

In mid 2010 I was asked to give a presentation to my daughters' grade 4 class about investing and the stock market. The following pages contain a copy of that presentation. I believe that investor education should start early. Here's what I had to say about the presentation in McValue Newsletter #4:

Compounding in Reverse

Fortunately for me I inherited my mother's phobia of debt. It has come in handy the last few years. In light of the discussion above I have a favour to ask of each of you. Please take the time to educate your children on the perils of excessive debt and spending beyond one's means. Teach them about the power of compounding and the benefits of starting to invest early.

I was recently asked to give a presentation at my daughters' school on the topic of investing and the stock market. The presentation is attached and was structured to make the subject fun for kids. On further thought, feel free to pass it along to any politicians that you know as well.

Michael McCloskey

Investing and The Stock Market

June 14, 2010

Overview

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Pop Quiz

The Magic of Compounding

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Introduction

What do I do for a living?

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- 8 years of investment banking experience at Cormark
- Previously practiced law (Corporate Finance and M&A) for 7 years as a partner at a major Toronto law firm

I help people buy and sell companies:



\$1,270,000,000
Tender Offer for HBC's
Common Shares and Conv.
Debentures by



Maple Leaf Heritage Investments
Acquisition Corporation

Managing Soliciting Dealer
& Financial Advisor
to MLHI

March 2006



\$326,000,000

Sale to



Advisor to
Special Committee of VFC

April 2006

I help companies access capital:



\$33,000,000

Sole Underwriter

February 2010



\$200,000,000

Initial Public Offering

Lead Manager

May 2008

The Time Value of Money – Pop Quiz

Question #1:

Would you rather have \$100.00 today or \$100.00 a year from now and why?

Question #2:

What is passive income?

Question #3:

What is inflation? (hint – see sign from 1905 below)



The Magic of Compounding

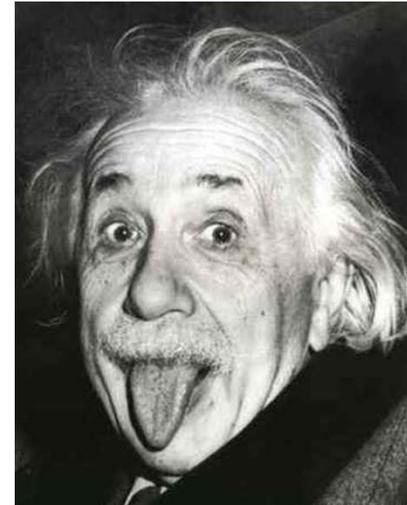
If I have \$100.00 today and invest it at 4%:

1 Year From Now: \$104.00

If I reinvest all of that money at the same rate .

2 Years From Now: \$108.16

Where did the “extra” 16 cents come from?



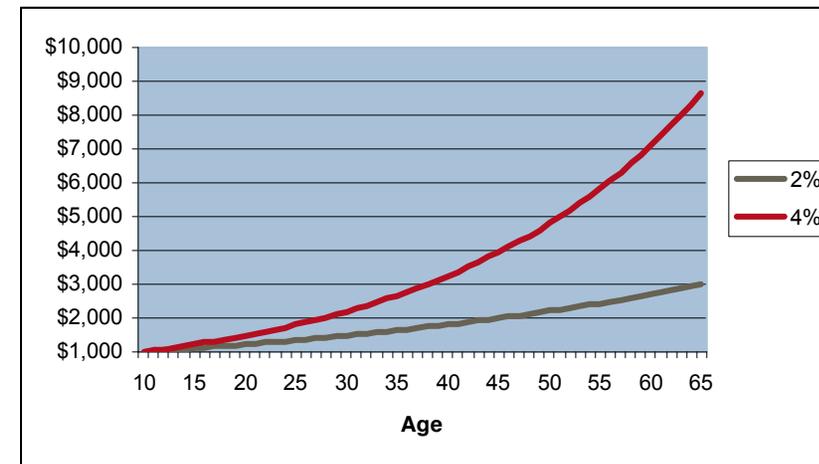
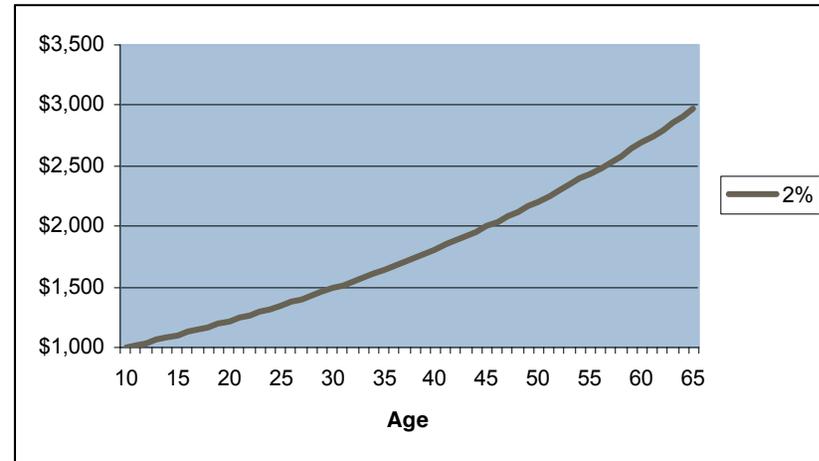
"Compound interest is the eighth wonder of the world.."

The Magic of Compounding

What if you invested \$1,000 today and left it to grow until retirement (age 65)?

- Savings account (2%)
- Fixed Income / Bonds (4%)

Age	2%	4%
10	\$1,000	\$1,000
11	\$1,020	\$1,040
12	\$1,040	\$1,082
13	\$1,061	\$1,125
14	\$1,082	\$1,170
15	\$1,104	\$1,217
16	\$1,126	\$1,265
17	\$1,149	\$1,316
18	\$1,172	\$1,369
19	\$1,195	\$1,423
20	\$1,219	\$1,480
21	\$1,243	\$1,539
22	\$1,268	\$1,601
23	\$1,294	\$1,665
24	\$1,319	\$1,732
25	\$1,346	\$1,801
~		
55	\$2,438	\$5,841
56	\$2,487	\$6,075
57	\$2,536	\$6,318
58	\$2,587	\$6,571
59	\$2,639	\$6,833
60	\$2,692	\$7,107
61	\$2,745	\$7,391
62	\$2,800	\$7,687
63	\$2,856	\$7,994
64	\$2,913	\$8,314
65	\$2,972	\$8,646

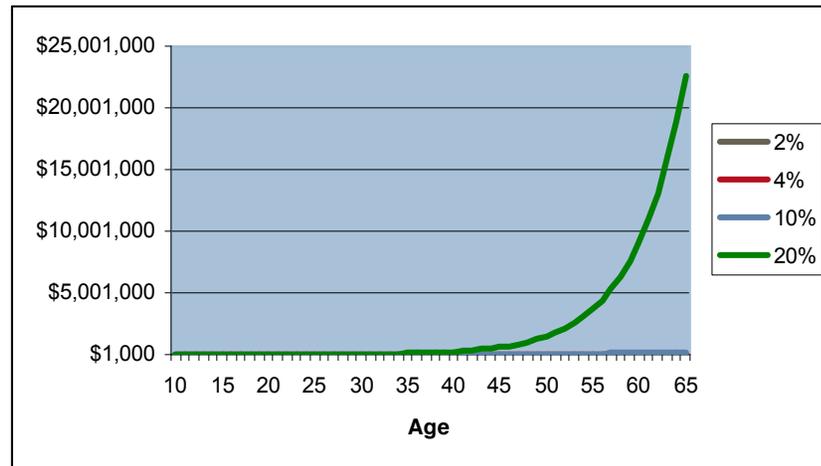
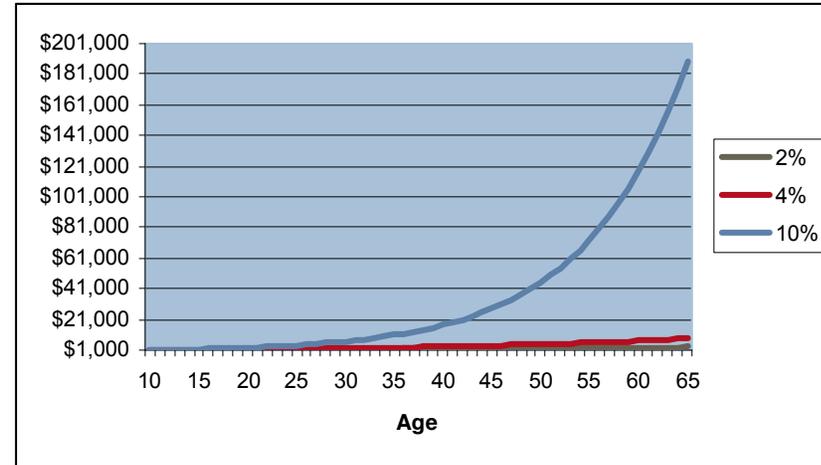


The Magic of Compounding

What if you invested \$1,000 today and left it to grow until retirement (age 65)?

- Stocks / Equities (10%)
- Best Investors of All Time (20%)

Age	2%	4%	10%	20%
10	\$1,000	\$1,000	\$1,000	\$1,000
11	\$1,020	\$1,040	\$1,100	\$1,200
12	\$1,040	\$1,082	\$1,210	\$1,440
13	\$1,061	\$1,125	\$1,331	\$1,728
14	\$1,082	\$1,170	\$1,464	\$2,074
15	\$1,104	\$1,217	\$1,611	\$2,488
16	\$1,126	\$1,265	\$1,772	\$2,986
17	\$1,149	\$1,316	\$1,949	\$3,583
18	\$1,172	\$1,369	\$2,144	\$4,300
19	\$1,195	\$1,423	\$2,358	\$5,160
20	\$1,219	\$1,480	\$2,594	\$6,192
21	\$1,243	\$1,539	\$2,853	\$7,430
22	\$1,268	\$1,601	\$3,138	\$8,916
23	\$1,294	\$1,665	\$3,452	\$10,699
24	\$1,319	\$1,732	\$3,797	\$12,839
25	\$1,346	\$1,801	\$4,177	\$15,407
~				
55	\$2,438	\$5,841	\$72,890	\$3,657,262
56	\$2,487	\$6,075	\$80,180	\$4,388,714
57	\$2,536	\$6,318	\$88,197	\$5,266,457
58	\$2,587	\$6,571	\$97,017	\$6,319,749
59	\$2,639	\$6,833	\$106,719	\$7,583,698
60	\$2,692	\$7,107	\$117,391	\$9,100,438
61	\$2,745	\$7,391	\$129,130	\$10,920,526
62	\$2,800	\$7,687	\$142,043	\$13,104,631
63	\$2,856	\$7,994	\$156,247	\$15,725,557
64	\$2,913	\$8,314	\$171,872	\$18,870,669
65	\$2,972	\$8,646	\$189,059	\$22,644,802



The Stock Market

What is a Stock?

- A stock represents an ownership interest in a business

What is the Stock Market?

- It is a place where buyers and sellers of stocks meet (electronically)
- Buyers indicate the price they are prepared to pay for a set amount of stock
- Sellers indicate the price they are prepared to sell a set amount of stock for

What is the Purpose of the Capital Markets?

- Allows savers of capital an opportunity to invest to earn a return / profit
- Allows users of capital (businesses) to access funds needed to operate their businesses

Case Study – The Lemonade Stand



"I wanna own a Ferrari by the time I'm 16."

Price per Cup	\$0.50
Cost of Goods Sold (lemons, sugar, cups)	\$0.25
Gross Profit	<u>\$0.25</u>
Other Expenses (Rent, Salaries)	\$0.00
Income Taxes	\$0.00
Net Income (Profit)	<u>\$0.25</u>

If you sell 1,000 cups in a year

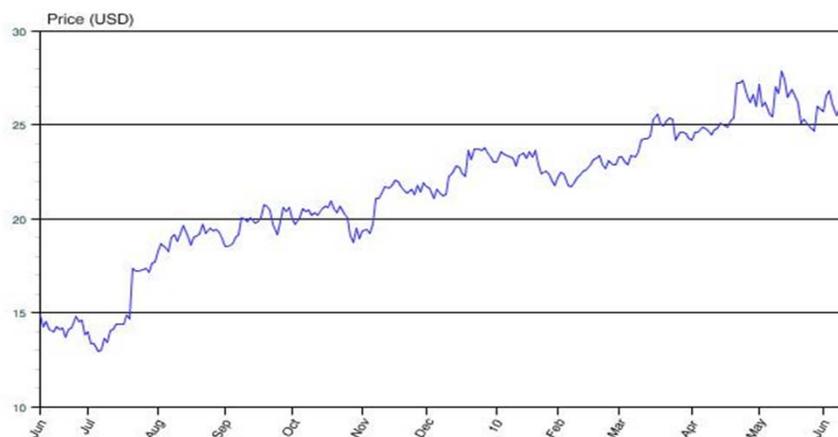
Revenue	\$500.00
COGS	<u>\$250.00</u>
Gross Profit	<u>\$250.00</u>

How much would you pay for this business?

Real Life Case Study: Starbucks Corp. (Nasdaq:SBUX)



Equity Performance



\$27.15 0.17 (+0.63%) 6/11/2010 3:59 PM

Open \$26.77
 Previous Close \$26.98
 Daily Range \$26.74 - \$27.21
 52-Week Range \$12.76 - \$27.93
 Market Cap \$20.23B
 P/E Ratio 26.30
 Dividend 0.40
 Volume 8,637,631
 Average Daily Volume 10,501,500

Key Financials¹

For the Fiscal Period Ending	12 months Jun-30-2005A	12 months Jun-30-2006A	12 months Jun-30-2007A	12 months Jun-30-2008A	LTM ² 12 months Sep-30-2008A	12 months† Jun-30-2009E
Currency	CAD	CAD	CAD	CAD	CAD	CAD
Total Revenue	63.0	80.0	93.7	120.6	131.0	145.7
<i>Growth Over Prior Year</i>	42.2%	27.0%	17.2%	28.6%	31.0%	20.8%
Gross Profit	25.1	31.7	36.0	50.8	58.8	-
<i>Margin %</i>	39.8%	39.6%	38.4%	42.1%	44.9%	-
EBIT	13.9	14.5	10.9	18.3	26.0	28.9
<i>Margin %</i>	22.1%	18.2%	11.7%	15.2%	19.9%	19.8%
Net Income	10.3	10.6	20.6	11.9	17.4	-
<i>Margin %</i>	16.3%	13.3%	22.0%	9.8%	13.3%	-
Diluted EPS Excl. Extra Items³	0.546	0.503	0.422	0.513	0.756	0.905
<i>Growth Over Prior Year</i>	24.5%	(8.0%)	(16.0%)	21.4%	70.9%	77.5%

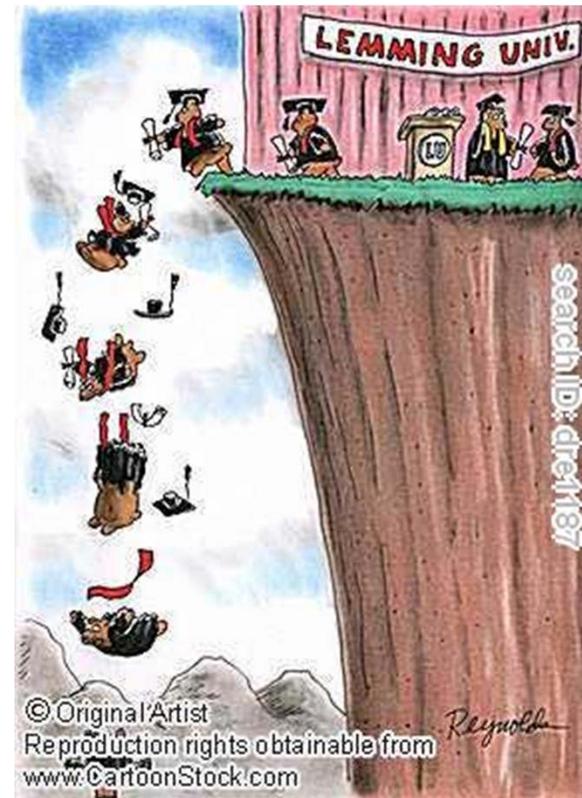
Investing

What do I need to learn/possess to be a good investor?

- Basic Math
- Accounting (the language of business)
- An understanding of psychology and human behavior
- A natural curiosity
- A love of reading and learning
- An ability to think and act independently
- A willingness to learn from your mistakes

All of the additional information you need is free:

- Financial statements are on company websites
- Canada: www.sedar.com
- U.S. <http://www.sec.gov/edgar.shtml>
- Berkshire Hathaway Annual Reports



World's Greatest Investor



Independent thought is key – don't follow the crowd!

*Investors should try to be fearful when others are greedy
and greedy when others are fearful.*

*You're neither right nor wrong because other people agree
with you. You're right because your facts are right and your
reasoning is right.*

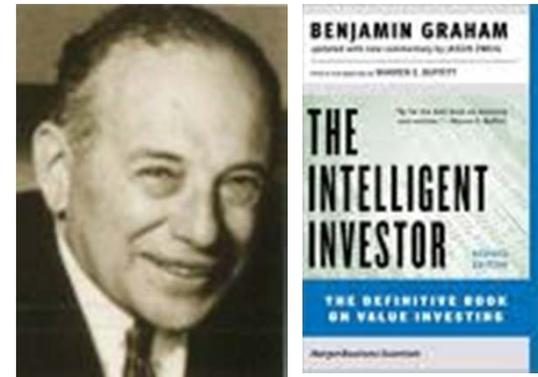
Mr. Market

The Intelligent Investor by Benjamin Graham is probably the best book on investing ever written

- Two central concepts:
 1. Mr. Market (Chapter 8)
 2. Margin of Safety (Chapter 20)

Who is Mr. Market?

- An allegory for the stock market
- Don't look at movement in a stock's price to tell you if a stock should be bought or sold
- Every day he will offer you a price for stocks that you want to buy or sell
- You can't hurt his feelings if you keep saying no. He will keep coming back over and over again!
- Key is to make Mr. Market your servant and not your guide

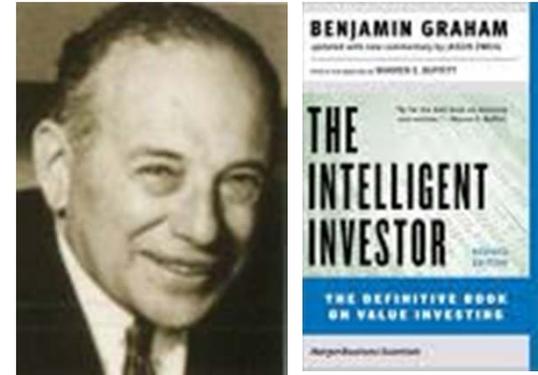


The Father of Value Investing –
Benjamin Graham

Margin of Safety

What is a Margin of Safety?

- Concept of only buying stocks at a price that is significantly below their true worth or “Intrinsic Value”
- Once you have determined what a stock is worth, see if Mr. Market is offering to buy/sell the stock to you at an attractive price
- For example, if we have done our analysis on Coca Cola and believe it to be worth \$20 per share
 - Don't buy it at \$20 or above just because it looks like it is “going up”
 - Don't buy it at \$19 – not cheap enough
 - Buy it at \$15
- The challenge is that for good companies, their stocks only occasionally sell for bargain prices
- Key is to be patient
- Wait for the market to overreact to certain events (panic)



What is a Stock Worth?

A stock's worth (or Intrinsic Value) is the discounted value of the cash that can be taken out of a business during its remaining lifetime

Companies can do 3 things with the extra cash that they generate:

1. Pay dividends to their shareholders
2. Spend the money on new opportunities
3. Buy back their own shares

Ultimately, a stock will reflect the value of the business over time

How Do I Pick Stocks?

Step 1 - Identify attractive businesses that are publicly traded

- Do I understand what they do?
- Is the business a good one? (moats, cash flow)
- Is management “shareholder friendly”?
- Is the business predictable?



Great companies with competitive “moats”

Step 2 – What is the stock worth?

- Calculate the value of future cash flows that you would own through your purchase of the stock

Step 3 – Is Mr. Market offering me a bargain?

- If yes, buy it
- If no, go take a nap



Companies that I tend to avoid – great products / services but poor returns or too difficult to predict change

How Can You Invest? (with Mom and Dad's help)

The first step is spending less than you make

- Without savings you won't have money to invest

Until you develop the tools to allow you to invest on your own

- Consider low cost index funds
- Can get exposure to any country around the world
- Funds designed to mimic the market but minimize fees
- Small amounts on a consistent basis is a smart strategy

Another alternative is to buy mutual funds

- Professionally managed
- Be aware of management fees
- Make sure that the fund manager has outperformed the market over the last 5 years (after all fees)
- Most don't

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"...and help my parents to pick the right mutual funds in my portfolio for my education..."

search ID: jfa0247

Verna Oller Video

<http://www.youtube.com/watch?v=jRqTIPRN7GI>

Homework Assignments

Students: Due date is after university

- Read The Intelligent Investor by Benjamin Graham
- Read Warren Buffett's Annual Reports to Shareholders of Berkshire Hathaway
- Read, read, read and never stop learning !!!!!!!!!!!

Ms. Godfrey – Read McValue Portfolio Newsletters

