

AMERICAN MONEY MANAGEMENT, LLC

SEC Registered Investment Adviser

The following transcript is that of John Nyaradi's 2010 interview with Gabriel Wisdom and Michael Moore of American Money Management, LLC, regarding their investment philosophy. This interview can be found in John Nyaradi's book *Super Sectors*, which includes interviews with several successful money managers and investors.

JOHN NYARADI: Could you discuss your views of active management versus buy and hold?

GABRIEL WISDOM and MICHAEL MOORE: We view the practice of "Buy and hold" as a popular myth. Periodically, you might find an investment that compounds book value at a high rate of return (>15%), and as long as the company continues compounding at this rate, we would hold for the long-run to benefit from compounding rates of return. More often, buying and holding regardless of market conditions, increases your chances of encountering recessions, crashes, and company specific disappointments.

"Buy and hold" investing may work well for a very large shareholder, who is effectively a company insider. Similar to a small business owner, this kind of investor has the ability to affect change in an organization, and may even have the power to direct the company's resources to their benefit (special dividends, share buybacks, etc...).

Like most investors in public companies, however, we are outside passive minority investors (OPMI). Since we have no real say in how a company conducts its operations (other than limited proxy power), the only vote we're left with is whether to sell or buy more. Companies, like people experience a fairly predictable life-cycle, in which there are growing pains, mid-life crises, booms and busts along the way. As active managers, we want to position ourselves in stocks that have the ability to generate high returns, at prices that make economic sense. Some we may buy and hold for a few months, others for several years. Like farmers who look forward to a bountiful harvest, we will end up selling our stocks at some point. This generally occurs when the security becomes over priced, or a negative fundamental change occurs in the business, or we just need to raise cash in order to buy something better.

JOHN NYARADI: Could you give us an overview of how you make your investment decisions?

GABRIEL WISDOM and MICHAEL MOORE: We look at three primary factors: Quality, Value and Timing. Quality relates to the company's ability to generate a high return on shareholder equity. With thousands of publicly traded companies to choose from, there is no need for us to settle on low quality businesses (narrow profit margins, high debt load, etc...). Generally speaking, we want to own businesses that have rising revenue and can return more than 15% on shareholder equity, or there is good reason to believe that they will be able to do this going forward. Additionally, balance sheet strength is an important component as we don't want to invest in businesses that require significant debt financing to run operations.

It's been said, "There are no toxic investments, just toxic prices". Once we find an investment that meets our criteria for quality, we try to assess a reasonable price for the business. Excellent, high quality stocks (or bonds) that trade at high prices still make for bad investments. For example, Qualcomm is an excellent, well run company in our estimation, however at a split adjusted \$100 a share in January of 2000, it was a horrible investment. Since then, the company's shares are down more than 60%, while their earnings have more than doubled in the same time frame.

The third area is timing. Everything runs in cycles, and as investors we need to assess what time of the market it is. Macro-economic and geo-political factors can affect asset

prices in ways not always obvious to the casual observer. For us, trying to understand the stage of the business and economic cycle that we are operating in adds another layer of risk management to our process.

In addition to Macro-oriented analysis, we also consider the technical condition of both the market and/or the company that we are considering for investment.

JOHN NYARADI: Do you use technical indicators and which ones do you find to be most effective?

GABRIEL WISDOM and MICHAEL MOORE: Head and Shoulders patterns, Cup and Handle formations, Gaps, and Moving Averages are the four technical patterns/indicators that we find most useful.

JOHN NYARADI: What's your view for the U.S. and global economy over the next three years? Five years? Ten years? What macro economic trends are we facing?

GABRIEL WISDOM and MICHAEL MOORE: As people get older, their priorities and spending habits change. The average 30 year old wants to borrow money to buy a house, a nice car, or whatever. At 60, objectives change and studies have shown what an aging population can do to an economy...like Japan. In the U.S. and many parts of Europe, someone is turning 60 every 7 seconds. Mature populations increase the odds for stagnant, deflationary economies.

Over the next three years we expect a rocky road as the recovery transitions from an artificial, primarily stimulus driven recovery to one driven by the private sector. Market prices seem to be disconnected from economic reality at this point in the recovery, and may keep the Dow Jones Industrial Averages at or near 10,000 for a prolonged period.

It wouldn't surprise us to see a continuation of the economic recovery (with a speed bump or two along the way) coupled with a weakening equity market for a period of time. There is any number of macro-factors that could facilitate this process. Currently, sovereign debt default concerns are at the top of the worry list.

JOHN NYARADI: What opportunities for investors/traders do you see over the next 3, 5, 10 years?

GABRIEL WISDOM and MICHAEL MOORE: Volatility as measured by the VIX hit all time highs just below 90 in 2008 providing an opportunity for short and intermediate-term traders to make money on both sides of the market. 2009 saw a steady decline in the VIX to end the year at just above 21. Unlike the post 2003 recession, where volatility steadily declined for three years, we would expect the next three plus years to see a return of elevated volatility as economic forces shift. Nimble traders should find ample opportunity in this kind of an environment.

JOHN NYARADI: What traps and dangers do you see for investors/traders over the next 3, 5, 10 years?

GABRIEL WISDOM and MICHAEL MOORE: Investors should guard against becoming complacent *after* major market moves. The experience during the secular bull market of the 80's and 90's was one of a generally rising stock market.

In our view, we have been in a secular bear market since 2000. This bearish period has been marked by multiple mini-bull markets. Optimism rises once the mini-bull market is

close to peaking, as investors recall the rising tide that drove markets higher from 1983 to 2000. Investors hanging on to this view that the market will trend higher over the next 5-10 years may be in for a rude awakening. We think there's a reasonable chance that this secular bear is only ½ over. Still, this environment should provide ample opportunity for active investors to generate returns.

JOHN NYARADI: What investment vehicles are your personal choices, ETFs, stocks, mutual funds, commodities, etc. and why?

GABRIEL WISDOM and MICHAEL MOORE: We prefer to invest in stocks and ETFs. They are simple and typically provide for ample liquidity, which is necessary if we want to remain nimble. ETFs tend to work better for us when we are playing particular market themes.

JOHN NYARADI: What sectors do you see holding the most potential for gains over the next 1-3 years, sectors that could be 'super sectors'?

GABRIEL WISDOM and MICHAEL MOORE: We believe that over the next three to five years the deflationary forces that have marked this period will ultimately give way to inflation. Resource related sectors like oil and gas, precious metals and agricultural commodities should begin to benefit as this transition unfolds. It is important to note that most of these sectors are currently in poor technical condition (2010) and this transition may not begin in earnest for awhile. In the meantime, high quality, dividend-centric stocks look attractive relative to most other assets.

JOHN NYARADI: Anything else you'd like to add?

GABRIEL WISDOM and MICHAEL MOORE: Avoid "dogs," and buy the CATS (cheap and timely securities).