

# MARKET **STOCKS YOU SHOULD OWN** WITCH™

July 1<sup>st</sup> 2018

July 2018 is our 275<sup>th</sup> Monthly Issue

## A Brief History of Market Witch

We've published Market Witch every month since August of 1995.

To explain how this happened, we'll have to go back a bit further in time than 1995.

We think you'll find it an interesting tale.

I came from a military, farming and engineering family not a business family. Until this generation no one in my family has owned a business large or small for more than 100 years. My grandfather went to West Point and was a career military officer. My father was an athlete an engineer and one of the WWII US Navy frogmen (UDTs: Underwater Demolition Teams)

But it seems as though I was always around "money" and always interested in it. This didn't start through my own doing. My parents pushed it.

In early childhood, before I could even read, I was given to play with not coloring books but Fortune Magazine issues the big 11x14 ones, to look and to learn from.

I was fascinated by the photos of mining and Industry. I learned to read from Fortune Magazine. Copies of these magazines go for \$20 \$30 \$50 on eBay now but I still have a stack of them around from my childhood and look at them regularly.

At about the same time, my parents also gave me to play with: checkbooks. Checkbooks containing checks that weren't attached to any bank but that I could write checks in. Checks for buildings, bulldozers, copper mines, farms, houses, bicycles.

An important aspect of post WWII America was the GI Bill, a piece of legislation that allowed poor but smart young Americans who had fought in WWII to go to college and educate themselves for practically nothing. The GI Bill was profoundly important in creating the atmosphere of success and ambition that permeated the early and mid 1950s.

Money and industry were always close at hand to watch and learn from.

My father was an engineer for General Motors and I watched pieces of cars being built and I watched my father bring various GM cars home when he bought them.

Our closest neighbors were Gene and Amelia Winchester, from Vicksburg Mississippi, and their children, my closest friends. Gene had educated himself on the GI Bill post-war, and was experimenting with dry-blend mixes of premixed concrete cement products. Gene patented Quikrete™ and I watched this go from a tiny cottage-industry operation at the same time I was looking at the pictures and learning to read from Fortune magazine, and so I saw what I learned in Fortune magazine happen for real before my eyes.

I collected coins and stamps as well as arrowheads and flyfishing gear and foreign currencies and other stuff.

At eleven, I had a newspaper route. At twelve I bought my first stocks. At fourteen I bought a motorcycle and had my first after-school jobs.

At nineteen I got a job as a “cub reporter” at a classic major US daily newspaper and I worked nearly full-time all through college and worked my way through college.

After college I went to graduate school at Stanford on a grant. I was however bored out of my skull by graduate school and quit and got a job as a reporter for the San Francisco Chronicle which was at that time a respectable daily newspaper in what was at that time one of the USA’s most exciting and most fun towns to live in.

I continued doing writing and journalism in various forms after that, not really specializing in anything, and I forgot about “money” and paying attention to it. I simply had fun because in those days journalism was not political. I simply had fun. Years went by.

Cut to the chase: In the mid-1980s I was on a guided tour of North Africa and was outside the city of Fez, in Morocco. I was smitten with a young Berber woman I saw.

The guide said to me “You know, you could buy her if you wished. But of course you couldn’t use dollars or a credit card or any paper money to buy her you would have to have gold coins.”

I thought: hmmm. Wow. Good grief. The world isn’t what I thought it was.

After that I began paying attention to the ancient desert trade routes across North Africa and to the commodities that were moved via caravan along them: gold silver copper and other metals, ivory slaves salt cloth diamonds and other stones leather animal skins candles dates dried meats weapons et al.

Then I began to study the Silk Road and the products and commodities moved across that one.

I began to see that commerce as we know it now was ancient barbaric international and relentless and remains unchanged. And I began to see how “money” fit into all that.

I began to buy gold coins. At that time gold was selling for around \$400 an ounce.

Sometime around 1989 I began to wonder: what “modern commodities” are there in the USA right now what would fit into the “gold salt slaves ivory copper” etc category in modern US? After paying attention to this for a few months I came to the conclusion that there were only three things sought

after on that level as “modern commodities” in the US that could be bought and sold anywhere: Barbie™ dolls, Chevrolet Corvettes™ and Harley-Davidson™ motorcycles.

Through attending motorcycle events, I learned that the most sought-after was the Harley-Davidson motorcycle. People would go without food to save enough money to buy a Harley-Davidson motorcycle.

In 1990 we went to a stockbroker at a small boutique brokerage and told him we wanted to put our life savings into Harley-Davidson motorcycle stock (at that time Call Letters USA: HDI). The guy said we were crazy and suggested all sorts of other investments. We politely told him he was wrong, and we prevailed.

In a relative hurry- about 30 months- we made a great deal of money and it was the first real money big money we had ever had.

By this time I had discovered an additional “modern commodity” that was much sought-after, and that was the Intel Pentium™ processor. We sold ½ our Harley-Davidson stock and put the \$\$ into Intel (USA: INTC) and again we made a lot of money.

And by now it was the very early days of the Internet, and I had discovered another new and highly sought-after commodity, the router, and of course Cisco Systems (USA: CSCO)

By then I had begun keeping records and notes on all this and in doing so developing a broad view of how to invest, and as I did this I began to send these notes out to a few people in a more or less organized form. To my surprise several people immediately asked if they could subscribe to it.

The first official and identifiable issue of Market Witch was August of 1995. Those early issues were sent out in Xerox copy and mailed in an envelope with a stamp on it.

We took Market Witch completely digital and electronic in 1993 and for many years the website was unchanged.

We're not always right. We do make mistakes. And our trajectory has not always been completely upward although overall it has been profoundly upward.

When the Nasdaq crashed in year 2000 we were overly invested in internet tech. We were still well off we were simply less well-off.

I thought OMG we're poor I will have to get a “real job” and I enrolled in an MBA program and also began doing slate work in people's homes, something I love to do anyway. So I knew that I could make a living no matter what.

Imagine my surprise when I discovered ageism, and that even if I took an MBA, simply because I wasn't 30 years old I would not be able to get a job. Imagine my surprise and good fortune in my stock research to find that because of the Nasdaq crash, shares of Corning (USA: GLW) and thus in GLW's fiber optics business) were an incredible bargain, enabling us to make back most of the losses from the tech/dotcom crash.

So it goes. We're up about 75X on our original investments. We haven't owned any Harley-Davidson stock in almost two decades. Most of our subscribers are professionals, owners of small and medium sized companies, and small boutique brokerage houses. And people just like you, who want safe long-term gains and a good return and who want to know how their investments fit into the Big-Picture of cultures history and economies.

It all changes. It never holds still.

Our largest holdings? Metals mining stocks steel stocks and broad technology stocks. Why mining stocks? Metals will be the basis of all mid-century money two decades from now

Our current favorite "modern commodity" stock? Nvidia.

Do we believe bitcoin is a major change in the history of money? Yes.

Bitcoin negativists will tell you bitcoin is expensive to mine and operate and requires a great deal of energy. So does it take a great deal of energy to mine an ounce of gold or a pound of copper or zinc. Nothing is free.

Are we still buying gold and gold stocks? Yes.

We are the best at what we do. A Market Witch subscription remains a remarkable bargain. Come along with us and prosper. And happy Fourth of July!

--Chip Elliott

## **Traditional Investment Skills: Value Investing Market-Witch Style**

Value investing: it's what we do. We simply look at a far broader array of global stocks than most investors or even brokers are even aware of. Here's what we look for:

- Companies that are in stable economies that have stable currencies
- Companies in developing nations that are pro-capitalism and developing nations that have huge untapped natural resources
- Companies that have an Enterprise Value that is higher than the Market Cap. IE companies that could be sold off in pieces for more money than the company's stock is worth
- Companies that have a profit margin of at least 10%. 20% 30% is better
- Companies with a broad array of products in sectors that are stable/growing or are at cutting edge of technologies
- Companies that are indispensable: companies that mine copper iron ore lithium manganese and diamonds. Companies that make I-beams bulldozers tractors elevators wind turbines and jet fighters.

-Companies that make products that people are crazy about and can't live without (Tootsie Rolls corvettes iPhones pizzas Mercedes-Benz sedans Burger King Whoppers)

-Companies that make products no one has ever heard of before but which we understand (blockchain tech, servers, fiber-optic laser pumps graphics processors)

-Companies with high Quarterly Revenue Growth YOY and strong Projected Revenue Growth annually for the next five years. Revenue growth is far more important than earnings growth. Earnings growth can be sorted out via better management. What we want to see is cash flow

-Companies with low debt

-Companies with the cash to buy out competitors fund research and development and pay off debt

-Companies with CEO's who are founders of the company

-Companies that are expanding into a global marketplace

-We'd like to get to know the CEO. He/She: We want to know: where did you go to school? Do you have an MBA? Did you invent this product? Did you found this company? Are you married? Do you go to church? Do you have kids? Where do you live? What kind of shoes do you wear: wingtips or running shoes? What's your political affiliation? Are you creative and visionary or are you a manager?

-What do your customers think of your products? Let's read what they say. Let's go to a store and watch them buy or not

That's little of it. For example, we do not own Apple shares because we think CEO Tim Cook is a bureaucrat with limited vision and is already working beyond his scope. It's a magnificent company and we owned shares when Steve Jobs was there. We own MSFT shares because Bill Gates is a visionary a founder and still has a hand in it. We sold MSFT shares when Steve Ballmer was brought on board and we wouldn't touch the stock until he left or was asked to leave. We bought shares of Nvidia in 2004 for \$9 when we figured out founder Jen Sen Hsun Huang was a genius. He is still years ahead of the game and his GPU's have uses that haven't even been discovered yet.

### Our Buys & Sells

We've talked about Commitment Stake often and at length. Figure out your Commitment Position Stake. \$5000? \$10,000? Ours was \$30,000 in 1990 and is \$40,000 now. If you are not willing to put that much Commitment Position money into a stock, then let it go, don't buy the stock.!

**NEXT MONTH: On August 1<sup>st</sup> we'll publish the Dog Days and Summer Heat issue and the 4<sup>th</sup> bi-monthly MW FULL STRONG BUY LIST of the year**

**Market Witch is a guide to the world's best investment-grade stocks.**

We provide a global context/ cultural context behind the stocks I have background in sociology/archaeology/English Russian literature. I was on the editorial desk of the San Francisco Chronicle. I went to Stanford grad school on a fellowship. If you're an investor these are the most important words you'll read all month.

Market Witch is different from any other advisory in that the stocks we recommend are stocks WE ALREADY OWN or SOON WILL when the next dividend checks arrive.

We keep track of around 500 stocks and publish our full STRONG BUY LIST of about 250 every other month.

Market Witch is Big-Picture investing at its finest. We've been called "Motley Fool™" for people who *read*" by our subscribers. Motley Fool™ has more than 300 employees. We have two.

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