CREATING A PORTFOLIO LIKE WARREN BUFFETT

A HIGH RETURN INVESTMENT STRATEGY

JEEVA RAMASWAMY

Creating a Portfolio Like Warren Buffett

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A High-Return Investment Strategy

Jeeva Ramaswamy

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To my mentors:
Warren Buffett and Peter Lynch

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Acknowledgments

I get numerous e-mails and phone calls asking "How was the GJ investment fund able to beat the best market index with a wide margin from its inception?" and "What is the secret behind stock market success?" I wrote this book to answer those questions, and more. By simply applying well-known Warren Buffett investment techniques I have learned how to pick stocks and manage a portfolio. All of my ideas are learned from Warren Buffett's teachings.

When I became interested in investing, I was interested in learning from the masters. I started reading Warren Buffett's partnership letters and Berkshire Hathaway's annual reports to uncover investment principles. After reading most of the books written about Warren Buffett, I reverse engineered his initial investment decision and learned about investing and practiced thoroughly. That knowledge gave me great returns, and that confidence led me to start investment funds similar to his partnership. Over the last two years I have been able to beat market indexes by the largest of margins and I performed in the top 5 percent of the hedge fund and mutual fund universe. Whenever I make a buy-and-sell decision, I try to think about what Warren Buffett would do and try to use his previous investment decisions as reference points.

I have to thank, specifically, Warren Buffett and his gracious teaching mentality and willingness to spread great investment principles to the investment community through annual reports, TV appearances, interviews, and annual meetings. He has truly given other investors a lot to write about and expand upon. Apart from being a great investor, he is also a great human being in terms of

philanthropy and living a simple lifestyle. That makes him my mentor and hero.

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PART I

WARREN BUFFETT INVESTMENT PRINCIPLES

Before you start investing in the stock market, you should have a clear understanding of investment principles so that you can profit from the stock market's cycles. A simple investing principle is "Buy low and sell high," but most of the investing public does the opposite.

When good news about a particular company appears in the press, the stock goes up. When that happens, people get greedy and buy at the high price thinking that stock will keep going up, and they can profit by selling at an even higher price than they already paid. After a couple of weeks or months, some bad news comes out about the particular company or a bad economic report or political event happens, and the stock starts coming down in price. When the price goes to less than the price they paid, stockholders get fearful and want to limit their loss or protect their capital and sell at a loss. Unfortunately after they sold, the stock starts to come up in price. Now they are kicking themselves, feeling that they sold too early.

So how do you behave in this market environment? How do you profit from this kind of market behavior? The answer is that you should have a clear understanding of investment principles. The following chapters explain investing principles written by Ben Graham and practiced and improved upon by Warren Buffett. Warren Buffett experienced many boom and bust cycles in his investing career. Those basic principles are guided him during those market cycles and made him one of the greatest stock market investors in the world. Let the journey begin.

Key Points

- Investors should have sound investing principles, patience, and confidence in their own research and belief in themselves.
- Stock investing is part ownership in the company. A business-like investing approach will help you to make intelligent buying and selling decisions.
- Long-term investing includes buying stock at attractive prices, which are less than the intrinsic value of the business, and holding that stock as long as the company's fundamentals are improving.
- Avoid permanent loss of capital. Never react to short-term price variations because of market gyrations. Analyze the underlying company fundamentals and make a rational decision.

CHAPTER 1

Replicating Warren Buffett's Investment Success

Warren Buffett learned investing from Ben Graham. Initially he practiced Ben Graham's teachings, then his principles evolved and he finally beat his mentor's investment successes. When Graham died, he left an estimated $3 million dollars. As I write this book, Warren Buffett's net worth is around $45 billion dollars. Graham once told California investor Charles Brandes, *"Warren has done very well."*[1]

Buffett started with Graham's *cigar-butt* approach, buying the stocks that are trading for less than net current asset value regardless of the company. He started reading Phil Fisher and was influenced by his partner Charlie Munger. He then slowly started to recognize the successes of growth companies. So, he started buying sustainable, competitive, growing companies with fair prices and holding them for the long term.

In this way Buffett learned investing from his mentor and eventually beat his mentor's investment success. We can learn from Warren Buffett and replicate his investment success. The returns from when he ran Buffett Partnership from 1956 to 1969 are shown in Figure 1.1.[2]

As you can see, Buffett generated a gross return of 31.6 percent compound annual return, which excludes the general partner allocation. He generated 25.3 percent compound annual net return after expenses and general partner allocation. After Berkshire Hathaway, apart from investing in the stock market, he started buying whole companies and leaving the existing managers to run the companies. Warren Buffett allocated the money generated by the

On a cumulative or compounded basis, the results are:

Year	Overall Results From Dow	Partnership Results	Limited Partners' Results
1957	− 8.4%	+ 10.4%	+ 8.3 %
1957–1958	+ 26.9	+ 55.6	+ 44.5
1957–1959	+ 52.3	+ 85.8	+ 74.7
1957–1960	+ 42.8	+ 110.8	+ 107.2
1957–1961	+ 74.8	+ 251.0	+ 81.6
1957–1962	+ 61.6	+ 299.8	+ 216.1
1957–1963	+ 94.9	+ 454.5	+ 311.2
1957–1964	+131.3	+ 608.7	+ 402.8
1957–1965	+164.1	+ 843.2	+ 566.5
1957–1966	+122.9	+1166.0	+ 704.2
1957–1967	+165.3	+1606.9	+ 832.5
1957–1968	+185.7	+2610.6	+1409.5
Annual Compounded Rate	+ 0.1	+ 31.6	+ 25.3

Figure 1.1 Buffett Partnership Return

companies. Berkshire Hathaway's book value increased 20.3 percent compounded annual return for 45 years from 1965 to 2009. Achieving such a great return for such a long time made Buffett the most successful investor of this twenty-first century.

Buffett has shared his investment principles in Berkshire Hathaway's annual letters, numerous interviews, and in speeches at different universities. If you have a goal to replicate Warren Buffett's investment success, you can do it by studying his investment principles and putting them to work for you. His overall investing principle is very simple, but execution of it requires patience and independent thinking. I am not advising you to go ahead and buy the stocks that Warren Buffett buys. Rather, you can learn Buffett's investment principles and buy your own stocks and manage your portfolio the same way he manages his. You will be able to replicate his investment successes and find success in the stock market.

Because I am sure you have your doubts, I am providing the following calculation as an example. Your full-time profession may not allow you to become a fund manager or you may not believe you will be able to build an empire like Berkshire Hathaway, and that is fine. I can understand that. You do not need to be a fund manager or build a wildly successful company. In the following example, you

can see how you can invest your own money without outside investors, starting with a modest investment amount of $100,000.

Buffett Partnership generated a 31.6 percent compound annual return for 12 years. You can apply the same return information to your initial investment of $100,000

$$\text{Final amount} = \$100{,}000 \times (1 + .316)^{12} = \$2.69 \text{ million}$$

Berkshire Hathaway generated 20.3 percent for 40 years (1969 to 2009).

$$\text{Final amount} = \$2.69 \text{ million} \times (1 + .203)^{40} = \$4.36 \text{ billion}$$

You may have more doubts about these calculations. You could argue that Buffett is a genius and others cannot generate an annual compound return like his. But, in fact, many of Warren Buffett's followers did just that and I will explain this later. So, plan to replicate just 50 percent of his investment successes in your lifetime, a reasonable and attainable goal.

15 percent compound annual return for first 12 years,

$$\text{Final amount} = \$100{,}000 \times (1 + .15)^{12} = \$535{,}025$$

11 percent return, like the Berkshire Hathaway book value, increased for 40 years.

$$\text{Final amount} = \$535{,}025 \times (1 + .11)^{40} = \$34.7 \text{ million}$$

This example covers Buffett's investing career of 52 years. Not everyone has that kind of time available. Depending on your age, you can adjust your final value depending on how many investing years you have left before your retirement. Just be confident that you, too, can make multimillions of dollars from the stock market, if you invest like Warren Buffett.

You do not need to be a genius to replicate, or at least partially replicate, Warren Buffett's investment success. You do not need a Master's degree in Business Administration (MBA) or even to run your own business. You should, at least, have interest in learning Warren Buffett's investing principles and how to implement those principles. Those factors are explained in this book. Believe in yourself, you can do it.

Before reading books about Warren Buffett, I did not know the basics of stock investing. All of my investment knowledge has come from reading books written about Warren Buffett, Berkshire Hathaway's annual letters, numerous interviews with Buffett, and the reverse engineering of his investments over many years. Each time as Warren Buffett buys new stock, I try to find out why he bought that company's stock at that specific time. Basically, I try to understand his investment reasoning.

After successfully implementing his investing principles into actual trades with my own money, I was very confident that I could handle other people's money and do the same. I did follow Buffett's footsteps and started my own investment partnership fund, GJ Investment Funds, with the same rules that he used when he started his partnership. Nowadays, we call these partnerships *hedge funds* and only accredited investors are allowed into the funds. Normally, hedge funds charge 1-to-2 percent of the management fees and 20 percent of the profit. Even if the hedge fund is down a certain year, it still charges 1 to 2 percent of the management fees on assets under management. Buffett did not use that method; he didn't charge a management fee at all. As general partner, he took 25 percent of the profit above a 6 percent hurdle rate with a high water mark. He believed he did not deserve to get paid if he did not make money for his limited partners above 6 percent. I felt the same way and used those same fund rules. When I started the fund in November 2008 using the Buffett principles, I was very successful. I beat Buffett Partnership returns with a wide margin and got to the top 5 percent of all mutual and hedge fund managers. I am very confident that Warren Buffett's investment principles will continue to guide me to deliver great returns in the future, too. I have found, and so have many others, that it is possible to replicate Warren Buffett's investment success.

For example, Edward Lampart of ESL Investments also used Warren Buffett's investment principles to build his empire. He acquired Kmart from bankruptcy, acquired Sears, and then merged both firms to form Sears Holdings Corporation. He became chairman of the firm. Sears occupies more than 40 percent of his $9 billion dollar hedge fund. The other two biggest positions belong to AutoZone and AutoNation. His employees sit on both companies' boards. These top three positions occupy more than 90 percent of the portfolio. Lampart learned investing by reverse engineering

Warren Buffett's investments. He managed to deliver more than 29 percent compound annual return using Buffett's investing principles. Another example is Appaloosa Management's David Tepper. Using distressed securities and debt, he was able to deliver more than a 28 percent compound annual return. Another example is Ian Cumming. He runs Leucadia National very similarly to the way Buffett runs Berkshire Hathaway. Leucadia stock compounded 33 percent from 1978 to 2004.

The examples are endless. I can keep going with the list, but I believe you get the point. If you are able to implement Warren Buffett's investing principles and execute them properly, you can deliver excellent returns for your investment portfolio. As an individual investor, you are in a more advantageous position than Warren Buffett. Here's why:

1. He manages a $50 billion investment portfolio and he can select only large-cap stocks. He cannot invest in small and mid-cap companies because those investments will not make much difference to his portfolio.
2. You can buy and sell your portfolio holdings faster without affecting the price of the stock; Buffett cannot do that. For example, he owns around 10 percent of Coca-Coca. If he feels that Coca-Cola's stock price becomes overvalued at the current market price and decides to sell at that price, he will not be able to sell all of his holdings at that price. It is not likely there will be a buyer for such a large amount of stock. He needs to sell slowly, without affecting the price of the stock. If he tries to sell all his holdings in a couple of days, his selling alone will knock down the price of Coca-Cola stock.

In this book, I will explain how to implement Warren Buffett's investing principles step-by-step, using actual investment examples. All you need is confidence, and to believe that you can replicate Warren Buffett's investment success. Believe in yourself. You can do it.

CHAPTER 2

Business-Like Investing

If you buy a stock in a business believing that you are a part owner of that company, you behave differently from the stock market crowd. The vast majority of stock market investors believe that the stock exchange is like a big casino and stocks are entry tickets to play the game.

The buying and selling decisions of many investors are totally price myopic and have nothing to do with company fundamentals. They try to predict what the price of the stock will do in a short time and try to profit from that price swing. They think they are investors, but in reality they are traders. They try to predict what the market will do during the short term and buy or sell their holdings depending on those market predictions. Predicting the market is impossible. History proves that "predicting" the stock market simply does not pay off. Still, traders spend tremendous amounts of time and energy trying to do just that.

During the year's end, you can see market gurus and hedge fund managers try to predict the market for the next year. You can go and look back at their predictions for previous years and find out what really happened, and you will find 90 percent of those predictions were wrong. The other 10 percent may be right, but that is because of pure luck, nothing else.

Whenever those market pundits are very bullish on the market, the market actually tanks. Whenever they are worried about the world coming to an end, the opposite happens. For example, just go to the market predictions made by many Wall Street market pundits during the end of 2008, after the financial crisis. You will find they predicted that 2009 would be a horrible year, the sky was going to fall,

and everyone should get out of the market. What actually happened? The stock market started to rally starting in March of 2009.

You cannot invest based on those predictions. Millions of market participants are taking action depending on their own perception of the market and what it will do. No one can predict what those millions of individuals think.

Do you want to bet your hard-earned money trying to predict what others will do? In order to avoid this irresponsible behavior, you need to understand a company thoroughly before investing in it. If you want to become a better investor, you need to remove the trader mentality and think like a business owner. Thinking like a business owner before you buy into any business will have you eager to find out everything about the business. You'll research past revenue, profit margin, debt level, competitive forces, sustainability of the business model, market share, management performance, company capability, and so on.

Before investing in a business, find out how that business performed in the last recession. Understand the history of the business and how it performed over the last 10 years. What is its earning growth? What is its owner growth? Gathering as much information about the company before making any decisions is referred to as *fundamental investing*. Once you know all the facts about the company, you can reasonably assume the future cash generation of the company. You can also attempt to calculate the value of the company, which is called *intrinsic value,* a calculation that will be explained in a later chapter. If you buy the stock at less than the calculated intrinsic value of the company and hold that stock for the long term, you can do reasonably well in stocks.

If you are a business owner, you do not sell your business as soon as you can get 10 to 20 percent more money for your business. Instead, you prefer to continue running your business and increasing its economic value over the long term so that you can earn maximum profit from your business. You need to have the same kind of mentality when you invest, even if you are merely purchasing 100 shares of a company.

Below is an example from Warren Buffett's investing career. Buffett started investing Berkshire Hathaway's money in GEICO in 1976.[1] Within five years, he had invested approximately $45.7 million. Due to company share buy-back programs, his stake increased to 51 percent of the company without purchasing any additional shares. In 1996, Berkshire Hathaway paid $2.3 billion to acquire the

remaining 49 percent of the company. That means 51 percent of the company's worth was $2.39 billion dollars. For calculation purpose, we assume that he invested $45.7 million in 1976. That means in 20 years, his $45.7 million, increased to $2.39 billion, which is 52.36 times the size of his initial investment.

We can calculate the compound annual return of his investment:

$$I = ((2{,}393/45.7)^{1/20} - 1) \times 100$$

Compound annual return = 21.88% per year

If he had sold his GEICO shares for a 50 or 100 percent gain, the investment might not have grown to 52.36 percent total return. How was it possible? The answer is because he had the mentality of a business owner, not one of a trader.

GEICO stock might have gone up or down in those 20 years. If he had acted like a trader, he might have sold for a quick gain and moved on to other securities. He might have invested that money in other stocks, which might have lost money. As a business owner, he believed that GEICO had a lot of earning potential. He did not want to leave that great potential reward for short-term profit gain. Because of the business-like approach with a long-term time horizon, Buffett was greatly rewarded.

We can also use Berkshire Hathaway as an example. Buffett took over the company in 1965 with a business-owner mentality. Initially he thought of turning around the textile operation, but found that came with a large number of obstacles. He used the cash flow from Berkshire to buy insurance companies and then used the insurance companies' premiums to buy other businesses. When he liquidated Buffett Partnership, he paid cash or Berkshire Hathaway shares to the limited partners, depending on their preferences. Most of the limited partners stayed with him, and for good reason. The Berkshire Hathaway book value increased 434,057 percent from 1964 to 2009. The stocks traded almost identically to the book value, a 20.3 percent compounded annual return.

If you invested $10,000 in Berkshire Hathaway in 1965 and kept that stock until the end of 2009, that money would be worth $43.4 million. If, however, you acted like a trader and sold your position as soon as it doubled, you would have lost a great fortune. The limited partners who stayed in Berkshire Hathaway became multimillionaires. I was fortunate to meet a couple of them at one of Berkshire Hathaway's annual meetings.

The business-owner type approach to investing made all of those limited partners a great deal of money. Warren Buffett did not sell any of his shares during those 44 years, because as a business owner he knew the potential of his company and what kind of potential reward he could get in the future.

During Buffett's investing career, there have been many down times, including recessions, real estate bubbles, the 2001 technology bubble, the 1987 crash, and many more. Still, he persisted and generated a 21 percent compound annual return for Berkshire Hathaway shareholders. He did so by owning businesses and buying shares in wonderful companies. Berkshire Hathaway shares have lost more than 50 percent six times over the years since Buffett took over. This did not bother Buffett. He managed to continue thinking like a business owner. He always knew that Berkshire Hathaway's operating companies would earn great amounts of money in the future.

During the recent 2008 recession, revenues of Berkshire's operating companies decreased more than 30 to 50 percent. Berkshire Hathaway shares decreased from around $146,000 per share for Class-A shares in February 2008 to as low as $70,050 per share in March 2009, marking a 52 percent drop. Buffett's net worth decreased 52 percent. The stock price may have bothered him, but he did not panic and sell Berkshire Hathaway shares at the bottom. As a business owner, he knew the economy would begin to recover and his operating companies would increase revenues and earnings. That is just what happened. The Berkshire Hathaway operating companies' revenue started to increase around 30 percent to 50 percent from the low point in two years. Berkshire Hathaway stock also recovered and was trading at around $120,000 in December 2010.

As an investor, if you hold 10 to 20 diverse businesses, you will do fine in the long term. When you have a business-owner mindset, market price swings will not bother you. But that is not human nature. Whenever we see the price of our stocks drop, it is in our wiring to react and sell the stock before it goes down further. As an investor, you need to think like a business owner and restrict that human urge to react. Thinking like a business owner will cause you to behave differently. When you do not see fundamental deterioration in a company, daily price swings should not bother you. When the bargain opportunity exists, you can buy more shares at bargain prices, because the traders of the world will certainly react by abandoning ship and selling.

To provide a recent example, in May 2010 the news of the debt crisis in Greece spread quickly in the financial media, causing the market to free fall. The Dow dropped from 11,151 to 10,380 in five trading days.

On May 6, 2010, the Dow dropped about 1000 points as the result of a technical glitch and closed the trading day around negative 350 points. All the pundits on television were talking as though the world was going to come to an end. They urged us to sell holdings and short securities to earn money from the downturn. If anyone believed in such market prediction and acted, they likely would have lost money on the following Monday. During the following weekend, the European Union announced a $1 trillion bailout and the Dow soared 404 points on May 10, 2010.

If you had a business-owner mindset, you might have raised the following questions:

1. In your portfolio, what percentage of revenue is coming from Greece?
2. Was the company going to generate 7 percent less revenue because of this problem in Greece?

If your company did not do any business in Greece, the revenue and earnings capability of the businesses did not change. Therefore, you should have ignored the market price of your company shares. If your portfolio had no companies with exposure in Greece, you should have left your portfolio alone. Even if your companies had exposure to Greece and earned around 2 to 5 percent revenue and earnings from there, you only needed to adjust your earnings projection and calculate the reduced intrinsic value of the company. If the price of the stock was trading below the intrinsic value, you could have left it as it was. When the market is falling, do not panic and sell your position. If you know the true worth of the business, you can ignore the market prices and take advantage of the opportunity to buy more shares.

Whenever businesses try to institute new initiatives to improve, those changes take multiple quarters or years to reflect the bottom line. Those initiatives might be reducing costs, introducing new products or services, penetrating a new market, spinning off divisions, or acquiring other businesses to grow revenue. Therefore, upon getting word of such initiatives, you cannot buy stock today

and expect those changes to happen quickly and increase stock price. Instead, you need to be patient until those initiatives deliver the expected results.

If one of your existing holdings gets into trouble or a temporary downturn, you should not sell that position. If you feel that the problem is temporary, the current management can fix the problem or the business is in the process of fixing the problem, you should hold that stock. Doing so gives you a better return after the business fixes the problem. Below is an example from my investment in Horsehead Holdings Corp., symbol ZINC.

Horsehead Holding Corp. engages in the production and sale of zinc and zinc-based products in North America. The company products include Prime Western (PW) zinc metal, zinc oxide, and special high-grade (SHG) zinc metal. In addition, the company recycles electric arc furnace dust, a hazardous waste product generated by steel mini-mills. An accident happened in one of the company's production plants in Pennsylvania on July 23, 2010. The following is the announcement from the company regarding the accident.[2]

Horsehead Holding Corp. Reports Explosion and Two Fatalities at its Monaca, PA Plant, July 23, 2010

Pittsburgh, PA, July 23, 2010—Horsehead Holding Corp. (Nasdaq: ZINC) reported today that on July 22, 2010 an explosion occurred at its Horsehead Corporation Monaca, PA facility. The explosion, which occurred around 4:30 p.m., resulted in two fatalities and injuries to at least two employees in the plant's refining facility. The Company is honoring the request of the families to not release the names of the deceased and injured employees. Both injured employees were treated and released from local hospitals yesterday evening. The Company's President and CEO, Jim Hensler, said, "We are deeply saddened by the loss of our co-workers and most concerned about our employees and their families; our initial efforts are directed to helping them. The exact cause of the explosion is unknown and is currently under investigation."

The Monaca plant produces zinc metal at its smelting operations and refined zinc metal and zinc oxide at its refining operation. The zinc refinery has been temporarily shut down pending an accident investigation. The Company is assessing the damage and the time it will take to complete repairs. The smelter will continue to produce zinc metal during this period. The Company has notified its insurers and will be actively working with customers to minimize supply disruptions.

After the announcement, on that particular day, the stock lost 9.51 percent and closed the day down 4.5 percent from the previous day's closing. The announcement said the plant was going to shut down temporarily for accident investigation. As soon as negative news was published, the stock lost 9.51 percent and was trading at $7.32 per share. Below is an announcement that was published five days later regarding an update of the incident.

Horsehead Holding Corp. Provides Update on Operations at its Monaca, PA Plant, July 28, 2010

Pittsburgh, PA, July 28, 2010—Horsehead Holding Corp. (Nasdaq: ZINC) today provided an update on the incident that occurred at its Monaca, PA facility on July 22, 2010, which resulted in two fatalities in the plant's zinc oxide refining facility. The zinc refinery remains on temporary shutdown pending completion of an investigation and assessment of the damage. Teams from the U.S. Occupational, Safety and Health Administration (OSHA) and the U.S. Chemical Safety & Hazard Investigation Board (CSB) are investigating the cause and the circumstances that may have contributed to the occurrence of this incident. Horsehead is strongly committed to the safety of its employees, contractors and visitors and is cooperating fully with these investigations. In addition, the Company's insurance underwriters and the Company are conducting their own investigations into the cause and the circumstances that contributed to this incident. The United Steel Workers union is also participating in the investigations.

A preliminary assessment of the damage indicates that each of the 10 columns used to produce zinc oxide and refined zinc metal in the refining facility will need to be rebuilt before production can be safely restarted using these columns. It was further determined that the rebuilding process will be delayed pending results from the accident investigation to assure that all safety measures are considered before production begins. The investigations may take several weeks to complete. It is anticipated that it could take several months for production capabilities in the refining facility to be fully restored. In the meantime, until the full extent and timing of repairs is known, the Company has decided that all employees at the Monaca facility will remain on the payroll and continue to receive benefits.

The Company's President and CEO, Jim Hensler, said, "We are committed to safety and restoration of our operating capabilities and are working hard to provide support to our customers."

While the smelting facility and other operations at the Monaca plant remain active, they are operating at a reduced rate. The smelting facility is currently

(*Continued*)

operating five of its six furnaces producing zinc metal. The operating level of the smelter will be adjusted based on market conditions and as operations at the zinc refining facility are restarted. The full financial impact of this incident is not known at this time. The Company expects that the cost of repairs and the loss of revenue from its zinc oxide sales during the rebuilding period, which historically have represented 40% of the Company's revenues, will be partially offset by increased metal sales and will be subject to recovery under the Company's business interruption and property insurance.

"Our thoughts and prayers continue to go out to the family and friends of Jim Taylor and Corey Keller who were fatally injured in this incident," said Horsehead President and CEO Hensler. "We support the initiative taken by the United Steelworkers in establishing a memorial fund on their behalf. We encourage anyone wishing to make a donation to send a check made payable to the "Keller & Taylor Memorial Fund" and mail it to USW Local 8183, 1445 Market St., Beaver, PA 15009," Hensler added.

The announcement clearly states that five of six furnaces would be operating during the inspection period, and that increased metal sales, along with company insurance, partially offset the revenue loss. Even after the announcement, the stock did not increase much. On July 28, 2010 the stock closed at $7.78 per share. This temporarily fixed the problem and appeared to be a good buying opportunity.

On August 1, 2010 the company announced that it had found the root cause of the accident and was working on fixing the issues. Horsehead announces it would restart the facility on December 21, 2010. The announcement follows.

Looking at Figure 2.1, consider that if you bought the stock after the announcement on July 28, 2010 that confirmed the problem would be fixed in three to six months, you likely could have bought stock at around $7.78 per share. The restarting facility announcement came on December 21, 2010 when the stock was trading at $13.04 per share. This five-month holding period experienced a 67.60 percent return. Thinking like an owner instead of a trader would have given you patience and led you to experience the return. On the contrary, if you panicked and sold your shares when the company announced the bad news, you likely would have lost the upside.

The main focus of mutual fund and hedge fund managers is to generate maximum returns. Those funds report their performances