

Top Answers to your Top Questions

Tom Gardner and Andy Cross take your questions

TOM GARDNER:

Hi, Tom Gardner here with Andy Cross, our chief investment officer at The Motley Fool. Andy, thanks for joining us.

ANDY CROSS:

Tom, thanks for having me here.

TOM GARDNER:

Now Andy, how long have you been at The Motley Fool?

ANDY CROSS:

Since 1996.

TOM GARDNER:

So that is 16 years of Foolishness, and what were you doing before working at The Motley Fool?

ANDY CROSS:

I was working for a brilliant investor named Gene Gardner, who happens to share the same name as you because he's your uncle.

TOM GARDNER:

Gardner, Russo, Gardner is their investment firm in Pennsylvania. So Andy's been a long-time Gardner investor and a long-time Motley Fool. Sixteen years at The Fool, and he's our chief investment officer. We've taken your questions; thank you for submitting them and thank you for expressing your interest in *Motley Fool ONE*. We are aiming to make this the greatest service on the earth for investors who are engaged, interested in generating superior investment returns and understanding how for the rest of their lives. So again, *Motley Fool ONE* gives you access to all of our services and because of that, we have our chief investment officer to answer all of your questions, no matter what your interest.

We're going to start with JG who writes:

How would I go about managing a portfolio of 8 to 15 companies? It's hard to know when to shuffle my current holdings for new prospects. It gets a big overwhelming to know when to hold or fold current holdings for the new recommendations I get from The Motley Fool.

ANDY CROSS:

So JG, great question. One way I love thinking about our

portfolio and the services as you build out your own portfolio is 8 to 15 for me is a starting point. We want to see you build up to that, then actually go beyond that. So don't be afraid to buy and hold on to your winners, especially if they're winners. Now I know you have a lot of questions about shuffling the stocks around in a portfolio, but I would think more about buying, owning and holding those great companies as you build out your portfolio past 15 stocks. Eight to 15 stocks is not a lot of holdings. I think it's manageable to go beyond that, so I would encourage JG to go beyond that 8 to 15 holdings.

TOM GARDNER:

And I would remind you, JG, *Hidden Gems*, remember by the way, I would remind you that we're here to cover those companies for you and with you, so you're not by yourself trying to follow that number of businesses, and that's why we think you can take that number higher. And by bringing more diversification to your portfolio, you reduce the emotional anxiety of any one position, or even of tough turns in a particular industry or the market overall, to have a broader number of holdings. And those of you who've seen some of the marketing for *Motley Fool ONE* know how much I believe in the investor, Shelby Davis, who started with \$50,000, virtually never sold a stock, and died with \$900 million and 1,200 stocks in his portfolio. So there are a lot of different ways to win as an investor, but I do agree with Andy that getting beyond 8 to 15 companies is a good idea.

Number two comes from TJ. He writes:

When an artist creates a great painting, the very hardest part is to decide when is the right time to stop adding color to the canvas. I find similarities with investing. Can you give some guidance on your thoughts on when is the right time to finish the investment and move on?

ANDY CROSS:

Well TJ, I think an investor is never done investing. Tom, we've talked about this. Constant learning about investing, continuing to build out your portfolio, I think we have members in *Stock Advisor*, in *Rule Breakers*, in *Hidden Gems*, some of our more growth services, as they go into their eighties, they are still investing, they are still adding companies, they are still looking for great businesses they can own. As we know, especially today with the life expectancy rates continuing to increase, investors who continue to invest into their seventies may well be investing into the nineties. So an investor never stops learning. For the companies that you own and

follow, as Tom mentioned, we continue to help you own and follow the stocks. I think it's great to continue to follow those stocks, listen to the guidance, but never be afraid of learning and growing with your investments. It's a very important part to any great, winning investment style.

TOM GARDNER:

I'll just add two things to that great answer. The first is that Charlie Munger said of Warren Buffet that he learned more as an investor between the ages of 62 and 77 than any other 15 year period in his life. Think about what that means. I mean, that's an unbelievable statement about the world's greatest investors worth more than \$50 billion. He had a greater opportunity to learn when he was basically in retirement than at any point in his investment career.

The only other thing I'll say, TJ, is that you may be speaking about an individual company and when to stop adding to it. I would say that if that was your question, you should not be adding to any stock that is more than, say 15% of your total portfolio. We don't have a strong view that if a company runs and becomes a winner and starts to become larger in your portfolio, you need to pare it back, but I definitely wouldn't be adding to any position if it was already 10 to 15% of your portfolio.

Next question comes from Todd R. Todd, thanks for submitting this:

What do you think of John Mauldin? How about the books Bulls Eye Investing and Stock Cycles? Are these reasonable sources to use in conjunction with The Motley Fool? Okay, so who is John Mauldin, Andy, and what do you think?

ANDY CROSS:

Well John Mauldin is a writer, a columnist. He writes a lot of weekly commentaries that you can subscribe to. They're free emails; I think it's called Inside the Box. He's actually very smart when it comes to macro matters. He invites a lot of columnists to come in and contribute to his column, provide a lot of different macro opinions to them. I used to be on his email list, but I unsubscribed simply because it was just so much information, and also it tended to be so macro and not really business focused.

And I think for business-focused investing, like we do here at The Motley Fool and have done for so many years, I think you've got to be able to make sure that you understand the businesses versus the macro condition. What happens in Europe that gets a lot of headlines, but does that really impact Buffalo Wild Wings, Chipotle, some of the great U.S.-based businesses? That's where you want your focus to be because that's where you find the multi-baggers that we've found here in *Stock Advisor*, *Hidden Gems*, *Rule Breakers* and so many other services.

So don't spend so much time on the macro; appreciate them. Learn from them, but someone like John Mauldin, his approach tends to be more trading, more macro-based. That's just not a focus here of ours at The Motley Fool.

TOM GARDNER:

I would say if you're interested in macro, I think he's an interesting resource. As Andy said, overall, we went through the most hellacious macro event in the last 75 years, and what has happened with your investment portfolio with The Motley Fool and Motley Fool services, we've gotten some great returns. Obviously it was a very volatile time, but I think we've demonstrated together that studying great businesses and reinvesting them, having a savings plan, not worrying too much about the movement of the market in any given year or the macro factors behind it is a great way to invest successfully for the long term. So I would say he's a very interesting writer, but unless you're fascinated with macro, I don't think it's a necessary part of your investment approach either.

Charles K. writes:

What's the easiest way to get a public company to publish the answer to a non-stockholder question?

ANDY CROSS:

You know what's so great about now, especially in investing compared to when I was starting with your uncle, Tom, is that the transparency, the disclosure, and the amount of information that's out there for the individual investor like we serve here at The Motley Fool, like we are The Motley Fool. We have such access to information into the companies, conference call access, which we did not have when I first started at The Motley Fool, and we actually fought for that.

So I think for investors who want to reach out to the companies, you can simply call the investing relations division of your companies and ask questions. Most companies are very receptive to that. Now some aren't, but a lot are. You can write articles on our blogs, at CAPS.fool.com, where we have a blog. On The Motley Fool we have access to that. You have access to companies that we never had before 20 years ago, and that's been one of the great features of investing today versus back then.

TOM GARDNER:

And I would say I hang a little bit on the verb "publish". Is it important that they publish the answer or that you just get the answer. If you just want the answer, I think calling the investor relations line is a key step, and I think emailing the company off their website. And as Andy said, coming out into our community and joining that stock folder and talking to people about that question, I think you should be able to get the answer. So thanks for that, Charles K.

Before we go to the next question, I'm going to insert my own question here:

Andy. Malcolm Gladwell, the book *Outliers and other studies of mastery* have shown that somebody who is doing what they love, doing it every day, for ten years or 10,000 hours is really getting into the zone of mastery. You've been investing in with *The Motley Fool* for what? You've been with *The Motley Fool* for 16 years? Worked at my uncle's firm before that. You've been investing for a very long time. Tell us about your earliest investment and then tell us about one of your biggest learnings as an investor over the years.

ANDY CROSS:

Well my first, my earliest investing that I can remember, I think my grandfather had invested for me, but one of my own investments was Home Depot, and it was one that we already owned, but my father encouraged me to invest in Home Depot, which is the home improvement warehouse store, because we were going into Home Depots. And as a teenager, I was into the Home Depots with my father, and we were following along his business with selling into Home Depots. He knew the founders of Home Depot, so he just saw that as a great investment because he saw that growing, and that's how I first learned about investing in businesses first before I started thinking about investing in the stock. So my first experience was investing in Home Depot.

I've also been down the whole, through the value growth path. When I came to *The Motley Fool*, I was much more of a value-based investor. I think through so much learning over the 16 years, following the approaches we teach at *Stock Advisor*, *Hidden Gems*, *Rule Breakers*, so many of the great services at *The Motley Fool*, as well as just all of the reading from our members, really appreciating being able to find those great growth companies, like Home Depot, which I still own today. And it had a really kind of rough patch over the last five years, but through holding that and as they kind of built their business back up, seeing the stock improve, getting behind those businesses and letting the investment, the management of those businesses do the work for you as opposed to trading in and out of positions and trying to find the very deep valuation plays, which can be a great investing style. It's just that for me, I think it's more natural for me and fits my personality to find those businesses that can run for a long time.

TOM GARDNER:

In an informal study that I did years ago, I just looked at some of the biggest multi-bagger stocks over a 10-, 15- and 20-year period. What I found is that virtually all those companies would see their stock go down 50% at least two times within a decade, but they were stocks that had gone up 20, 30, 40 times in value over the decade, so learning how to ride through and continue your focus on the business, that's a great lesson.

Interestingly, Andy was going to Home Depot with his dad; we were like going to video game stores. I don't know how to

install anything in a home, but there are a lot of good investments that come from any interest that you have.

Sam writes in and asks,

I'm holding Netflix at a loss. Do you think it's time to sell?

ANDY CROSS:

I don't. I don't think; Tom, you and I have talked a lot about Netflix. It's a *Stock Advisor* holding of ours for years, on both sides, on both Tom and David side of our *Stock Advisor* scorecard, and it certainly had a huge run. It's been great, but it's been a really rough patch over the last year and a half for Netflix. There was a lot of kind of uncertainty around their business, and yet I think their core competency is not done. They can continue to enhance that, so if you are sitting on Netflix as a loss, I'm still holding, still encouraging investors to think about Netflix.

As an investment, I don't think the good dimes are totally done with Netflix and there's still room to go, even in the face of a lot more competition from Amazon, from Home Depot; not Home Depot, HBO, from a lot of the other online providers. I still think the global opportunity for Netflix is not finished and shareholders from here, and the stock's around 85 now or so, I think will see better days ahead.

TOM GARDNER:

Jerry asks:

I've held shares in Aflac for about a year and was up 25 to 30%. It seems to be backtracking with no end in sight. What's the latest opinion on Aflac?

ANDY CROSS:

Well we still like Aflac in *Stock Advisor*. It's a recommendation of ours in *Stock Advisor*. Aflac is the largest provider of insurance services in Japan. Eighty percent of their revenue comes from Japan. Tom, as you know, their core business in Japan has not changed at all. What has changed is the macro environment around them. We've had horrible tsunamis in Japan. We've had very difficult macro news over in Europe and Aflac does hold a lot of European debt, or they used to; they've pared that back.

The core business of Aflac is still very strong. The stock is not cheap at all. It is somewhere around ten times earnings. They pay a dividend. They've paid a dividend for years. Dan Amos, the founding, who's part of the founding family, is still running the show and is still doing a very good job there. High returns on equity, so the business of Aflac is still strong. The environment that they're facing right now is a little bit uncertain, but I think the long-term is still good.

TOM GARDNER:

You may have misspoken on a word; just want to make sure

you said the stock's not cheap; it's at ten times earnings. You mean it is cheap. It's not expensive.

ANDY CROSS:

I'm sorry. The stock is cheap. It's not expensive.

TOM GARDNER:

It is cheap at ten times earnings, yeah. I think we're pretty optimistic long term about Aflac from here. Any time there are big negative macro events, I remember talking to the wonderful investor at NYU who's written those books that I love.

ANDY CROSS:

Aswath.

TOM GARDNER:

Dr. Aswath Damodaran, and he told us when we met with him at NYU with a Fellowship Group of the Leadership Development Program here at The Motley Fool, he told us, "I look for countries and big macro events where there's a huge down, and then I just look for the best companies in those areas, and I buy them and hold them for five to ten years." And that's a great way to invest. I think Aflac is in that type of scenario.

Bob K. writes in with a very popular question today among investors:

What's your opinion of Facebook? Is it a good stock to buy at its IPO?

ANDY CROSS:

Wow, that's the hundred billion dollar question I think everyone has out there with Facebook. Will the IPO come out at more than a hundred billion dollars in market value? Facebook, 800 million users, it is a behemoth out there. It is going to reestablish the whole; we've seen the IPO market become very hot here recently, Tom. Facebook was driving a lot of that, people getting ahead of the Facebook IPO. For me personally, I'm thinking let the IPO come out, see where the shares go, and see what they talk about their business. There's been a lot of talk about their S-1 filings, which are their filings they make before they go public. I want to see how this all kind of plays out before I think about individual investors jumping on board.

TOM GARDNER:

I don't think you need to feel urgent, as Andy said. If you were going to feel urgent about a company that you really loved, you might want to be a little bit more conservative as a smaller cap business and the volatility of the price might be significant on the first day and days after. I still would dissuade you from investing into that, but with Facebook coming public anywhere from let's say \$80 to \$100 billion, it's unlikely the stock is going to double in the first day of

trading or have a huge move, so this is a large-cap company now.

So ask yourself, do I feel urgent that I need; could you tell me, Motley Fool CIO, should I buy Google tomorrow at three? These companies are so large, picking the date and time is not what's important with Facebook now. What's important is making sure you really believe in the business, making sure you're aware of their goals; you've read the S-1. I think Mark Zuckerberg did a very good job outlining their principles.

A bigger concern for me with Facebook, and I'm probably a long-term bull on Facebook, but the bigger concern for me is I want to see them create membership and subscription revenues in their business model. They have partnerships with Zynga, but I think that's a big opportunity for them, and actually for that reason I think they're going to succeed in that. I'm a long-term bull on Facebook, but I wouldn't be rushing to buy it on the day of the IPO.

ANDY CROSS:

Tom, as you and I have talked about, following companies that do go public and following the projection of them for the next two years and see how the business matures, is a really healthy way for investors to not only learn about business, but can find some really good investments, so I wouldn't rush, as Tom was saying, rush into this right now.

TOM GARDNER:

Andy, thanks so much for providing great answers to some great questions from those of you who are interested in *Motley Fool ONE*. I want to let you know, The *Motley Fool ONE* train keeps on moving. Next stop, we've stopped with Robert Brokamp, our financial advisor at The Motley Fool, Andy Cross, our chief investment officer. Next stop is Miami, Florida, when I sit down and have a conversation with founder of Costco, Jim Sinegal. It'll be an outstanding discussion about retail, about Costco as a business, competitive threat of Wal-Mart, Target, the opportunities to expand abroad, etc., and then we move on to Austin, Texas, where I sit down with the Founder and CEO of Whole Foods, John Mackey. A lot of great similarities between Whole Foods and Costco, both wonderful long-term investments and businesses, a lot to learn from their founders as entrepreneurs and as investors. We look for your questions. Please send them in. I look forward to taking the very best questions submitted and putting them right to Jim Sinegal and right to John Mackey and both of those gentlemen are pretty thick skinned, so whatever you've got, let's bring it to them and I look forward to having a great conversation with both of them and bringing that to you in the weeks ahead.

Andy Cross, thanks for being with us, our chief investment officer, along with all of our advisors and analysts at The Motley Fool. Be a part of *Motley Fool ONE*, helping you to get better investment results for the long term. Thanks for being with us, and Fool On!