NATE'S NOTES

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"Confessions of a Newsletter Writer"

- How I wound up writing an investment newsletter
- The newsletter's approach/philosophy
- Lessons learned over the past 23 years
- Current thoughts on the market / my "top picks"
- Q & A

A quick bit about Nate

Nate's Background

- Grew up in Healdsburg, CA (60 miles north of San Francisco - "the wine country")
- degree from UC Berkeley
  - started in EE/CS
  - Cal Marching Band ('87-'91)
  - BA Mathematics '92

Nate's Background

- *Medical Technology Stock Letter* and *AgBiotech Stock Letter (1988 - 1994)*
- "corporate finance" in San Francisco (1994)

Nate's Background

- publishing *Nate's Notes* since February 1995
  - concurrently taught math to junior high students for 8 years ('97 - '05)

- Manager of *Elensius Capital, LP* (currently "in hibernation") how did I wind up writing a newsletter?

How I became a newsletter writer

- What started it? “that annoying phone call” at 6:31 a.m. every day

How I became a newsletter writer

- thinking about Newmont Mining got me thinking about gold… and the economy… and the stock market
- decided that "gold" wasn't where it was at anymore, but become OBSESSED with the stock market!

How I became a newsletter writer

- Obsession with stock market leads to falling behind in school… and I end up withdrawing from school during the spring semester
- during my time off, I get a job at one of the cafés near campus
- “Martin”… leads to Jim… leads to *MTSL*

How I became a newsletter writer

- While at *Medical Technology Stock Letter,* started to learn about the stock market first-hand
- biotech was "new," and Jim was "the man" so analysts and large investors were always calling and/or stopping by
- I was mostly filing and answering phones, but loved the idea of doubling my money every five or six months!

How I became a newsletter writer

- As time went by, began to learn quite about the biotech industry
  - meeting with companies
  - taking a few MCB classes
  - just following the industry
- also learned about "small business"

How I became a newsletter writer

- I became especially intrigued by the companies we were following in *ABSL*, and when I finished my degree, I became the Associate Editor of *The AgBiotech Stock Letter*
- Wrote *ABSL* for another 18 months, but then decided it was time to move on…

How I became a newsletter writer

- “corporate finance” in San Francisco
- after four months, realized it wasn’t going to work…
- spent a few months wondering what to do next, and…
- launched *Nate’s Notes* in February 1995

newsletter’s approach and philosophy

The Newsletter

- focused on long-term growth stock investing
  - emphasis on biotech and high-tech stocks, though other sectors included as well
  - also includes ETFs for diversification and “hedging vehicles”

The Newsletter

- 8 pages in each monthly issue
  - Model and Aggressive Portfolios
  - currently includes a Covered Call Portfolio (soon to become a separate service)
  - recommendations broken into "core" vs. "non-core" stocks
- 1-3 pages Inter-issue Commentary, Special Alerts, etc. (available between issues via website only)

The Newsletter's History

- "the early years" (1995-98)
  - didn't want to compete directly the *MTSL*
  - was going to become famous for picking winners in the "microcap" arena
  - was warned by early supporters that it was an *extremely* difficult area to for small investors to make money in… turned out they were right!
  - after losing roughly 10% in the Model Portfolio (despite one of the largest positions going to zero!), took advantage of the sell-off in late '97 to shift focus slightly and launch the Aggressive Portfolio

The Newsletter's History

Returns since 10/31/97

DJIA	+66.4%
Nasdaq	+74.4%
Model Portfolio	+648.6%
Aggressive Portfolio	+1,453.9%

So… What is the newsletter's approach?

- Focus is on finding companies that have compelling long-term stories
  - "What if the market closed tomorrow…"

So… What is the newsletter's approach?

- Emphasis is on biotech and high-tech stocks
  - "it's what I know"
  - these are industries with the best pure growth potential
  - stocks are typically volatile, and volatility=opportunity

So… What is the newsletter doing now?

- After clearing the "compelling story" hurdle, must pass the *"is this the sort of story that Wall Street will ever get interested in?"* test
  - have learned to rely on more than just *my* hunch
  - experience has taught me that the market cap usually needs to be *at least* $250 million
  - less relevant – but still important – is insider ownership (and associated buying/selling trends)

So… What is the newsletter doing now?

- And, finally, before making it into the newsletter, a stock has to be in something other than a downtrend
  - it took a little over a decade to sink in but I finally accepted the fact that virtually every time I got involved with a stock "because it had gotten cheap"… it got even cheaper
  - ideally, a stock has already made a move up, spent a considerable period of time "consolidating," and is starting to "break out" again… though I'm not opposed to buying stocks that have simply formed a long basing pattern after a decline but have not started to move up in dramatic fashion yet

So… What is the newsletter doing now?

- “reasonable” diversification
  - historically 18-22 stocks in newsletter (currently 20)
  - fewer than 15 suggests may become too heavily weighted in largest positions
  - more than 25 = “diminishing returns” when it comes to work involved vs. benefits gained
  - *Nate’s Notes* may go to 25 when new service is launched

So… What is the newsletter doing now?

- stay focused on long-term, add to/subtract from positions as market conditions indicate
  - some of the best (and still favorite) stocks in the newsletter have been there for over 12 years now!

Things I do NOT do…

- use P/E ratios
  - can be slightly useful when looking at *large* companies (or baskets of stocks, i.e. S&P 500), but too easily skewed for smaller companies… especially those companies that are growing quickly

Things I do NOT do…

- use “numerical” technical analysis
  - though technical analysis can help spot certain trends, what I am really looking for is the “shape” of patterns… and they are much easier to spot with a glance at a chart using the human brain/eye than they are to identify with “algorithms”

Things I do NOT do…

- talk to management very often
  - "Reg FD" changed the way the game is played
  - in hindsight, often found that all that was happening was that I was "getting sunshine blown in my ear"

Things I do NOT do…

- invest as a “contrarian”
  - everyone likes to think they are one, but in reality, the only people who really need to be contrarians to establish or exit positions are the Warren Buffets of the world…
  - …after all, most individual investors can get out of a position with a single click of a mouse these days

Things I do NOT do…

- invest as a "contrarian"
  - our job is to identify trends, and then be on the correct side of them until they *actually* change direction (especially since the stocks I tend to follow often make moves that go *WAY* beyond what seems reasonable in both directions)
  - naturally, there are exceptions to this rule… but even then, being contrarian simply means being mentally prepared to change our game plan *"sometime soon,"* not actually changing "just to prove we're independent thinkers"

lessons learned

Lessons Learned *(about the market)*

- Not going to be right 100% of the time
- Goal is to recognize AND ACCEPT when we're not right… and then fix it! (usually means selling)
- And when we ARE right, the goal is to stay right for as long as possible!

Lessons Learned *(about the market)*

- It is very important to only own *quality* stocks - traders might buy "any old stock," but investors know better ("if the market closed tomorrow…")

Lessons Learned *(about the market)*

- Do your homework, and then have confidence in your decision
- Don't let others talk you out of a decision to invest once you've made up your mind (but do always keep an open mind and periodically revisit your rationale behind the investment)

Lessons Learned *(about the market)*

- In the long run, "the masses" are never right
- The fear-greed cycle (almost) always looks the same when it comes to chart patterns

Lessons Learned *(about the market)*

- Keep in mind that the fundamentals of a company and its stock price are rarely ever actually in synch (though they do often trend in the same direction)

Lessons Learned *(about the market)*

- Stocks go from "undervalued" to "overvalued" and back again over and over and over… but we never know ahead of time how large the "overshoot" will be

Lessons Learned *(about the market)*

- Trends often go on longer than seems reasonable
- You should always attempt to position your portfolio based on what the market is *actually* doing rather than on what you *think* it should be doing

Lessons Learned *(about the market)*

- Spend a lot of time looking at charts of winners and losers over the years
- If a chart doesn't match the typical "topping out" or "bottoming out" pattern, the odds suggest the move isn't over yet

Lessons Learned *(about the market)*

- Insider buying is always worth noticing
- Insider selling is rarely worth worrying about (with certain exceptions)

Lessons Learned *(about the newsletter industry)*

- The internet has changed *everything* (duh)
- “old days” vs “today”
  - used to take a lot of time to format, print, fold, stuff, mail
  - likewise, took time to receive and digest
  - now, takes almost no time to produce a “newsletter”

Lessons Learned *(about the newsletter industry)*

- Rather than 50-150, there are now literally thousands of newsletters, many of which are free
- Many aren't even focused on actually posting good returns - they're after eyeballs for advertising and email addresses for rental
- My job is to convince folks that "you get what you pay for"

Lessons Learned *(about the newsletter industry)*

- It is hard to please everyone!
  - aggressive vs. conservative
  - shorter-term vs. longer-term
  - “sophisticated” vs. “just starting out”
  - “make me rich” vs. “protect my wealth”

Lessons Learned *(about the newsletter industry)*

- Success and publicity are always desired and welcome… but they do attract a variety of "new friends" current thoughts/top picks

What are we buying in the newsletter?

- currently believe there is less than a 20% chance the market will trade sideways between now and June… with the odds favoring a sizable move down rather than a move up
  - the danger is that if/when a sell-off does get underway, it could be the start of a very long-term slide
  - consequently, we continue to hold a sizable position in QID as a direct hedge, and we also have significant positions in DBA, DBC, and GLD
  - on the flip side, there is a definite possibility that we will get a serious "short squeeze," and thus we want to also be positioned in those stocks that appear to have the best upside potential if the market does manage to rally to new highs

What are we buying in the newsletter?

- among all the major indices I follow to gauge the health of the overall market, the BTK biotech index has shown the best relative strength over the past several quarters.
- stocks I especially like in this sector include:
  - Celgene (CELG – $56.98)
  - Cubist (CBST – $32.27)
  - Illumina (ILMN – $67.59)
  - Affymetrix (AFFX – $5.66)
  - Hambrecht & Quist Life Sciences Fund (HQL – $12.41)

What are we buying in the newsletter?

- though the near-term may bring additional pain for the sector, two semiconductor stocks I especially like are:
  - NVIDIA (NVDA – $18.71)
  - TriQuint (TQNT – $11.82)

What are we buying in the newsletter?

- and two other "consumer" stocks I like a lot are:
  - Apple (AAPL – $327.46)
  - Walt Disney Corp. (DIS – $41.52)

What are we buying in the newsletter?

- and, finally, to hedge ourselves against inflation, uncertainty, "economic chaos," and a plain old drop in the market, we have positions in the following ETFs:
- on the resources front:
  - PowerShares DB Agriculture (DBA – $33.89)
  - PowerShares DB Commodities (DBC – $31.17)
- in its own class:
  - SPDR Gold Shares (GLD – $145.05)
- and as a direct hedge against a market decline:
  - ProShares UltraShort QQQ (QID – $52.36)

rec'd reading, Q&A, special offer

Recommended Reading

- *One Up On Wall Street*, Peter Lynch
- *Common Stocks and Uncommon Profits*, Philip A. Fisher
- *Extraordinary Popular Delusions and the Madness of Crowds*, Charles Mackay
- *Stocks for the Long Run*, Jeremy Siegel
- *Reminiscences of a Stock Operator*, Edwin LeFevre
- *The Tao Jones Averages*, Bennet Goodspeed
- *From Good to Great*, Jim Collins

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