

# Invest Like a Pro: Roundtable #3

## How you can win – no matter who does in November

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### CHRIS HILL:

Hi, I'm Chris Hill. I'm the host of The Motley Fool Radio Show and our daily podcast, Market Foolery, and I'd like to welcome you to our final roundtable in our Invest Like a Pro series.

If you've been following along, you know that the last couple of roundtables have focused on what investors can expect to see based on whether Barack Obama or Mitt Romney wins the election this November, and how you can set yourself up to profit under either administration. Today we're going to give you an inside look at the *Motley Fool PRO* service and how the *PRO* team is positioning themselves and their members to win, no matter what happens in November.

I'm joined today by Lead Advisor, Jeff Fischer, and his *Motley Fool PRO* team. Let me start with some brief introductions at the end of the table. Nick Crow, tell us a little bit about yourself and sort of what you do for the *Motley Fool PRO* service.

### NICK CROW:

Hi, Chris. I'm Nick Crow and I'm senior analyst at *Motley Fool PRO*, and I've been investing for 17 years now, about half the time using options, and for a *Motley Fool PRO*, if I had to describe myself, I'd say I'm the guy that says "no" most often, so looking at the risk, I'm trying to talk down some of these guys' best ideas.

### CHRIS HILL:

You're the naysayer of the group.

### NICK CROW:

I'm the naysayer.

### CHRIS HILL:

Bryan Hinmon, what do you do for *PRO*?

### BRYAN HINMON:

Thanks, Chris. I'm an analyst with *PRO*. I've been with these guys for just shy of three years. Came here from a hedge fund up in Boston, and the hedge fund had a very similar strategy and a very similar philosophy to what we employ here at *Motley Fool PRO*, so it was a really easy transition. But the fun for me is really taking those strategies and making them accessible to everyday investors rather than just rich people.

So it's a lot of fun to work with these guys, even though Nick's always saying "no".

### CHRIS HILL:

And Jeff Fischer, lead advisor.

### JEFF FISCHER:

A little history?

### CHRIS HILL:

A little history.

### JEFF FISCHER:

I began investing in 1987, and I arrived at The Fool full time in 1996, and worked on the original Fool portfolio with Tom and David Gardner, and saw The Fool really grow up from its early beginnings until now. I started on *Motley Fool PRO*, came here to launch that service in 2008, so it's nearly four years old. And since 2000, so for the past 12 years, I've been using options along with stocks to smooth out returns and make positive gains, whatever the market does over any reasonable time period, and that's really what *PRO* has encapsulated, that positive returns goal in all markets.

### CHRIS HILL:

Now let's talk a little bit about the service itself because I think people watching may be familiar with the fact that The Motley Fool has a number of services, *Motley Fool Stock Advisor*, the flagship service of The Motley Fool, but *PRO*'s really different. If you could, talk a little bit about how *Motley Fool PRO* is different from a service like say *Stock Advisor*.

### JEFF FISCHER:

I'm happy to start. *PRO* is a bit more sophisticated, I would say. It's a little hedge fund-like, to speak to Brian's past. We use options and shorts to hedge our positions, and we use ETFs, long and short, and then we own a core basket of stocks.

Now the big point to make is some 70% of our money is usually invested long term in great companies to compound our money over time. That's the way everyone should invest. And then we use shorts and options to make returns in the short term and to hedge our positions for rocky times like these now, so we're aiming to make smooth returns without giving up upside.

**CHRIS HILL:**

Nick?

**NICK CROW:**

Well essentially we're an absolute return portfolio, whereas *Stock Advisor's* long-term buy and hold. So we're able to employ those strategies that Jeff talks about to make money no matter what the market's going to be doing.

**CHRIS HILL:**

I think a lot of people, and I would put myself in that category, hear the word "options"; I hear the word "options" and I automatically associate it with risk. I automatically think, well that's something that I can't do, I shouldn't do because I don't have the risk tolerance and I'm not sophisticated enough to do it. You guys actually use options to reduce your risk. How does that work?

**BRYAN HINMON:**

It's a common refrain that we hear, that options are associated with risk seeking and risk taking, but it's not necessarily the case. The reason that we like options so much is that you're able to define the parameters under which you invest and so sure, if you want to shoot for the moon, you can do that using options. That doesn't have to be the way that they're employed. There are plenty of options strategies out there that are totally appropriate for retirees who are 85 years old. So it's really just about which strategies you employ. Remember that they refer to an underlying stock, so which stocks you choose to implement those strategies on, and then how you carry them out.

**JEFF FISCHER:**

It's sort of like the national media, to draw a small parallel. You hear all the bad news that's out there, even though 99% of every day has gone really well for most people. Options, we make money about so far eight out of nine, eight to nine times out of ever ten trades we make, so we have an 80-90% success rate because we're using lower-risk strategies that actually decrease our risk. They actually decrease the risk of share ownership.

An example is, a simple example that many retirees use, writing covered calls on stocks you own to generate income if the shares don't rise significantly. Or writing put options that allow you to buy a stock cheaper if it declines. And if it doesn't decline, you make this income, and you can do that month after month. So there are ways, many ways, where options actually lower the risk of market investing, and that's what we focus on.

**NICK CROW:**

And one of the keys to our success that way is we look at the businesses that we're investing in, so for us with a business

thesis, any company in our portfolio, and we can express that thesis using options. It's quite unlike the options traders you hear about that blow up because they're not even looking at the business; they're looking at the options only.

**BRYAN HINMON:**

Yeah, and when you define your risk and return like that, so much of poor investing decisions have to do with emotion. And so we're taking, we are attempting to take a lot of the vacillations of the market out of the picture so that our investors can invest with a calmer temperament because you know that the defined risk and return parameters of each position that we're taking.

**CHRIS HILL:**

I want to get to some of the companies that you alluded to, Nick, in a minute, but first I'm sure there are some people watching who are thinking, Well wait a minute. I'm actually not worried about the risk. I'm looking to maximize my up side. How are you able to essentially get both of those things achieved? How are you able to simultaneously reduce risk, but also maximize your up side?

**JEFF FISCHER:**

Well, as I spoke to earlier, but much of our portfolio was invested long term in great companies, and when we do hedge, we use strategies sometimes that do not capture up side at all; they just come into play if the market falls, say five to ten percent, then this hedge starts to pay us. But if the market goes up, the hedge doesn't cost us any up side at all. That's a ratio put spread. That's what I'm talking about on a market index. And we explained to members, all of our members who wanted to did this trade with us. We explained exactly how to do it, how to set it up. But the point being, there are strategies that can let you have all the up side, and yet hedge yourself for a down side risk, and we like to do those.

**BRYAN HINMON:**

Another way that we really do that is by the type of businesses that we look at. We spend a heck of a lot of time trying to find the best companies out there, but we're looking for ones that have certain characteristics that we think lend themselves to having a lower down side and still really good, shoot-for-the-moon up side potential. And these are companies with recurring revenue streams and products that have high switching costs that their customers need and love.

**CHRIS HILL:**

People have watched these videos now, we've certainly talked a lot about the run up to the presidential election here in the U.S., but there's a lot going on in the world, and certainly that affects the world of investing. We've got the evolving situation in Europe, depending on the month, varying degrees of volatility. When you look out across the investing universe,

what are some of the things that you guys are watching right now, whether it's trends or industries or individual companies?

**JEFF FISCHER:**

One thing that jumps right to mind is the so-called "fiscal cliff" that may come into play in 2013, and that is where government spending goes down and taxes go up, which obviously spells some disaster, some harm anyway, for the broader economy because consumer spending would go down just as government spending goes down. That's not the way to go, so we're watching to see how either political party may get us out of that mess.

But also interest rates, we have a small handful of companies that we are watching very closely to purchase if interest rates look like they'll start to head higher, say six to twelve months down the road. We want to be well ahead of that, because there are certain companies out there that will make a lot more money once rates start going up.

**CHRIS HILL:**

Let's go into some of the companies that we were....

**BRYAN HINMON:**

Now we're talking.

**CHRIS HILL:**

Yeah, that Nick had alluded to. If could, walk me through some of the trades that you guys have made so that people can really get a sense of how *PRO* works, how the service works, and how you guys think. Let's start with Plum Creek Timber. Walk me through that trade.

**JEFF FISCHER:**

Great. This is, go back in the history books. This is in 2008, one of the very first trades *PRO* made, was to buy shares in Plum Creek Timber, which is the largest private landowner in the United States. They own timberland all over the country, diversified all over the country, and they also paid, when we bought, more than a 5% dividend yield.

So this was 2008, when everything was melting and we always try to acclimate ourselves to the environment, even though we have, our outlook is longer-term, but we're very present of the current environment. We knew buying a company that was asset based, if its land was worth as much as the share price, the share price should hold up, and that is exactly what happened. We bought shares, they held up very well. We collected a 5% yield, dividend yield, and we wrote options on it. We wrote puts and calls on it. This is called a "covered strangle", and by combining this strategy to share ownership, we earned over the next three years about half of what we put into the stock, which was a fair amount of money.

**NICK CROW:**

So 50% income alone.

**JEFF FISCHER:**

Fifty percent in income alone, and the shares went up as well. So...

**BRYAN HINMON:**

And not mention that there's a heck of a lot of mental comfort that comes from knowing that you own a bunch of trees in Washington State, right? Because the value of those trees doesn't oscillate that greatly.

**NICK CROW:**

In fact, it grows every year.

**BRYAN HINMON:**

So really it's a great buoy for your portfolio, a ballast to build around.

**CHRIS HILL:**

Going back just one year in time, 2011, walk me through the decision to essentially short the Euro.

**JEFF FISCHER:**

I can start on that again. So short the Euro. It seems kind of obvious, no?

**CHRIS HILL:**

It does, but I'm just curious. Sort of, again, what goes through your mind when you just say, okay, now this is the move we're going to make and here's how it's going to benefit our numbers.

**JEFF FISCHER:**

Right, so I'm glad you brought it up, Chris, because of course Europe is also very much on the forefront of our minds as we look at the rest of this year and next year, but even last year and the last two years prior to that, we've been watching everything going on in Greece and Europe, and the Euro held up really well throughout the early stages of this crisis, but as of last year, it looked like the Euro was really starting to crumble against the dollar. What really happened initially was the dollar was weak, of course, because interest rates in the U.S. kept going down, so the dollar kept getting weaker, so it wasn't so much the Euro being strong as the dollar being weak.

Last year, we saw an inflection point where that was starting to change. Interest rates in Europe were now going down, and interest rates in the U.S. are stable, of course, so the Euro started to depreciate against the dollar. So we shorted the Euro using and ETF, currency shares, Euro Trust that only owns

Euros, so that no shenanigans going on, they just own a basket of Euro and you can just short the whole ETF. That's what we did. It's been profitable since. It's a nice little hedge against Europe's problems.

**BRYAN HINMON:**

Chris, it's interesting the genesis of that position because 12 or 18 months ago, we all met and said there's something a' brewing in Europe; let's be prepared for it. And so we all went out and did research on companies that we thought we'd might like to own if things really got bad. We convened, we discussed, we whittled down our list and we ultimately said it doesn't pay yet to take these positions. Is there another way that we can take the research that we've done and attempt to profit off it? Which led to Jeff saying, Well, I've been kicking this idea around; what do you guys think?

So we're always thinking in terms of opportunity costs like that and one thing leading to another, and because *PRO* is so flexible, we're able to pick whichever strategy we think will work best.

**JEFF FISCHER:**

And we haven't yet bought shares of European companies, but we're still watching them and that trigger point hasn't happened yet where we want to buy into Europe's economy.

**CHRIS HILL:**

What do you think is going to tip the balance for you? Is it something from...?

**JEFF FISCHER:**

Prices are getting awfully close to the valuations are almost attractive enough, but everyone has to remember you don't necessarily want to try to time the bottom: that's not what we're doing. We're trying to buy good companies that'll make us money, almost no matter what in the next couple of years. So we might actually want to see some signs of resolution before we buy in. We'd rather pay a slightly higher price and still make money than buy in too early and lose money.

**BRYAN HINMON:**

Another tell-tale sign is when people start running around like their hair's on fire. That's a good time where we really start licking our chops.

**NICK CROW:**

You have to look at the valuations while they're low relative to their risk and uncertainty. Buying early and buying a little bit late is almost always the same price. It has to move through that bottom, and we'd rather know what's going on, getting better rather than getting worse.

**CHRIS HILL:**

Now Nick, there are plenty of investors out there who stay far away from the big Wall Street banks, and you look over the last few years and certainly some of them have given investors good reason to stay far away.

**NICK CROW:**

Certainly.

**CHRIS HILL:**

And a lot of people look at them and say there's a black box mentality at work there with the investment side of the Wall Street banks and I want no part of it. Wells Fargo, on the other hand, that's a company that you haven't shied away from.

**NICK CROW:**

Absolutely. We own shares in Wells Fargo. Since *PRO* started, 450 banks in the U.S. have gone under, have gone bankrupt. They're taken over by the FDIC, and since we purchased Wells Fargo, another 133 banks have gone under, so we bought in the midst of still the crisis and how can we feel comfortable there? Well because it's not a Wall Street bank. It's really a community bank. It's a huge community bank. It's a community bank for many banks.

It's the number one mortgage lender, number one small business lender, but it doesn't have the Wall Street arm that you're looking at like a J.P. Morgan might have where you get those \$2 billion losses or you have proprietary trading desks. Wells Fargo's not involved in that business. So we can look at a business that's very well run. It lends. And at the time there were catalysts too. It wasn't paying a dividend and we knew that after TARP had been repaid that we'd start getting a nice dividend payment and we also know now that there's some stricter capital restrictions and so we're flexible, and we starting strangling that, much like we did Plum Creek so that we can better than double the income on that position that we were expecting to earn.

**CHRIS HILL:**

I'm curious because Warren Buffet owns shares of Wells Fargo through Berkshire Hathaway. Some people say it's his favorite bank. I'm just curious, when it comes to Buffet or any other sort of big name investors out there, does that factor into your thinking at all when you're thinking about an investment, the fact that someone like Buffet has essentially given it his stamp of approval? Does that matter to you, or are you far more focused on the underlying business and the valuation and the opportunity for *PRO* members?

**NICK CROW:**

Well let me be the no-man here again and I'll just say no. It's always nice when someone smart agrees with you, but you have to realize that smart people make mistakes also,

and so it's not enough. We have to really understand the bank ourselves and so it didn't really weight very heavily in my decision. When he bought Wells Fargo as a California-only bank and now after the Norwest merger in the late nineties, it's a completely different institution. It just kept the Wells Fargo name, so he made a decision at one point in time under different circumstances that we made the decision.

I am happy to have him as a fellow shareholder, of course, but it's....

**CHRIS HILL:**

I'm sure he's happy to have you as well.

**NICK CROW:**

He doesn't know I exist.

**CHRIS HILL:**

Bryan, in terms of opportunities, sort of event-driven opportunities for investors, you look at the BP spill in the Gulf and I think there are a lot of investors who looked at that and said, Okay, there's an opportunity here; I'm just not sure what it is. Walk me through Bristow Group.

**BRYAN HINMON:**

Yeah, if you think back and remember what was going on at that time, those were dark days for the energy sector, right? All of a sudden you had the government shut down everything that was going on in the energy sector. No more drilling permits, stop the presses. All of a sudden anyone who operated in the energy sector faced unknown, possibly massive fines and lawsuits that were hard to quantify.

So when people start getting worried that much, you're right. You look around and you say, Okay, where's the opportunity here? And a lot of people turned to the players who were involved, right? Turned to BP and turned to Transocean. But again, because there were those huge, very difficult to quantify potential liabilities there, we said there's probably a better way, right? And I alluded to earlier the fact that we look for a certain type of business, a business with recurring profits that has certain other characteristics.

Well Bristow Group is a helicopter company and they own the world's largest fleet of helicopters and they ferry cargo and crew to deep water offshore rigs. They have a fantastic safety record and nonetheless, because they service those offshore production rigs and exploration rigs that were shut down in the wake of the oil spill, their stock was almost halved. But if you looked into the business, you would find that they have long-term contracts with the oil producers and they earned 60% of the value of the contract, whether or not they perform any work. So just basically to reserve the right to use the helicopter, the production companies pay 60% of the value and then they pay a per flight, a per hour cost, depending on how much they fly.

So sure, in the near term, while everything is being sorted out, flight hours are going to contract a little bit, but as soon as some normalcy returns and you have to produce from wells that are already drilled, the business is going to operate just fine. So that's the type of business that we really like in *Motley Fool PRO*, because they earn 60% of their profits without doing anything. So that's not a bad cat bird seat.

**CHRIS HILL:**

That's a nice business.

**JEFF FISCHER:**

So in the middle of that disaster, Brian swooped in with this recommendation and it was a brilliant way to get this type of company into *PRO*, a company that matches what we look for. As Brian mentioned, companies with strong recurring revenue, which means the revenue naturally recurs, typically on a contract basis or a subscription basis. This is why we own a handful of software providers in *PRO* and insurance providers as well that have renewal rates north of 80%. So every year they are getting 80% of the revenue they had last year, at least, as a minimum, and then any new business is great on top of that.

**BRYAN HINMON:**

You can liken it to a normal business would be a lemonade stand, right? But a business with recurring revenue is like selling an IV that dispenses lemonade, right? Just dispenses automatically and it keeps cycling through.

**JEFF FISCHER:**

Kind of a nice thought on these hot summer days. Even Nike has to convince you every time to buy the next pair of shoes, whereas the companies we favor, MasterCard is another great example. They make money on every single transaction on their network using MasterCard, and that's hard to top that type of revenue model.

**CHRIS HILL:**

We've talked a fair amount about options, but let's talk about shorts for a second because earlier this spring, you guys made the decision to short Sony. Walk me through that decision

**JEFF FISCHER:**

All right, Chris, so because we are 70-some percent long invested in great companies like MasterCard, and we use options to make income pretty much every month that we can, the third pillar of our strategy can be shorts. We have time to find shorts, which not everybody does. You have to approach it completely differently than finding a company to buy, of course.

So Sony, what we're looking at as Apple shareholders as well, we're looking at any companies in technology that are not

performing well or haven't had any hits for a few years, and there are numerous ones that are of course suffering.

But Sony's probably top of the heap for having fallen out of grace, out of favor, and not really having created anything that has sparked consumer interest for quite a while. And taking apart that company was very tricky because they have a large entertainment business with music and movies and they have consumer electronics with DVD players and they also print DVDs and things like that. Then they have their TV business and finally they're just now getting into smart phones as well.

But the bottom line is they're kind of behind the eight ball on all of these businesses. TVs have become extremely competitive and prices keep going down. They're losing money on their TVs. Their consumer electronics are being squeezed out, whether it's DVD players or stereo systems, it's all being put on to one or two devices now, typically made by Apple. So everything shaped up to show a business in decline, and when you're talking about a name as big as Sony, you want to make sure you're right about that.

**CHRIS HILL:**

Yeah, if you're going to short it.

**JEFF FISCHER:**

Definitely, because they were still profitable when we started looking at them, but they have moved into losses, and revenue keeps going down. They're in a position now of laying off people, which is unfortunate, of course, we hate to hear it. But when you lay off 10,000 people, you're going to lose a lot of talent that you didn't want to lose along the way, so they're almost caught in this spiral now of diminishing returns and exodus of talent, and so we shorted them this spring.

One good thing to remind people is you don't need to short at the top. The most you can make on a short is 100% whether you short at a hundred or at one dollar. So it had fallen a bit from the twenties. We shorted in the high teens and we're just sitting on that short right now. It's still an active recommendation.

**CHRIS HILL:**

I'm assuming that's a rare occurrence where you have an investment in Apple that is working for you, that you believe in and then at some point you think well wait a minute, if this is doing well, then the competition has to be suffering and then you go looking. Is that sort of rare or does that factor into some of your research where you...

**JEFF FISCHER:**

It shouldn't be rare if we're doing our job well. Whenever we find something to buy, we look at the competition and see if there's something to short, but I will say Sony didn't jump to mind as we were buying Apple.

**NICK CROW:**

That's because Sony's doing so poorly, we didn't see it to be a competitor, you know?

**JEFF FISCHER:**

Exactly.

**CHRIS HILL:**

Before we wrap up, I'm curious because you guys have had the opportunity to meet *Motley Fool PRO* members at events that we've had at The Motley Fool. What do you hear from them about the service? What kind of feedback do you get about the job you guys are doing and the service as you're running it?

**JEFF FISCHER:**

Nick, do you want to start? You met some members in San Francisco.

**NICK CROW:**

Absolutely. I'd say that the; well the refrain that I enjoy most are the ones that say we've changed their lives, we've changed their investing lives. And typically they're nearing retirement or recently in retirement and they're like, I can't believe I'm investing so long without knowing how to use these tools and how they just see investing completely different going forward.

It's shocking to me that it had that much of an impact, but it does, and there are many of them that feel that way. And typically it's the ability to use options to generate income that seems to really light the fire for them because like I said, they're moving into retirement. They are no longer working and now they have a way to earn a solid income, like Jeff said, month after month.

**BRYAN HINMON:**

Yeah, I think the thing that really sticks out in my mind is almost across the board, we hear how great our community is and we have extremely active discussion boards with incredibly bright members who are remarkably generous with their time, willing to talk stocks. We have a social banter board where not a week goes by where there's not some sort of shenanigans going on. We have groups of *PRO* members meeting in other countries to discuss stocks and what's going on in our portfolio. It is a vibrant, genuine community, and it surprises me on a daily basis.

**JEFF FISCHER:**

I love to reiterate what Nick said because it's one of the most fulfilling things we hear is from members who learning *PRO*'s strategies has changed how they invest, made them more confident in their financial future because they now have ways to make returns, even if the market goes nowhere. In fact,

we have members who are cheering flat markets because they make income off simple options strategies when the market is flat, or even when it goes down.

So it's great to hear that. I started using options just for that reason, to make steady income way back long ago, and it has not disappointed. It's just a way to not rely on the market going up all the time. So many members have said the market's been flat 12 years and I wish I had known about this long ago, but now that I do, great. I'm using these strategies and I don't worry about the market nearly as much anymore.

The other thing members say is they appreciate learning how to spot, find and spot really good companies, the ones that you want to own the next three, five, ten years, because that's where you'll make, you'll compound what you already have.

**CHRIS HILL:**

*Motley Fool PRO's* opening up to new members in just a few days, Tuesday, July 17th. It's going to be open for about a week, and Jeff, this is the last time in 2012 it's going to be open to new members, so tell folks what they can expect.

**JEFF FISCHER:**

All right, that's correct, Chris, and again, we're open a brief time and only once or twice a year because we want to make sure we're able to give all of our members as much attention and hands-on guidance as they may need. So the good news is though, that we do provide a generous, extended money-back guarantee. And that gives investors who think they might

be interested in *PRO* the chance to really try it out. Join the service, ask us questions, see our portfolio, see how we invest and our strategies, see if it's right for you.

Another thing I should mention is that we're giving everyone here, those folks who have been following along with our Invest Like a Pro series the past few weeks, the chance to actually pre-register a day early at a great discount to ensure that you have the chance to get a seat in the *PRO* service, if you want it. So if you're interested, you can find all of the details on our Invest Like a Pro main page at [Investlikeapro.fool.com](http://Investlikeapro.fool.com).

**CHRIS HILL:**

All right, guys. That's all the time we have for today. Thanks for walking us through what you guys do at the *Motley Fool PRO* service.

**JEFF FISCHER:**

Thank you, Chris.

**OTHERS:**

My pleasure. Thanks, Chris.

**CHRIS HILL:**

Thanks for watching. We hope you've enjoyed these advisor roundtables and we look forward to serving you even further in *Motley Fool PRO*.