

Stop dreaming!
Learn, act and invest.

Don't work only for money,
put money work for you.

Seppo Saario
Tallinn, October 24, 2010

How to be a millionaire like Eino Jutikkala, professor (history)

- When he died unmarried at the age of 99 in 2006, his portfolio was worth 22 m€ and he received annually 1 m€ in dividend income.
- His portfolio: Fortum (energy), Huhtamäki (packaging), Kemira (chemicals), Kesko (retail), Metso (machinery & engineering), Neste Oil (refinery), Orion (pharmaceuticals) Outokumpu (stainless steel), Sanoma (publishing), UPM Kymmene (forest industry & energy) and Wärtsilä (machinery & engineering)

What Eino Jutikkala did:

- He saved always part of his income, he did not spend it all.
- He invested his savings in publicly traded companies on the Helsinki Stock Exchange.
- He bought continuously a little. Thus he diversified his investments for a long time period. At good times he received less shares, at bad times more shares. When the prices went up, he had more shares at lower cost in his portfolio.
- He diversified his holdings in companies representing different industries and services.

Eino Jutikkala (cont.)

- He invested only in market leaders. Normally market leader makes more profit than smaller competitors.
- He invested in companies paying dividend.
- He didn't sell. He only bought. No taxes!
- He enjoyed compounding interest! As time goes by his dividend income increased rapidly.
- By owning companies directly, he kept his expenses low. If you have to pay to money or fund managers, you give up the major part of your gains during the years.

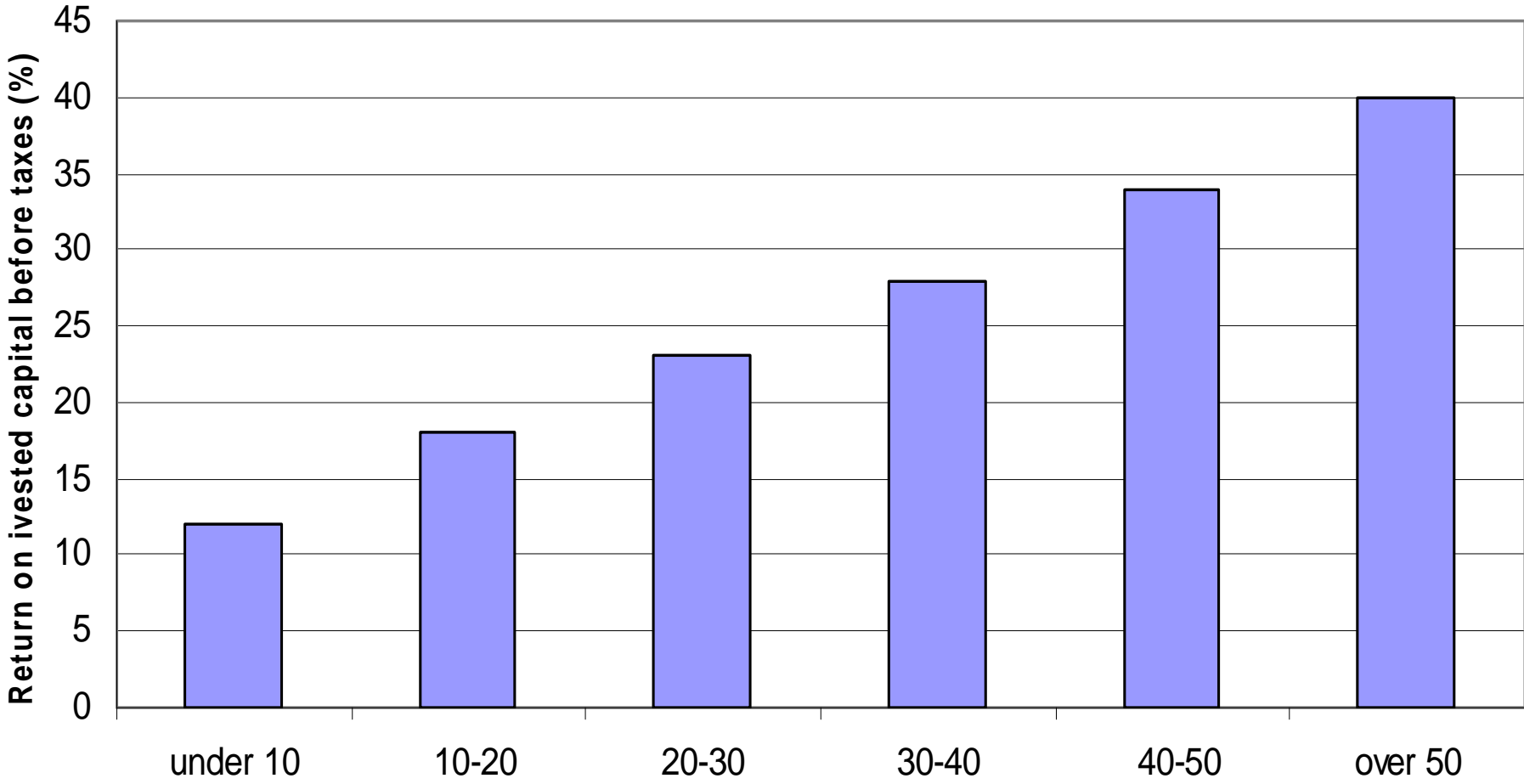
Benjamin Graham
(1889-1976) professor

The real money in
investment will be made
not out of buying and
selling, but owning and
holding securities.

Experts are generally more confident than rest of us

- Terrance Odean & Brad Barber (Trading is Hazardous to Your Wealth) studied 66 000 accounts in 1991-1996.
- They found out that investors, who traded frequently averaged 12% return p.a.
- Those investors, who had lowest turnover earned 18% p.a.
- Women had much less turnover than men, but they ended with higher returns!

Market share (%) and Return on Invested Capital (%)

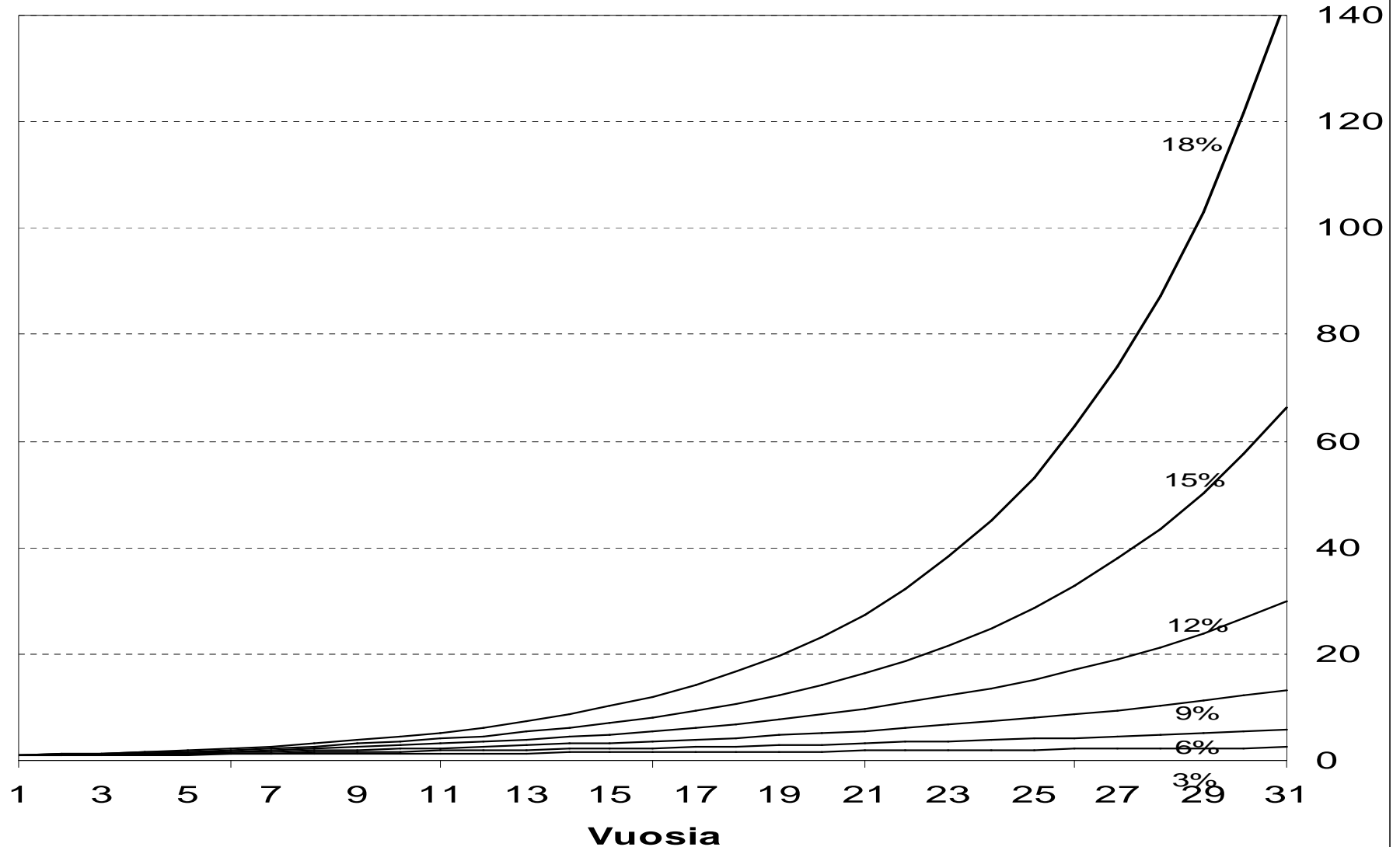


Market share (%)

Boston Consulting Group

Pääoman tuotto 30 vuodessa

Tuottoasteen parannuksella voidaan luoda merkittävä varallisuus vuosien kuluessa. Jo muutaman vuoden kuluttua korkeampituottoinen sijoitus karttuu yhdessä vuodessa enemmän kuin matalatuottoinen sijoitus 30 vuodessa.



Ibbotson® SBBI®

Stocks, Bonds, Bills, and Inflation 1926–2008



Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This data is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.



Stocks, Bonds, Bills and Inflation in the U.S. 1926-2008

	Annual return %	Growth of \$1
• Small stocks	11,7	9 549
• Large stocks	9,6	2 049
• Long-term Gov't bonds	5,7	99
• Treasury bills (<1 year)	3,7	21
• Inflation	3,0	12

Ibbotson Associates, Inc

\$DJW (Dow Jones World Stock Index) INDX

© StockCharts.com

15-Oct-2010

Open 239.71 High 242.93 Low 238.97 Close 242.27 Chg +2.87 (+1.20%) ▲

W \$DJW (Weekly) 242.27

MA(0) 0.00

MA(0) 0.00

Volume undef



The expected gain owning stocks for a long-time is around 10% p.a

- The long-term earnings growth of a major listed company is expected to be around 6% (Gross Domestic Product 3% + Inflation 3%).
- The long-term average dividend yield has been around 4%.
- With 10% average annual growth it takes seven years to double your capital.

Jeremy Siegel
Stocks for the long run

- The price of a stock is equal to the present value of all expected future dividends and not the present value of future earnings.

A successful investor is like a farmer. He plants seeds and waits the crops to grow.

Long-term investing is like
flying to New York.

You may encounter some air
turbulence over Iceland, but there is
no reason to bail out.

You will reach your destination
safely.

Dangers of Market Timing

- \$1 invested in Standard & Poor's 500 –index for 80 years 1925-2005 grew to \$2 658.
- If you missed 39 best months (of 960 months) or 4 % of the time, your investment would have grown only to \$18.

Buying stocks, when they
are cheap, has been for
me the best way to grow
my money.

Avoid big losses

- Biggest losses to investors come from the purchase of low-quality securities at times of favourable business conditions.

Focus on numbers that really matters!

Valuation.

How is the company valued?

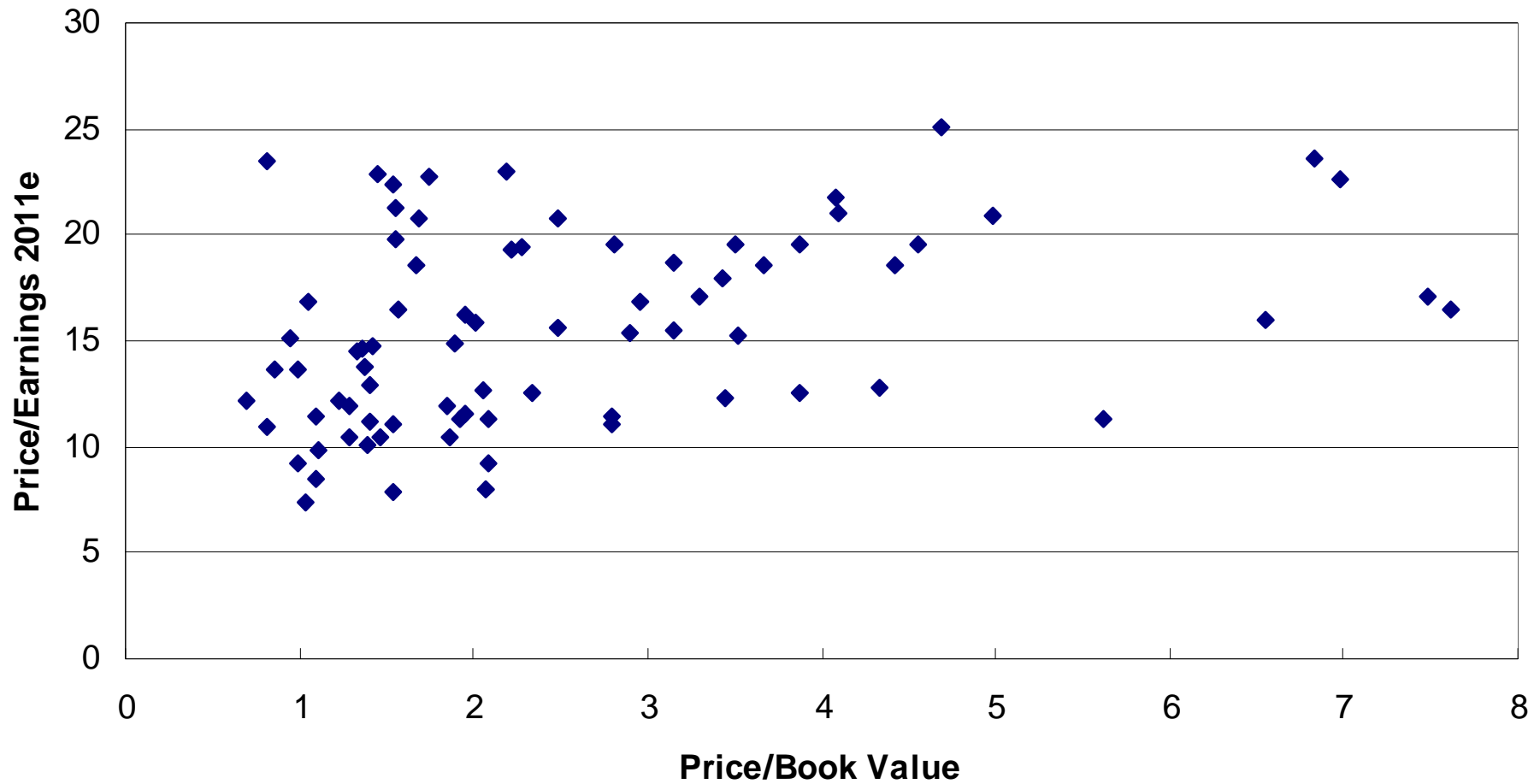
1. What is the stock Price compared to Earnings/Share this and next year?

If P/E is less than 10, then it looks cheap.

2. Compare the stock Price to the Book Value (shareholder's equity, omakapital) of the stock. Be interested if P/BV is less than 1,5, preferably less than 1.

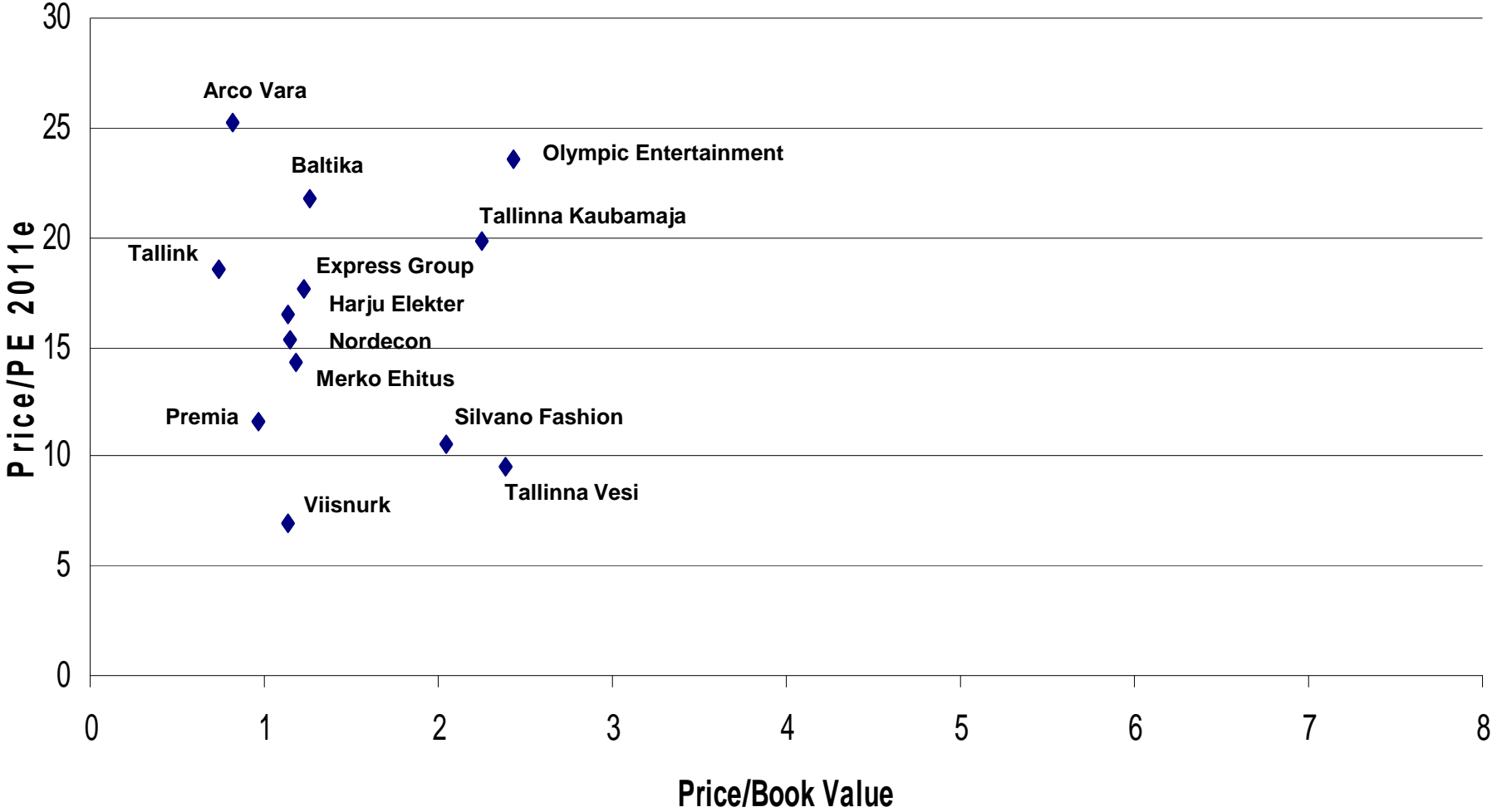
Helsinki Stock Exchange 78 most valuable companies

Price/Book Value vs Price/Earnings 2011e



Selected Tallinn listed companies

Price/Book Value vs P/E 2011e



Tallink vs. Viking Line

	Tallink	Viking Line	
• Net Sales (mill.€) last 12 months	791	471	x 1,7
• Sales growth (%)	1	2	
• Number of shares (mill.)	669,9	10,8	
• Stock Price (€)	0,66	32,50	
• Market Value of the company (mill.€)	442	351	x 1,3
• Shareholder's Equity (Book Value, mill.€)	624	142	x 4,4
• Price to Book Value	0,7	2,5	
• Net Debt (mill. €)	1 093	49	
• Cash flow from operations (last 12 mo., mill.€)	105	42	
• Enterprise Value (Mkt Value+ Net Debt, mill.€)	1 535	400	x 3,8

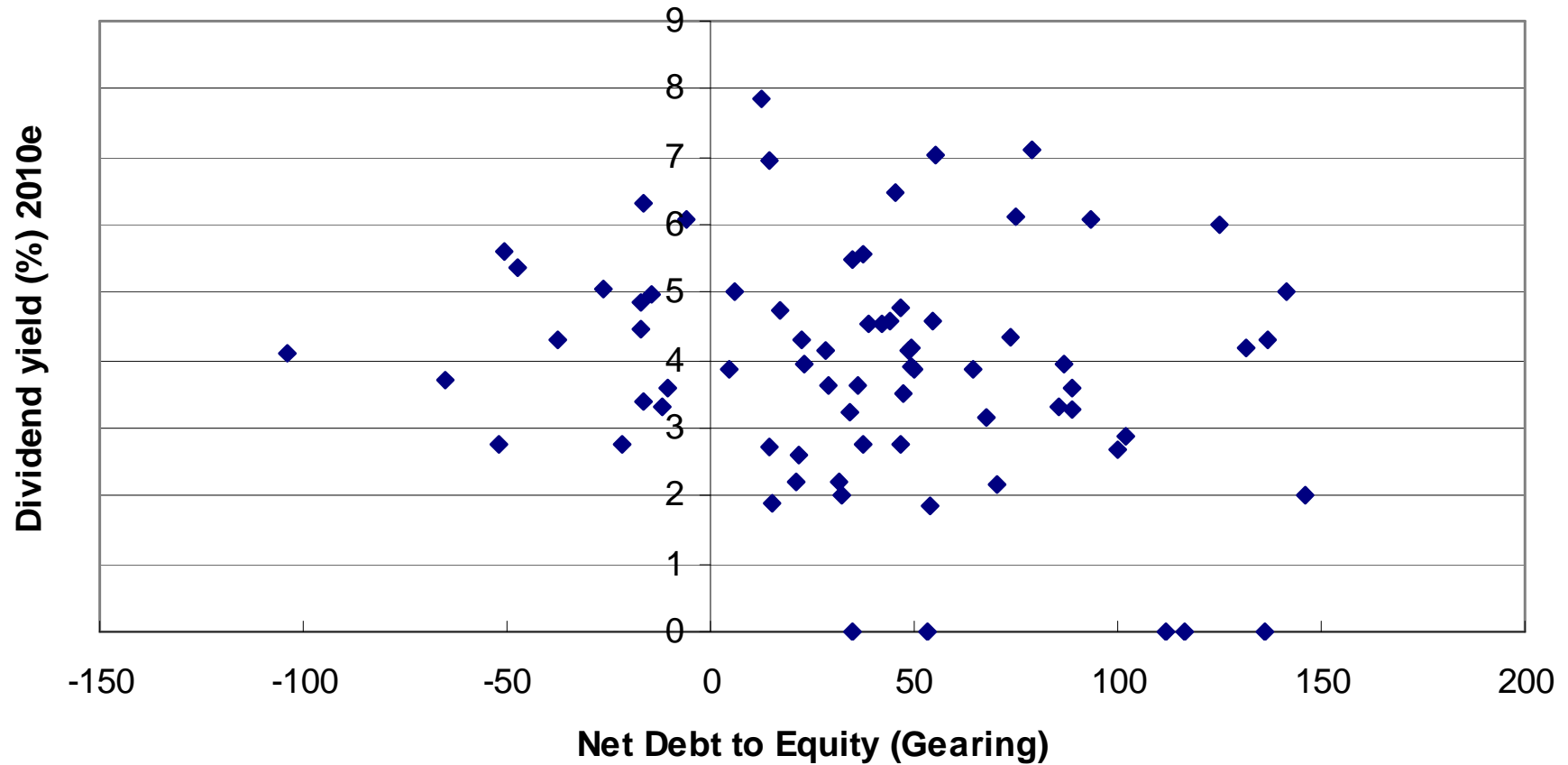
Prefer companies that have
a strong balance sheet
and pay dividends

Balance sheet is strong, if the company has more cash than interest bearing debt (= negative gearing). Try to avoid companies, where net debt is more than company's equity.

Income. Be interested in the companies that pay dividend and will raise it next spring!

Helsinki Stock Exchange

Dividend Yield (%) 2010e vs. Net Debt Q2



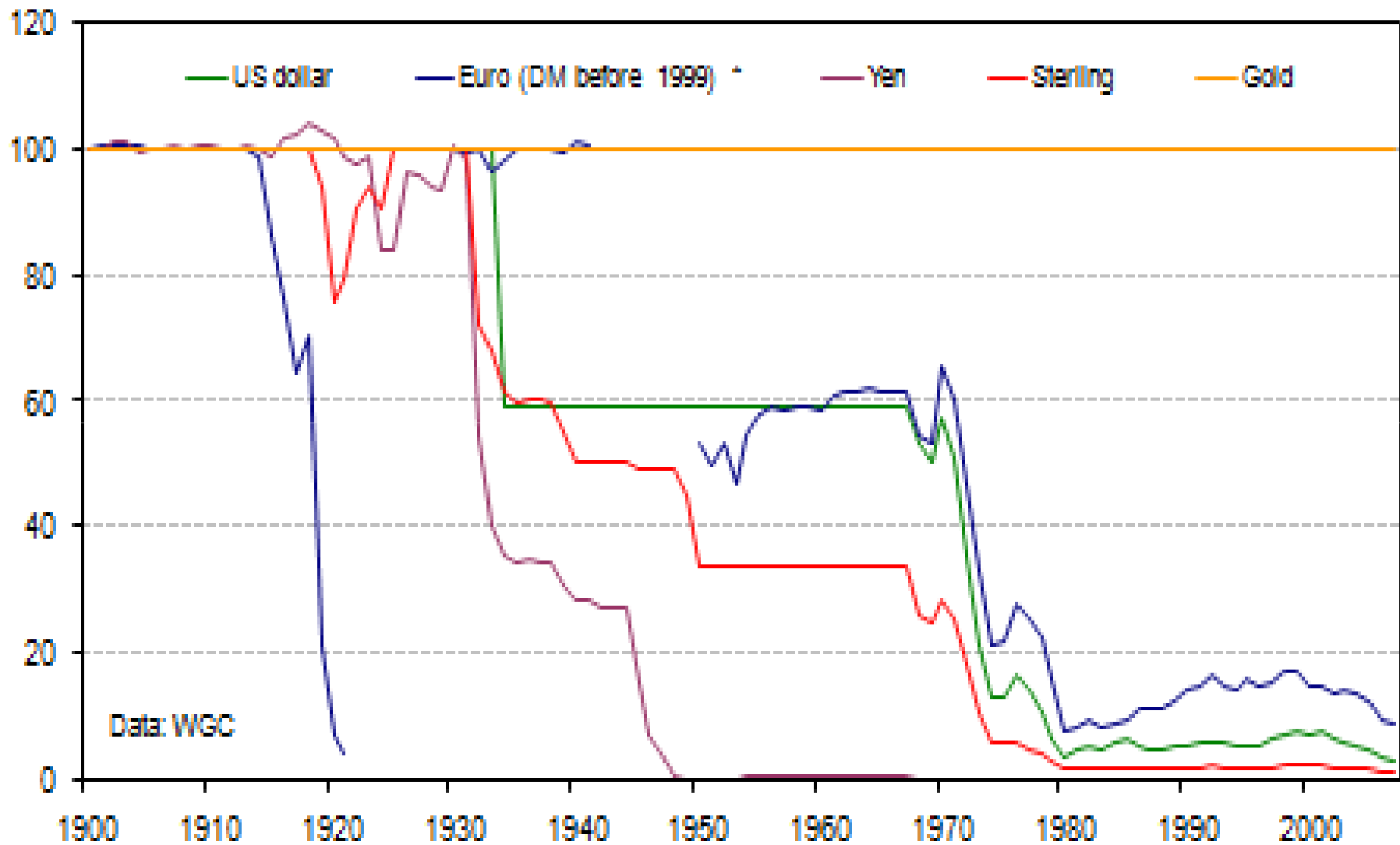
**Bail out of a business that
is not growing!**

If a stock is grossly overvalued and its stock price crashes, history shows, that it is unlikely it will regain its former inflated value.

The world is changing rapidly

- A major part of world industrial production has moved to China. North America and Europe are losing well and regularly paid industrial jobs.
- New service jobs cannot fully compensate the losses of industrial jobs.
- As a result money is flowing to China causing Western countries to fall in heavy debts. The world financial system will be tested again in future.
- Three central banks US Fed, BofE and ECB are buying Government bonds of their own countries. That is printing money. It can also be called "doping". \$, £ and € are losing value.

Currencies in terms of Gold (Index 1900 = 100)



*The gaps in the German/euro line are the hyperinflation of 1922 and then the breakdown after WW2.

Gold Price, \$ per ounce (London pm fix)



\$GOLD (Gold - Continuous Contract (EOD)) INDX

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15-Oct-2010

Open 1348.10 High 1387.10 Low 1340.70 Close 1368.60 Chg +21.40 (+1.59%) ▲



Chart of the Day - www.chartoftheday.com

Gold



Gold related internet addresses

- www.gold.org World Gold Council
- www.kitco.com Gold price
- www.goldprice.org Gold price \$/oz, €/g
- <http://finance.yahoo.com> Gold-ETF, NYSE
symbol: GLD. One GLD-share = 0,1 oz gold
- www.spdrgoldshares GLD-fund's home page
- ETF's of goldmining companies: GDX ja GDXJ
- www.deutsche-boerse.com: Xetra-Gold (symbol:
4gld) gold in grams and euros
- www.goldmoney.com physical gold

Benjamin Graham (1889-1976), professor

Characters a successful investor:

- Reasonable good intelligence
- Sound investment principles
- Focus on the investment process
- Firmness of character

Strong International companies in Finland

- Amer Sports (sporting goods))
- Cargotec (machinery)
- Fortum (energy)
- Kemira (chemicals)
- Kesko (retail)
- Kone (lifts)
- Konecranes (lifting equipment)
- Metso (machinery)
- Nokia (mobile phones)
- Nokian Tyres (winter tyres)
- Nordea (banking)
- Orion (pharmaceuticals)
- Outokumpu (stainless steel)
- Rautaruukki (steel)
- Sampo (financial, insurance)
- Sanoma (publishing)
- Telia Sonera (phones)
- UPM Kymmene (forest, energy)
- Wärtsilä (marine machinery)
- YIT (construction)

Gold holdings (tonnes)

September 2010

• USA	8 133	• Japan	765
• Germany	3 406	• Russia	668
• IMF	2 966	• Netherlands	612
• Italy	2 451	• India	557
• France	2 435	• ECB	501
• SPDR (GLD)	1 301	• Taiwan	423
• China	1 054		
• Switzerland	1 040	• Finland	49

What industries to avoid?

- Avoid companies that are subject to technological obsolescence (consumer electronics)
- Avoid companies that cannot control their most basic costs (airlines cannot control fuel prices)
- Stiff foreign price competition. Highly profitable industries attract new competition

The common opinion of a stockbroker

- All news is good news
- Everything is always
cheap

Buy low, sell high

- The time of maximum pessimism is the best time to buy.
- The time of maximum optimism is the best time to sell

Miten akateemikko Eino Jutikkala (1907-2006) toimi tullakseen miljonääriksi?

- Säästi osan tuloistaan, ei kuluttanut koko palkkaansa
- Uskoi, että pörssiosakkeet ovat hänelle tuottoisin sijoituskohde. Osti suoraan yhtiöitä pitäen kulut alhaisina.
- Osti osakkeita jatkuvasti eli hajautti sijoituksensa ajallisesti
- Hajautti sijoituksiaan ostamalla eri toimialojen yhtiöitä
- Sijoitti suuriin markkinajohtajayhtiöihin
- Sijoitti yhtiöihin, jotka maksavat osinkoa
- Ei myynyt osakkeita. Hän vain osti. Kun ei myy, ei maksa veroa
- Pitkän sijoittajauransa aikana hän pääsi nauttimaan korkoa korolle-tekijästä. Pääoma karttuessa osinkojen rahamäärä kasvaa nopeasti.