

Tylee Frazer, Dewey County, NW District, Fall 2005

In 2004 I took a Personal Finance course in high school. The stock market interested me, and I requested to keep the textbook over the summer. This textbook, Investing in Your Future, was written by the National Association of Investors Corporation (NAIC). It promotes the concept of long-term investing, and this idea appeals to me. I bought a youth membership to the NAIC last spring. This membership includes a quarterly newsletter “Young Money Matters.” Both the textbook and the newsletter stress the importance of investing on a regular basis over a long period of time, re-investing all earnings, investing in good quality growth companies, and diversifying your portfolio to reduce risk. I used these four principles when putting my portfolio together.

The first thing I did when choosing my stocks was to start with companies I liked and felt were going to have good sales growth for the next five to ten years. I also went to www.better-investing.org. There I looked at the top ten most active stocks bought recently by investment clubs that report to the website. Their criteria to buy a stock are the same as mine so I thought this would be a good source for some stocks to study. I learned how to fill out a Stock Selection Guide or SSG because it helps me “find companies with a record of consistent growth and determine a reasonable price to pay for the stock of such a company.” This systematic approach helps me evaluate companies’ sales, earnings, and profit margin trends and price/earnings ratios. It also allows comparison between companies on management and past performance and

evaluates risk versus reward for the next five years. I used the NAIC Stock Comparison Guide to compare AAPL, IBM, Dell, and Hewlett Packard.

According to my risk assessment, I have an above average tolerance for risk. The risk assessment tool that I used was found at www.rcrc.rutgers.edu. Most of the companies I chose to invest in were blue-chip companies. I did this to receive a moderate gain without taking major risks. The riskiest issue I feel I bought was Krispy Kreme Doughnuts Inc. because it is going through some tough times. But, I really feel there will be a Krispy Kreme Doughnut company left when the dust clears. The price of \$5.93 was below the current book value, so I felt there was not much more downside before it would begin to go up. I also held \$10,000 in cash so that if the market had a huge drop for some reason during the contest I would have the ability to “buy on sale.” I did not want to take major risks. I focused not on quick gains but on stocks that had long term growth potential.

One company I felt had a lot of growth potential was Carnival Corporation. Therefore, I decided to buy 1,000 shares after reading an article on the company. The article stated they were starting to tap into the 85% of the US population that has not ever taken a cruise. The average age of people taking cruises has also dropped from 60 to 50 years. I studied the history of the company in the October 2005 issue of the *Better-Investing* magazine and found they are the industry leader in cruise ships with the largest fleet.

In 1972 Ted Arison entered a partnership that was to evolve into Carnival Corporation. The company first issued common stock in 1987. I looked at the

Stock Selection Guide in the October issue of *Better Investing*. Carnival Corporation was presented as the stock to study for October. Since Carnival's start, its trendline for sales and earnings has steadily risen. Fuel costs were a concern for me until I realized they only account for 6% of Carnival's total costs. High gas prices have not affected them because they counter by raising cruise fare prices. In 2003 Carnival paid \$5.4 billion to acquire the United Kingdom's P&O Princess Cruises. That combination put Carnival ahead of its chief competitor Royal Caribbean Cruises Ltd. Carnival also has a very low tax rate of 2.5%.

Although I did not sell any stock during the project, I did purchase a mutual fund. I held a cash position in the amount of \$100,000 while I completed a classroom series about mutual fund investing on www.morningstar.com. I did this to learn more about mutual funds and their prices and fees. I did not want to rush into a decision without knowing how mutual funds work. The reason I wanted to purchase shares in a mutual fund was to further diversify my portfolio. Vanguard Life Strategy Conservative Growth (VSCGX) in the Vanguard family of funds is what I decided on because it was 24% invested in bonds.

My main goal was to have investment returns at or higher than the Dow Jones Average return. On November 3, 2005, my portfolio was showing a gain of \$25,352.71. My finance teacher, Mrs. Seifried, showed me how to calculate my annual rate of return, which would be 44.91%. This beats the Dow Jones average which meant I met my investment goal. An important future investment goal of mine is to always pay myself first. This is a concept that was first

introduced to me when I read chapter one of Business and Personal Finance.

The knowledge I have gained from this project will help me become a long-term investor. It has already helped me in the short term. To help my college fund grow faster, I have taken my money out of savings and purchased CD's.

By watching "Anatomy of a Fraud" I learned I should always know how my money is being used and why I am getting the return that I am. I learned that a reasonable long term rate of return on stocks is 10 – 12% a year, and I should be wary of anything higher. It is also wise to check any investment deal I am unsure about with the Oklahoma Securities Commission.

By using the SSG's, I have learned how important value investing is. Investing is only successful if I am aware of the companies' strategies and know I am not paying too high a price for a stock. Learning about investment fraud, mutual funds, and value investing has given me a chance to talk with my parents, my uncle, and my teachers about money and investing.

I now view the stock market as an investment tool. I understand my investments need to outpace the inflation rate. I now know that pulling out every time the price falls is not the answer. I am not afraid to discover why it is falling and let it set while the price rises again. I also understand that TIME is the most important factor in compounding interest. This gained knowledge is the beginning of becoming a long-term investor.