
CLIFFORD ASSOCIATES

INVESTMENT COUNSELORS SINCE 1915

Summer 1999

Be True to Your School

By David Andrew

The lyrics of a popular Beach Boys song contain some investment advice that is still worth remembering. During periods of shifting market rotation and concerns over higher interest rates, it is critical to "stay true" to a proven investment approach.

Our approach to successful long-term investing guides us to owning many of the nation's leading companies. But even the stocks of these industry leaders can sometimes produce disappointing short-term results. When stock prices lag, as they are bound to do from time to time, we try to distinguish between company-specific and strategic issues. Practically every individual stock and industry sector will lag the overall market performance at some point in the year. Over the long run, trying to re-arrange a portfolio with stocks that are currently "in fashion" is in all likelihood a self-defeating strategy. Just as the wind changes direc-

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Summer Reading

Occasionally, clients ask us to recommend a good investment book for their summer reading. The following is a list of books, which are informative, interesting and easy to read. Each book would be a valuable addition to any investment library.

The Intelligent Investor

By Benjamin Graham, 340 pages
Harper & Row c 1973

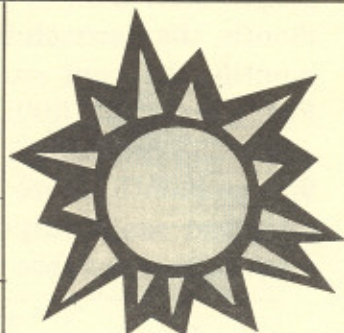
One of the best books on investing ever written. This classic text conveys the basic principles of Graham's successful approach to investing.

Contrarian Investment Strategies: The Next Generation

By David Dreman, 464 pages
Simon & Schuster c 1998

Since investment surprises are a way of life in the market, this

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INSIDE:

The Tortoise and the Hare Revisited

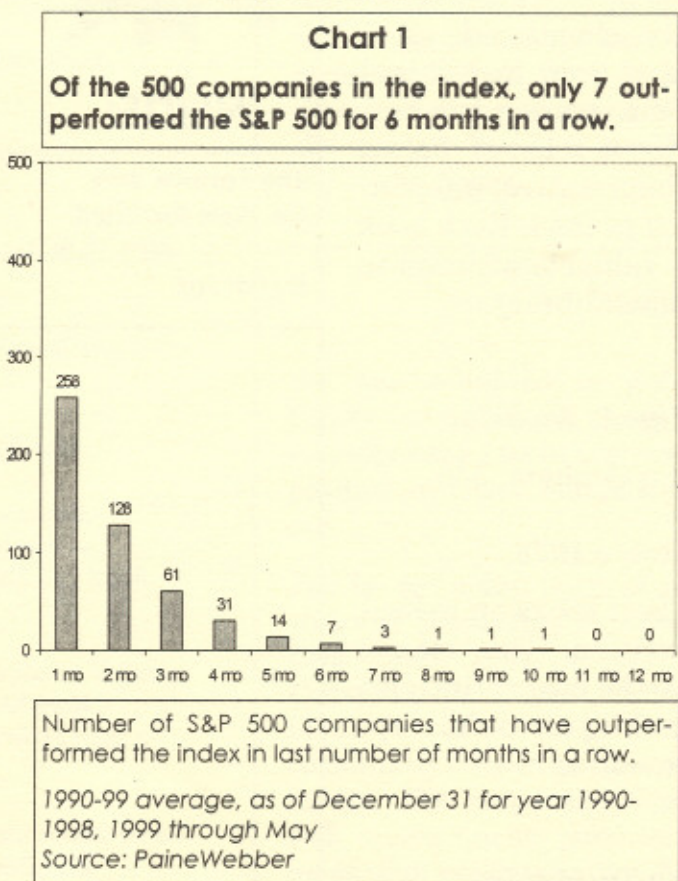
By Jim Fox

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(*"Be True," continued from page 1*)

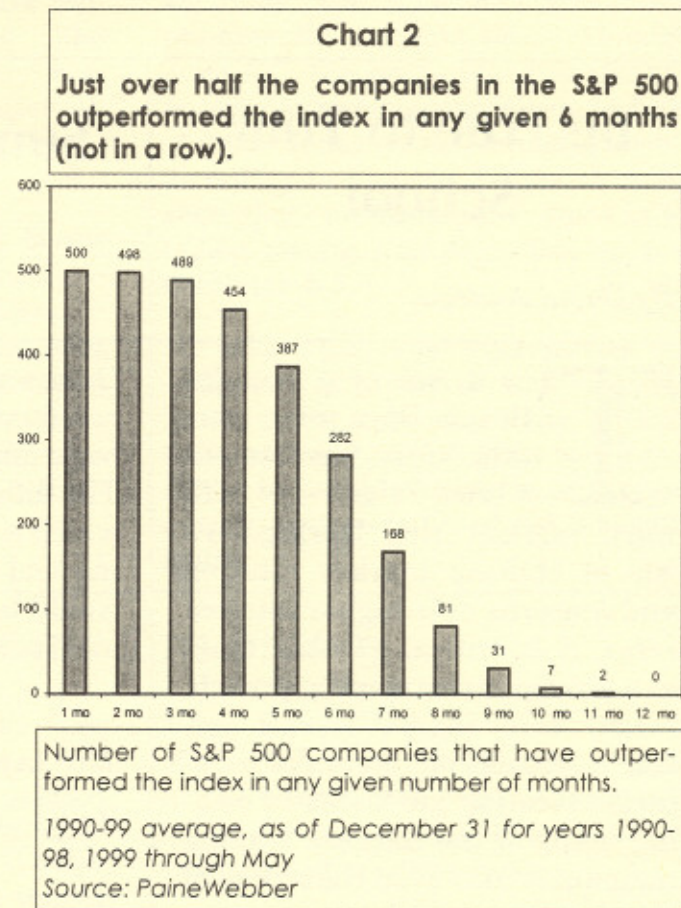
tion, so does the movement of money within favored sectors of the market. As Warren Buffett said, "In the short run, the market is a voting machine but in the long run it is a weighing machine."

There are few stocks that consistently do well month after month. A stock might surge one month, then consolidate its gains for several months. A recent study of the Standard and Poor's 500 (S&P 500) since 1990 showed that while 258 companies outperformed the index for one month, there were only seven companies that could outperform the index for six months in a row (see Chart 1).



Each year, virtually every "school" of stock selection has its day – or sometimes month – in the sun, but then also spends its share of time in the shade. A company's financial performance is usually the best indicator of the amount of "sunlight" it will receive. However, a stock's *valuation* in relation to the financial performance soon forges an anchor

on the price. Since 1990, this has resulted in an interesting pattern of performance for S&P 500 companies. The number of S&P 500 companies that can consistently outperform the index in any given number of months falls almost in half by the sixth month, as illustrated in the following Chart 2.



Successful long-term investing is more a matter of *time in the market* rather than timing the market. Sticking with companies that can consistently produce good returns has usually resulted in superior performance. Most of our companies continue to grow their revenues, earnings per share and cash flow at above average rates. Our long-term performance should, therefore, be good. However, it is inevitable that down quarters will occur. The important decision from an investment standpoint is not to abandon a proven approach just because the stock price or portfolio value falls for a period. Successful long-term investors remain "True to Their School."



("Summer Reading," continued from page 1)

book discusses ways an investor might profit from these surprises.

One Up on Wall Street

By Peter Lynch, 318 pages
Simon & Schuster c 1989

A classic book written by one of the most successful investment managers in history. This book discusses the philosophy that brought Peter Lynch such remarkable success.

Beating the Street

By Peter Lynch, 318 pages
Simon & Schuster, c 1993

A sequel to *One Up on Wall Street*, this book discusses more of the techniques of Lynch's investment philosophy.

Buffett - The Making of an American Capitalist

By Roger Lowenstein, 473 pages
Random House c 1995

This is an excellent biography of Warren Buffett, one of the most successful investors in history.

Of Permanent Value - The Story of Warren Buffett

By Andrew Kilpatrick, 636 pages
Published by AKPE c 1994

An outstanding book on the investment career of Warren Buffett.

Classics - An Investor's Anthology

Edited by Charles D. Ellis, 759 pages
Dow Jones - Irwin c 1989

The most interesting ideas and concepts from the literature of investing.

Classics II - Another Investor's Anthology

Edited by Charles D. Ellis, 618 pages
Business One - Irwin c 1991

More of the most interesting ideas and concepts from the literature of investing.

Stocks for the Long Run

By Jeremy J. Siegel, 301 pages
McGraw-Hill c 1998

An excellent guide to financial market returns and long-term investment strategies.

The Money Masters

By John Train, 296 pages
Harper & Row c 1980

Discusses the winning strategies of nine outstanding investors.

Many of these books have made significant contributions to the knowledge of investing. They are among some of the best books written on the subject. As with most investment advice, it pays to listen to the right people.

Most of these books can be obtained at any public library, bookstore or through the Internet.



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The Tortoise and the Hare Revisited

By Jim Fox

Over the years, we have consistently preached the virtues of patience and reasonable (not sensational), low-risk returns. (See David Andrew's article on page 1.)

An example of the danger of heroic performance was reported in the June 15th edition of the *New York Times*. In April 1999, the Janus 20 mutual fund was recognized as the best performing large stock fund since January 1st. It attracted cash inflows of \$7 billion in the most recent four months, according to the *Times*.

By June, the fund was recognized prominently a second time. Through June 17th, the fund ranked as the 15th worst performing general equity fund of 4,008 funds in the second quarter, according to Lipper. People choosing yesterday's performance dumped in \$7 billion just in time to watch the tortoise march by!

We believe the Janus organization is a competent provider of well-managed funds. Our concern is the public's naive approach, which looks backward, driven by past performance, and consequently ignores issues of risk and suitability.

Welcome Jim Brown

We are delighted to welcome Jim Brown to Clifford Associates. He recently joined us in the newly created position of Chief Administrative Officer.

Jim brings many years of administrative and accounting experience to our firm. Since 1990, he has served as Controller for Pilgrim Place in Claremont, Inc., a not-for-profit retirement community located in Claremont, California. His responsibilities included risk management, purchasing, retirement plan administration, finance, gift annuity program administration, investments, information systems management and participation on the executive management team.

Prior to serving at Pilgrim Place, Jim was Vice President and Trust Officer of Terre Haute First National Bank, in

Terre Haute, Indiana from 1981 to 1990. While with the bank, he worked in the finance and trust departments where he was responsible for trust operations and tax compliance.

Before joining the bank, Jim worked for six years with the national accounting firm of Ernst & Ernst. He served a wide variety of clients including not-for-profit organizations, financial institutions, retail businesses and investment companies as well as individuals in the areas of audit, retirement plans and taxation.

Jim is a graduate of Indiana University. He received his Bachelor's degree in business, with high distinction, in 1975.

We are looking forward to working with Jim.