User Guide

How to Get The Most Out of Your Subscription
Greetings!

Thank you for subscribing to the Cabot Value Investor!

Welcome to Cabot Value Investor! If you’re looking for undervalued growth stocks with outperforming capital gain opportunities, you’ve landed in the sweet spot.

My name is Bruce Kaser, and I’m the Chief Analyst at Cabot Value Investor. Thank you so much for joining me in the stock market! I love stock investing, and I look forward to providing you with excellent capital gain ideas.

I’ve created two portfolios of stocks to help you grow your wealth. These stocks have strong earnings growth prospects, undervalued price-to-earnings ratios (P/Es) and low debt ratios. You can relax in knowing that you’re investing in high-quality companies that are likely to attract portfolio managers all over the world. The buying power of institutional investors can really push stocks upward!

My goal is to identify the best possible stocks, then wait a short while for professional portfolio managers to follow my lead. It’s a formula I’ve fine-tuned over decades of investing, and I look forward to helping you apply my strategy to meet your financial goals.

And by the way, these are the same exact stocks that I buy for myself. Now, let’s invest!

Your guide to undervalued stock investing,

Bruce Kaser

Bruce Kaser, Chief Analyst of Cabot Value Investor
What’s in this guide...

**Here’s What You Get**
- All the benefits Of Your *Cabot Value Investor* Subscription

**How We’ll Help You Successfully Invest in Undervalued Stocks**
- Our portfolios
- How we do our research
- How to tilt the odds of success in your favor

**Getting Started**
- Here’s How to Start

**Tour of Cabot Value Investor**
- A Brief Tour of Your Monthly Letter

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- Who is Bruce Kaser?
Your Subscription to *Cabot Value Investor* Includes:

**Monthly Issues**
On the first Wednesday of every month, the *Cabot Value Investor* brings to you an update on current market conditions, any price target or ratings changes, and our full portfolio of currently recommended stocks.

**Timely Sell Recommendations**
When it is time to sell a stock, we will let you know even if it is outside of the regular monthly *Cabot Value Investor*.

**Direct Contact**
Whenever you have an investment-related question, you can email me directly at Bruce@CabotWealth.com. You can also call our Cabot Investor Services desk at 800-326-8826 anytime during business hours to speak with a live person about your subscription. Or you can email our subscription support staff at Support@CabotWealth.com.

**24/7 Archives**
Your subscription gains you access to our vast online library of analysis, including past issues of *Cabot Value Investor*, recommendation updates, podcasts, the latest Catalyst Reports, special reports and related webinars.

Make sure to visit the *Cabot Value Investor* hub and bookmark the page!
How We’ll Help You Successfully Invest in Undervalued Stocks

As Warren Buffet says, in the short-term, the stock market is a voting machine, but in the long term it’s a weighing machine. That means that every day, there are companies that sell well below their real, long-term value. All we need to do as patient investors is buy these companies at steep discounts... and wait.

To help you achieve this goal, I offer two portfolios in Cabot Value Investor: Growth & Income and Buy Low Opportunities. I invite you to choose Buy- and Strong Buy-rated stocks from both portfolios to diversify your personal portfolio.

**Growth & Income Portfolio** stocks have bullish charts, good projected earnings growth, dividends of 1.5% and higher, low-to-moderate P/Es and low-to-moderate debt levels.

**Buy Low Opportunities Portfolio** stocks have neutral charts, strong projected earnings growth, low-to-moderate P/E ratios and low-to-moderate debt levels. Some of these stock may pay dividends. You may need to wait patiently for these stocks to climb.

I review all the important numbers and news on these stocks, every week. Your weekly updates will tell you whether the stock remains undervalued, or whether the price has risen enough that it’s now fairly valued. I’ll mention the most likely near-term price action, so that both traders and longer-term investors can decide when to buy or sell.

If you’re a longer-term investor, I’ll make it clear to you which of the portfolio stocks present the best opportunities for a multi-year hold.

Each stock will have a rating: Strong Buy, Buy, Hold or Sell.

- **Strong Buy** generally means that the stock meets all of my investment criteria.
- **Buy** means that the stock meets most of my investment criteria but might lag a little bit in one area. For example, maybe the stock’s having a pullback, so the price chart is a little less bullish that I’d prefer.
- **Hold** means that I don’t see any immediate capital gain opportunity with the stock, but that situation could easily change in a few months.
- I’m not going to give a stock a Sell rating unless there’s major, company-specific bad news or the recovery prospects have significantly deteriorated, or the stock has reached its price target. A stock that has reached its target price is not an automatic Sell as we will reassess the company to either confirm a Sell rating or raise the price target. When in doubt, shoot me an email at bruce@cabotwealth.com, and I’ll clarify my recommendation on how to proceed.

If we’re met with an overall market correction, I will encourage you to hold your stocks. Then, when we reach the bottom of the correction, I will make recommendations on which stocks to buy low.

Making money in the stock market does not require excessive risk-taking. Throughout my 28 years of stock investing, I’ve learned that it’s enough to screen out obvious risk and concentrate on identifying value.
Getting Started

Here's a great approach to stock selection for new subscribers.

First, focus on the portfolio stocks with Strong Buy and Buy ratings. Ignore the portfolio stocks with Hold ratings.

Next, decide whether you want or need dividends, either for income or to lower your investment risk. If the answer is yes, then focus on the stocks in the Growth & Income Portfolio and the stocks in the Buy Low Opportunities Portfolio with good dividend yields.

Longer-term investors who don’t need dividends will have the most choices within the portfolios, because they’re simply looking for capital gains and not in a rush to get there. All of the Strong Buy-rated stocks will be excellent choices for you.

I’ve already lowered the stock market risk in these portfolios by screening out companies with stagnant earnings, falling earnings, net losses, high P/Es and high debt ratios. Here are four more ways to screen out investment risk:

- Buy stocks with dividends in the 3% to 5% range.
- Buy stocks immediately after market corrections, when their prices are sitting at support levels.
- Invest equal dollar amounts in each stock that you buy. Occasionally rebalance your portfolio.
- Diversify your portfolio among stock market sectors, e.g., health care, energy, banks, autos, technology and housing.
Tour of Cabot Value Investor

Membership includes monthly issues on the first Tuesday of the month, updates on all our stocks on all other Tuesdays, alerts when there’s news on our stocks or action you should take, and direct access to me via email at bruce@cabotwealth.com.

1. On the first page of each issue, I give an overview on the market and our stocks, highlighting any recent changes.

2. New recommendations will be highlighted as a Featured Stock for the appropriate portfolio, with in-depth research on the company’s fundamentals and technical stock action.

3. Tables of each portfolio’s holdings will show you the stocks’ performance and current ratings at a glance.

4. The Updates sections provide my current view on each holding along with the stock’s chart.

5. You’ll receive Updates on all our stocks via email each week.

6. Whenever there’s news or action you should take on any of our stocks, I’ll send you a Special Bulletin via email.
Suggested readings on contrarian investing

The Most Important Thing by Howard Marks: Warren Buffett’s quote on the title, “This is that rarity, a useful book” conveys the merits of this highly-readable and brief (180 pages) book on thoughtful investing. Marks discusses how to define, recognize and control risk, and comments on contrarianism, finding bargains and “knowing what you don’t know.” Marks co-founded and runs Oaktree Capital Management and is widely considered one of the today’s icons of value investing.

Dear Chairman: Boardroom Battles and the Rise of Shareholder Activism by Jeff Gramm: Published in 2016, this engaging text recounts several of the more colorful shareholder efforts to change bad management practices. Each chapter is based on an actual letter written by an activist investor, starting with Benjamin Graham’s comparatively genteel pressure on Northern Pipeline to the highly entertaining letter written by Daniel Loeb to Star Gas wondering whether the CEO’s 78-year-old mother belongs on the board of directors.

Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor, by Seth A. Klarman: Considered one of the most insightful books on value investing, Klarman’s book describes the foundations of his philosophy that led him to become one of the most successful value investors. Klarman still oversees $27 billion in funds at his Baupost Group. This out of print book on ‘buying low’ ironically sells for over $1,100 on Amazon, but probably is worth the price.

Security Analysis by Benjamin Graham and David Dodd: One of the most influential books on investing and originally published in 1934, it describes the timeless value investing concepts and methods of Benjamin Graham: the “father of value investing.” This read is considered the foundation for Warren Buffett’s success and recent editions include commentary by some of today’s most successful investors.

The Intelligent Investor by Benjamin Graham: The sub-title says it all: “the definitive book on value investing.” Graham’s classic best seller, this text describes the principles of value investing and applies them to selecting securities. It also discusses the concepts of thinking as an owner of a business and the “margin of safety.” This is considered by Warren Buffett to be one of the most important reads in all of investing.

Extraordinary Popular Delusions by Charles MacKay: This classic book on investing, market psychology and gullibility is just as relevant in today’s world as it was in 1841 when it was first published. Scottish journalist Mackay tells the stories of many of history’s notable bubbles and investment frauds, and illuminates how human nature and its inherent weaknesses never really change.

Against the Gods by Peter L. Bernstein: Peter Bernstein was one of the most insightful writers of our time. His book provides a comprehensive history of man’s efforts to understand risk and probability, beginning with early gamblers in ancient Greece, continuing through the 17th-century French mathematicians Pascal and Fermat and up to modern theory. Barron’s describes the book as “an extremely readable history of risk....”

Stock investing jargon and terminology can sometimes sound like a foreign language. Here are a few terms that are commonly used in the investment methods discussed in Cabot Value Investor.
**Activist investor**

An investor or investment fund that buys shares of a traded company with the intent of making changes to the company's strategy and thereby raising its share price. Activists tactics can range from providing friendly, behind-the-scenes guidance to the company's board of directors to a highly contentious and public campaign to overthrow its board of directors. Strategic changes generally include major cost-cutting programs and the sale of operating divisions or the entire company. It is common for activists to seek the replacement of a company's CEO or some of its board members.

**Catalyst**

A specific and significant event that can change the direction of a company's prospects. For turnaround investors, this is a positive event such as a new chief executive officer (CEO), pressure by a credible activist investor, a spin-off transaction, emergence from bankruptcy, resolution of a temporary legal, product or other issue, or an imminent cyclical upturn.

**CEO**

Chief executive officer. This is the most senior operating executive, who reports solely to the company's board of directors. The CEO is charged with determining and overseeing the operating and financial strategy, selecting other senior executives and representing the company to investors and the public. As such, the CEO is responsible for determining the priorities of the company and leading its culture ('the tone is set at the top'). A capable and motivated CEO is critical to a successful turnaround.

**Contrarian Investing**

Buying investments that would benefit if the market's current viewpoint is wrong. A successful contrarian investor recognizes that in many (most) cases the market's opinion is correct and so they invest only when the risk/reward trade-off is particularly favorable.

**Deep value investing**

Buying securities that are significantly undervalued by the market. This typically entails a higher level of risk than traditional value investing, but also a higher level of potential return.

**EBITDA**

Earnings before interest, taxes, depreciation and amortization. This is a measure of a company's cash operating earnings. Operating earnings are the pre-tax profits of a business before any interest expenses. As depreciation and amortization are accounting charges and not cash expenses, they are added back, as well, thus producing cash operating profits.

**Enterprise value (EV)**

The market value plus total debt outstanding, less cash and equivalents. This captures the value of the business regardless of how it is capitalized, or funded. Companies usually issue debt as part of its funding as it is cheaper than issuing shares. One way to think about enterprise value is that it is the price a buyer would need to pay in cash to own a company outright, without any its debt remaining outstanding. For example, if a business (the entire enterprise) is worth $100, and had no debt outstanding, the shareholders would own the business outright and have rights to all $100 of value. However, if the business had $30 of debt outstanding, that debt must be paid off before the shareholders get any value, so the value to shareholders (or, the equity value) is only $70.
EV/EBITDA
This valuation multiple is similar to the price/earnings multiple, but more effectively captures the effect of a business’ debt burden on its overall valuation. This is particularly true in the current market where a company can borrow at exceptionally low interest rates.

Fundamentals/fundamental analysis
The levels and trends of a company’s revenues, profits, cash flows, assets and liabilities. It also includes the company's leadership and strategy, competitive positioning and industry conditions, and economic, political and other environmental conditions. This is different from technical analysis which focuses exclusively on the movements of a security’s market price.

Market value or market cap
The total value of a company’s equity, calculated by multiplying its current share price by the total number of common shares outstanding. Market cap is short for market capitalization, which means the same as market value. The market is generally divided into large-cap, mid-cap and small-cap segments. Mega-cap refers to stocks at the upper end of the large-cap segment, and micro-cap refers to stocks smaller than small-caps.

Out of favor stocks
Stocks in which investors currently have little interest. These stocks typically have weak price trends relative to the broad market. Stocks generally fall out of favor due to lack of acceptable sales or profit growth prospects, have a negative trait that investors seek to avoid, or otherwise have low interest relative to the market’s current favorites. Often these stocks are neglected by Wall Street analysts.

Permanent impairment
When a company's underlying value is permanently reduced. This may occur due to a secular change that reduces its ability to earn higher profits, a bad acquisition or the incurrence of debt that represents irretrievable loss of value for shareholders, or some other change.

“Price is what you pay, value is what you get”
This is one of our favorite quotes, attributable to Warren Buffett, chairman of Berkshire Hathaway and one of the world’s most successful value investors, who likely heard the quote from Benjamin Graham, long considered the father of value investing. Price refers to the current market price, which is based on current market sentiment and may vary considerably from the underlying value of the company.

Price target
The share price that reflects what we believe to be the company's real value after the turnaround is accomplished, and this the price at which we would sell the stock. In some cases, price targets are raised if the underlying value turns out to be considerably higher than we initially estimated. The inputs to a price target, typically an earnings metric and a valuation metric, help us monitor the company’s progress during its turnaround. They also anchor our resolve to holding onto the shares when the price temporarily turns down.

(Real) value
The underlying, or intrinsic, value of a company's business. This may be referred to as “absolute value”. Other forms of value may include “relative value” (what a company should be worth compared to similar companies’ current valuations) and “perceived value” (what investors currently are willing to pay for a company's shares, which can vary considerably from its underlying value).
**Relative Strength**
The performance of a stock price compared to the overall market, generally the S&P 500 Index.

**Risk**
The possibility that a permanent impairment to the company's value occurs. This term is commonly used interchangeably with “volatility” but the two are not the same. Volatility refers to the changes in a company's share price regardless of the cause, while risk refers to the changes in a company's fundamentals.

**Spin-off**
When a division of a publicly traded company is carved out as a separate business with its own shares that are then sold or distributed to investors. The Turnaround Letter may invest in either the company being spun out or the (former) parent company. In many cases, spin-offs can liberate two otherwise poor-fitting companies to pursue more appropriate strategies independently which can then produce considerable value for shareholders.

**Turnaround**
When a struggling company sufficiently addresses its fundamental business problems such that it becomes more valuable to investors.

**Volatility**
The historical size and frequency of changes in a company's share price. Most academics and consultants consider volatility to be synonymous with risk, but this is an incorrect shortcut used to facilitate quantitative analysis. While volatility refers solely to stock price changes, risk refers to the changes in a company's fundamentals.
About the Expert

Bruce Kaser has more than 25 years of value investing experience in managing institutional portfolios, mutual funds and private client accounts. He has led two successful investment platform turnarounds, co-founded an investment management firm, and was principal of a $3 billion (AUM) employee-owned investment management company.

Previously, he led the event-driven small/midcap strategy for Ironwood Investment Management and was Senior Portfolio Manager with RBC Global Asset Management where he co-managed the $1 billion value/core equity platform for over a decade. He earned his MBA degree in finance and international business from the University of Chicago and earned a Bachelor of Science in finance, with honors, from Miami University (Ohio).

About Cabot Wealth Network

_Cabot Wealth Network_, established in 1970, is a trusted independent source of advice for individuals striving to take control of their investments and find the best stocks. Its 20 investment advisory services and annual Summit event deliver high-quality advice to more than 200,000 individual investors and investment professionals in 141 countries. Headquartered in historic Salem, Mass., in a converted 1934 public library Cabot Wealth employees take great pride in providing intelligent investment advice and timely, personal service without the hype and fabricated claims. Cabot is a member of the American Association of Individual Investors, Better Business Bureau, Specialized Information Publishers Association, and the Salem Chamber of Commerce.

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176 North Street • Salem, Massachusetts 01970 • 978-745-5532 • cabotwealth.com