchase decisions ahead of time: “...there are psychological challenges to maintaining a clear head during a sharp sell-off. One way [Templeton] used to handle this was to make his buy decisions well before a sell-off occurred....he always kept a 'wish list' of securities representing companies that he believed were well run but priced too high in the market....he often had standing orders with his brokers to purchase those wish list stocks if...the market sold off enough to drag their prices down to levels at which he considered them a bargain.” As a value investor, I'm like a spider that weaves a web (using limit orders) and then waits patiently for them to fill (at good prices).

The authors write that probably the most difficult question in investing is when to sell a stock. Templeton recommended selling a stock “when you have found a much better [50% better] stock to replace it.” The authors write, “This practice of comparison...makes the decision to sell far easier than it is when you focus on the stock...in isolation. When a stock price is approaching your assessment of what it is worth, that is a good time to be searching for a possible replacement....Employing this discipline [of] continuously searching for better bargains than what you currently hold will give you the process and the psychological equipment needed to avoid getting swept up in the euphoria that is driving the prices of the shares you hold higher. The thrill of locating more bargains should be far more rewarding than sitting back and relishing your recent successes.” Returns are earned by finding bargains (and having the courage to invest in them when few others will), not by cheering on your winners.

Templeton recommended using a number of different measures of value “to accumulate confirmation of your findings from different methods. If you can see that a stock is a bargain on five different measures, that should increase your conviction that the stock is a bargain. Raising your conviction level is an important psychological asset as you face the volatility of the stock market.” When I consider investing in a stock, I assign it a conviction level of zero to ten based on my analysis of the data. If this number is too low (e.g., five), I don't invest.

The authors quote extensively from an article titled “Conservative Investors Warm Up to Idea That Tech Sector Isn't a Fad” that was published in *The Wall Street Journal* on March 10, 2000, the day the NASDAQ hit an all-time high of 5,132. The quote includes this: “Conservative people, some in their 80s, are walking into their financial advisers' offices and demanding that...their managed portfolios begin to include a piece of the soaring new economy.” Yep. I have seen this repeatedly in my career. Sirens can appear in a number of forms, including clients.

The book includes an interesting chapter about China and the catastrophic results of the Great Leap Forward and the Cultural Revolution. The authors write, “During the Cultural Revolution nearly all economic activity shut down as the populace became concerned primarily with persecuting the old ways or running from persecution.” Hmm. I wonder what would happen to the financial markets if the cultural revolution that is currently happening in the U.S. ever goes that far. Never underestimate what True Believers are capable of.

In closing, as I approach my 55th year, I was heartened to read this: “Being an older investor is rarely a hindrance and often an advantage. Knowledge and experience as a bargain hunter scale with age; the longer you are in the game, the better you get.” That's great, because I am planning to live to at least 100 and never retire!

News You Can Use

[Bankruptcies Soar](#)

[Government-Run Grocery Stores in Chicago?](#) Yes. When you don't enforce laws against violence and theft, this is the natural result.

[Costco Is Selling Gold Bars](#) And they are selling out.

[AI Girlfriends](#) This is interesting and consistent with my observation that young men have been checking out of society. But note why the Swamp Creatures who read “The Hill” are concerned: It means fewer people and workers for their Ponzi schemes (Social Security and Medicare).

Recommended

[Painkiller](#) on Netflix. This docudrama doesn't get into this, but getting on the federal disability program got you a Medicaid card, which then paid for a scrip for Oxycontin.

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Before starting a new diet or exercise regimen, you should consult with a doctor, nutritionist, dietician, or personal trainer.