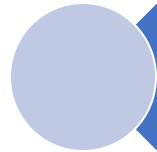


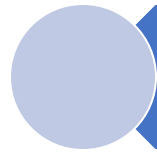


Ramesh S. Damani
Member, BSE
For Flame University
July 16, 2017

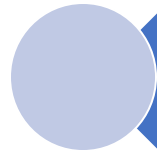
5 Great Crashes



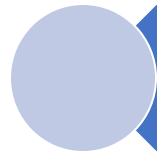
The Panic of 1907



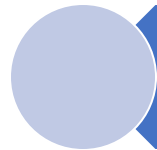
Black Tuesday 1929



Black Monday 1987



Great Recession 2008



Flash Crash 2010

Rise, Rise & then the Fall of the Nifty Fifty



**The Nifty Fifty
stocks were
taken out and
shot one by
one.**

Lessons from the Nifty Fifty Era in Wall Street 1950 - 1974



<i>Index</i>	<i>Date</i>	<i>Level</i>
DJIA	Sep 03, 29	381
	Dec 30, 52	290
	Jan 01, 73	1050
	Dec 04, 74	596
	Nov 03, 82	1082

Backdrop to the Nifty Fifty

- The 1929 Depression had made America financially & Socially conservative
- Till the late 50's stocks yielded more than bonds
- In 1959 that relationship changed forever
- Investing theme went from “value” to growth at any price

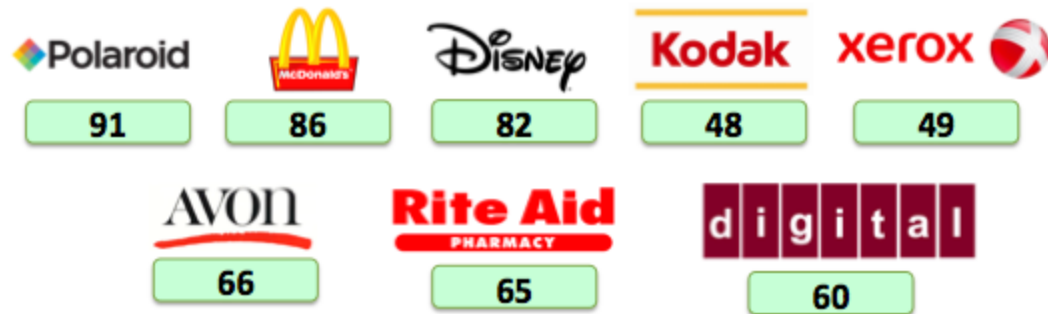
Wall Street – Yes, Trees can grow to the sky !

- Welcome to the GO GO 60's
- New President, New Horizons, New America, Manifest destiny
- One Decision stocks, buy and never sell
- US Industry would continue to dominate
- High ownership of financial assets
- Buffett “throws in the towel” in 1969

The One Decision Wonders

- **Nifty Fifty** refers to the 50 popular large-cap stocks on the NYSE in the 1960s and 1970s that were widely regarded as solid buy and hold growth stocks.
- They were Market Leaders with impeccable franchises, leadership, and excellent growth prospects and great balance sheets.
- No definitive list of the Nifty Fifty
- Led to a one dimensional market, with the Nifty-Fifty stocks attracting disproportionate amount of capital.
- PE Ratios of the N50 soared thanks to the liquidity
- Historically some survived, some died, some Buffett invested in later

PE Ratio of some of the Nifty Fifty



“The delusion was that these companies were so good, it didn’t matter what you paid for them; their inexorable growth would bail you out.”

STOCK GROUP 72	AVERAGE PE
Morgan Guaranty N50	45.2
Kidder Peabody	57.9
Terrific 24	59.8
S&P 500	19.2

Decline & Fall

- During 1972-1974 many of the N50 stocks had a steep decline in their price to earnings (PE) ratios and stock prices
- The Glamor stocks of the N50 fell from 60% to 90%
- S&P itself peaked on Jan 5, 1973 and fell 48% in next 22 months
- Villains were Oil quadrupling, Yom Kippur war, Watergate, recession, inflation
- Real Villains were probably leverage, abandonment of caution and earnings disappointment
- Following Bear Market lasted until 1982 – A full decade
- Between 66 to 82 market produced a annual return of 1.4%
- Market cap to GDP percentage hit low of 33% in 1982

An Alternate view

STOCK	Amt Invested 1972	Value Today	Dividend this year	Remarks
Coca Cola	\$100	\$6110	\$189	
Mc Donald's	\$100	\$8990	\$240	
Walmart	\$100	\$107,429	\$3041	
Totals	\$300	\$122,529	\$3470	

Notes:

Table numbers are as of 2016

Dividend of \$3470 is only for current year

Ignores other performers like J&J, Disney, P&G, Philip Morris, Pepsi

Some went Bankrupt like Polaroid, Eastman Kodak, Simplicity Pattern

Moral – As long as there is diversification among high quality companies the risk of permanent capital impairment is minimal

Moral – Winners like Walmart make up for a number of losers

Lessons & Learnings from the Nifty Fifty

- Fundamental investment maxim is “ A great company is not necessarily a great stock.” Price Matters.
- Valuations Matter
- Diversification Matters
- Ride the winners
- A great stock may be a lousy investment and visa versa.
- Momentum becomes a respected investment style

The Nifty Fifty – Honour Roll – Morgan Guaranty

Polaroid
McDonald's
MGIC Investment
Walt Disney
Baxter Travenol
Intl Flavors & Fragrances
Avon Products
Emery Air Freight
Johnson & Johnson
Digital Equipment

Kresge (now Kmart)
Simplicity Pattern
AMP
Black & Decker
Schering
American Hospital Supply
Schlumberger
Burroughs
Xerox
Eastman Kodak

Coca-Cola
Texas Instruments
Eli Lilly
Merck
Upjohn
Chesebrough Ponds
Minnesota Mining (3M)
American Express
American Home Products
Schlitz Brewing

The Nifty Fifty – Honor Roll cont....

Halliburton
IBM
Lubrizol
J.C. Penny
Squibb
Procter & Gamble
Anheuser-Busch
Sears Roebuck
Heublein
PepsiCo

Pfizer
Bristol-Myers
General Electric
Revlon
Phillip Morris
Gillette
Louisiana Land & Exploration
Dow Chemical
First National City
ITT

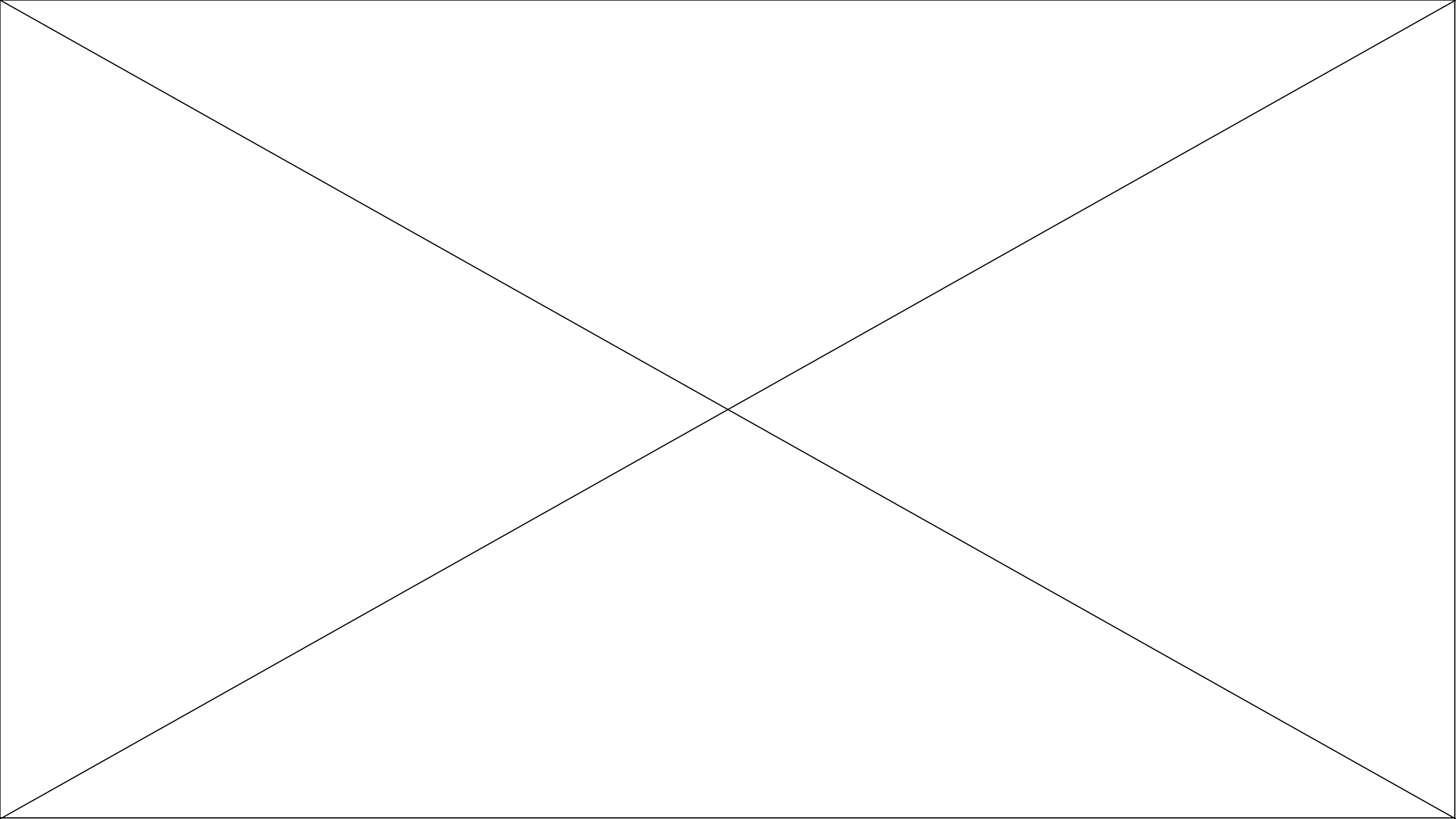
Only in Kidder Peabody List

Automatic Data Processing
Ponderosa System
Colonial Penn
Rite Aid
Avery International
Hewlett-Packard
Dr. Pepper
Natomas
Tropicana Products
Bandag
CMI Investment
Marriott
National Chemsearch
Sony
Damon
Standard Brands Paint
Jack Eckerd
Wal-Mart Stores
C R Bard
Longs Drugs
Electronic Data Systems
Perkin-Elmer
Masco
Marion Labs
Corning Glass
Clorox

The Corporate & The Fund Manager

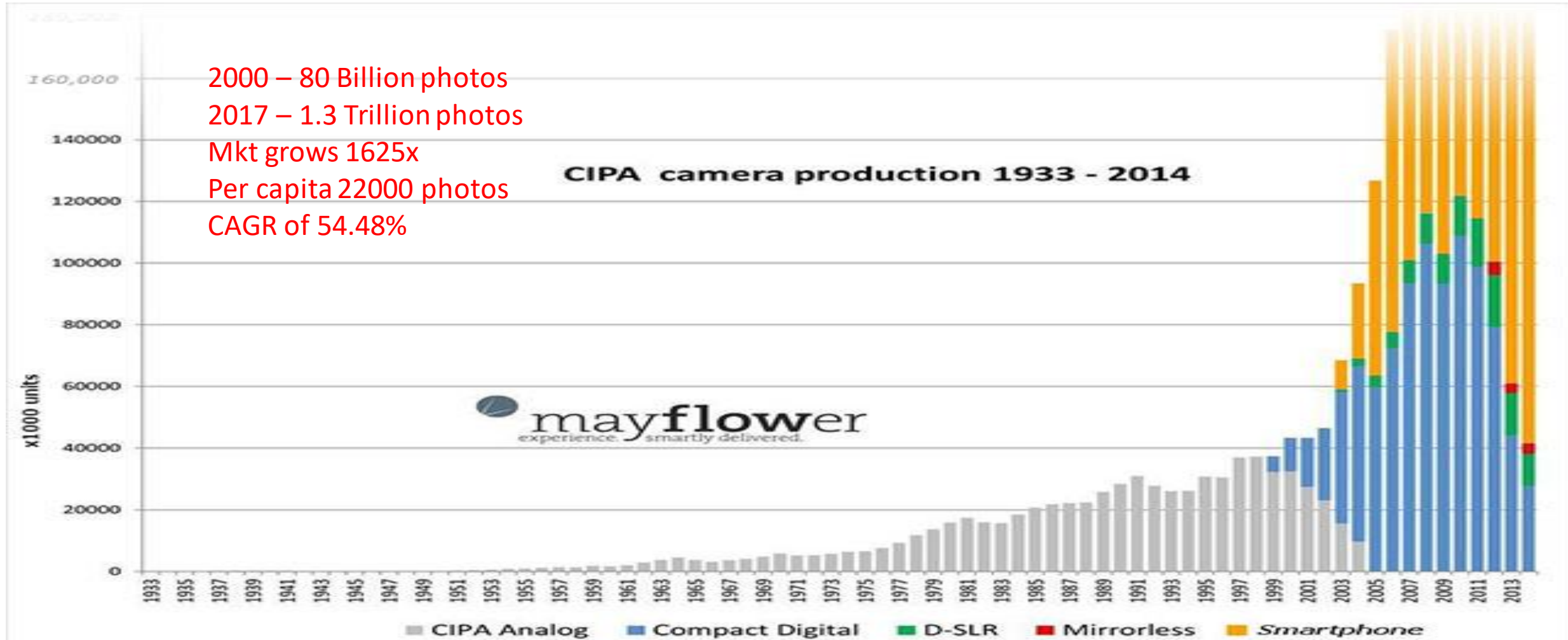
Two Faces of the Crisis



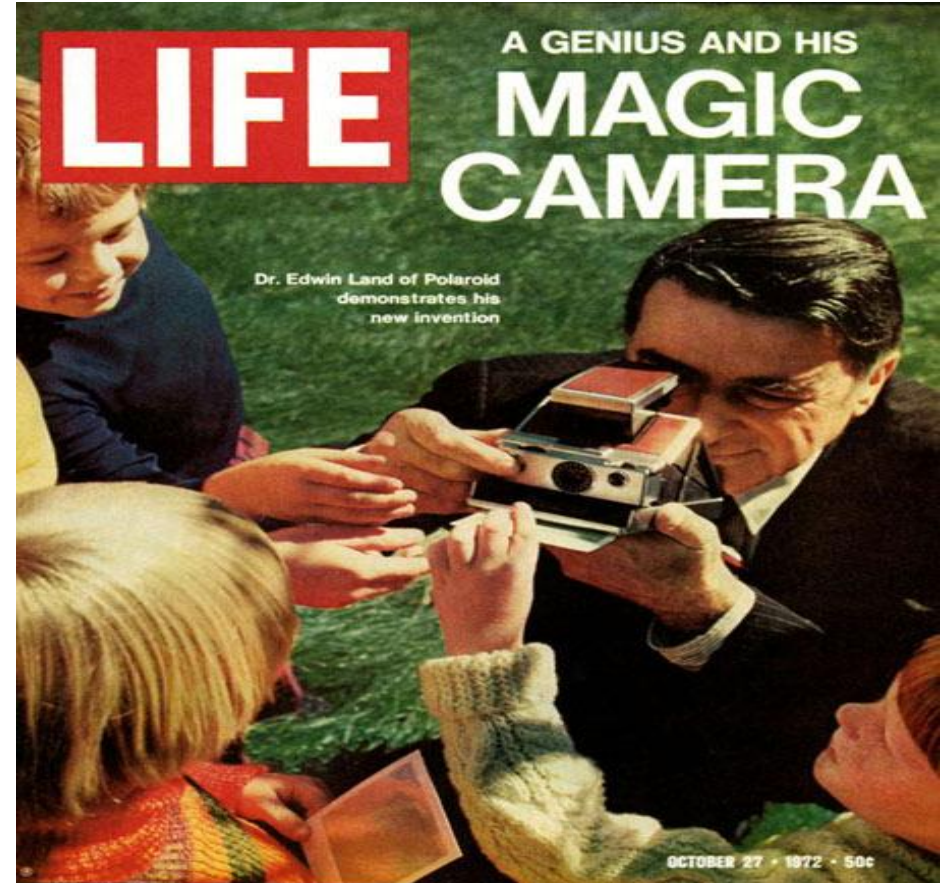
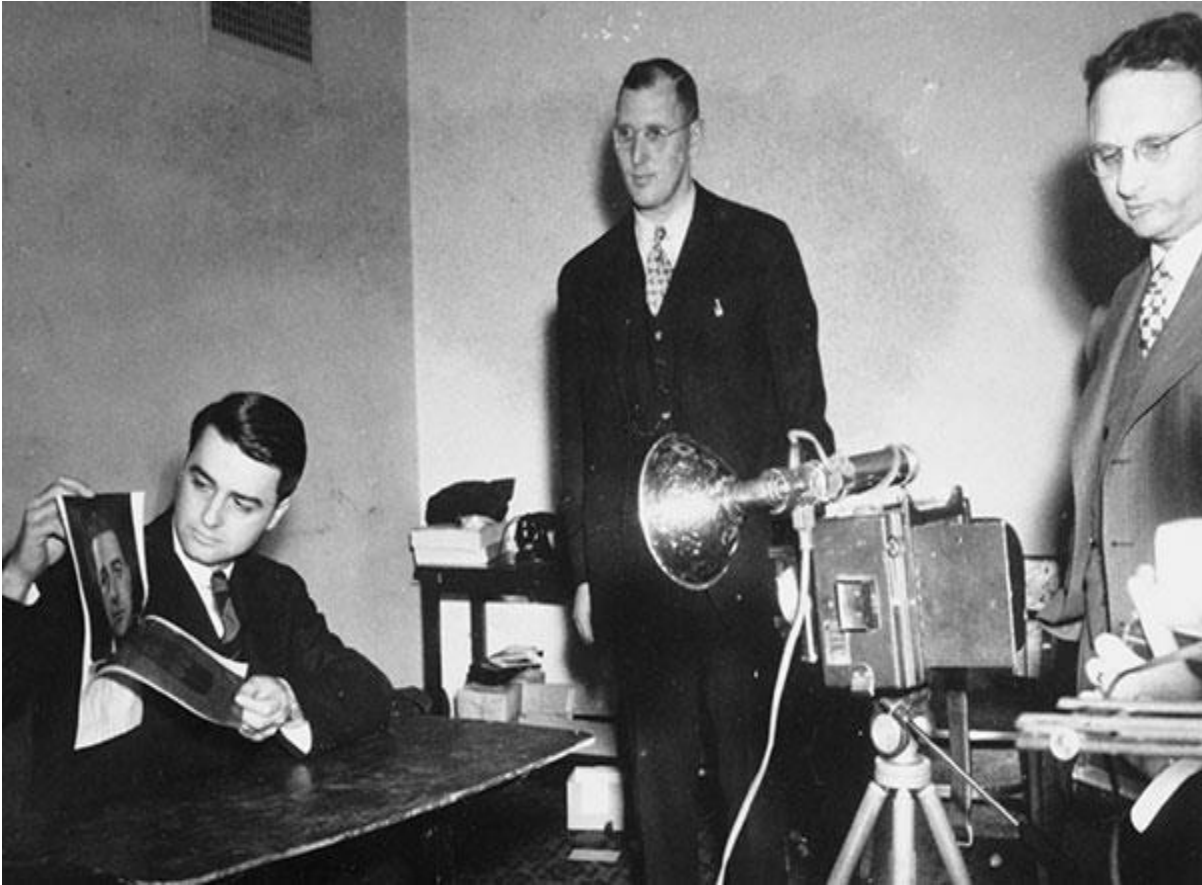


Photography – A Flash Point

2000 – 80 Billion photos
2017 – 1.3 Trillion photos
Mkt grows 1625x
Per capita 22000 photos
CAGR of 54.48%

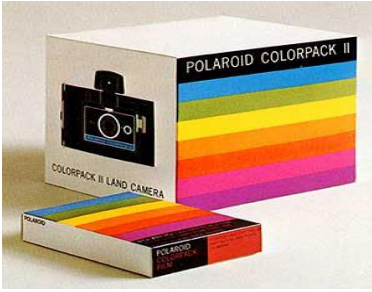


Edwin Land and the Polaroid story



Edwin Land (1909-1991)

- 1926 - Blinded by the lights
- 1934 – First order, ironically, from Kodak
- 1940 – Worked in the effort for WWII
- 1943 – A impatient daughter gives him a Eureka Movement
- 1947 – First instant camera launched
- 1950 – Consummate Showman, Early Day Steve Jobs
- 1960 – Early activist for equality and affirmative action
- 1972 – The ipod/iphone of its time –SX 70 launched – one step colour photo
- 1980 - Losses in Polavision , a film venture, prompts the board to ask for Land's "resignation."
- 1990's – Struggled with Helios Medical Imaging, Pro cam, Joshua, Captiva
- 2001 – Bankruptcy liquidation



Edwin Land & Steve Jobs



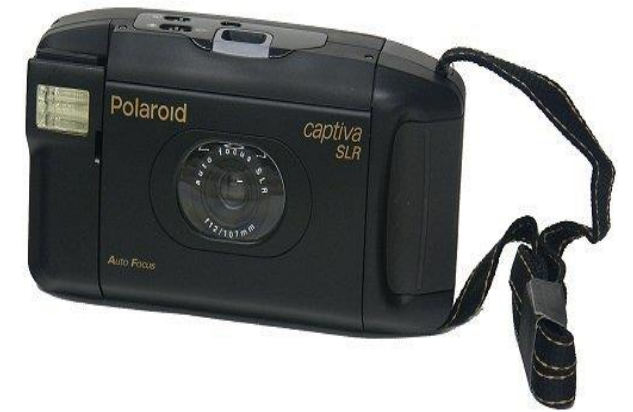
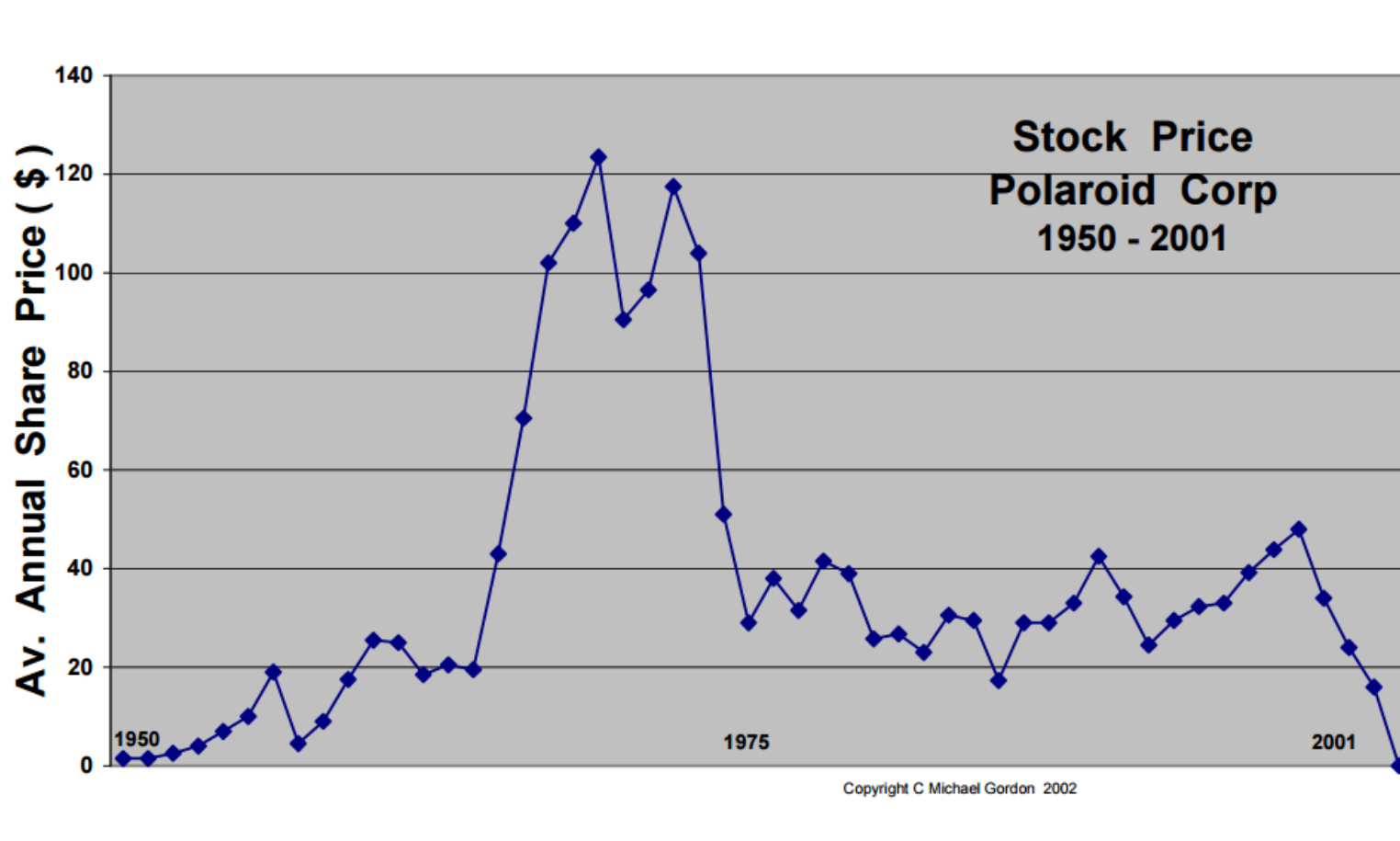
1976-1998

- Both were showmen who went on to become national icons
- Both were pioneering High Tech co's of their era
- Both invented products in a similar fashion
- The ipod/iphone and the SX 70 were both considered breakthrough
- Both were paranoid about secrecy
- Polaroid was used by Andy Warhol, Ansel Adams for creating art
- I-phone is used by David Hockney, Francis Dourlen to create art
- Jobs initially copied the colours by Polaroid for his marketing
- Eerily the Boards of the respective co's "fired" the founders

Polaroid – The Nifty Fifty Years & More

Year	Rev (Mn \$)	EPS	Av Stock Pr \$	Remarks
1957	48	.18	5	IPO
1964	139	.58	20	Bubble begins
1965	204	.93	43	Year 2
1966	322	1.52	71	Year 3
1967	374	1.81	102	Year 4
1968	402	1.86	110	Year 5
1969	466	1.92	124	Stock peaks \$140
1972	559	1.30	118	Market Cap peaks \$445Bn
1974	757	.86	51	R&D up; Misses Earnings
1980	1451	2.60	26	Lost Decade
1990	1970	2.20	34	Lost Decade
2000	1856	.84	16	Too much Debt
2001	1400	-2.55	0	Bankrupt

Polaroid – Rise and Fall of an icon



Why did Polaroid Fail !

- Polaroid era lasted 60 years
- At its peak it accounted for 15% of US Market for Cameras, and 20% overall market for films.
- By mid 1960 Polaroid had taken some patents on electronic shutters
- By 1981 it had set up an electronic imaging group to develop a “printer in the field.: an instant camera that would produce a film based print from a digital image.
- By 1989 approx 40% of Polaroid R&D was being spend on Digital Imaging
- By 1990's Polaroid becomes top seller of Digital Cameras.
- Struggled with the Helios Medical imaging, Pro cam for biz and Joshua, Captiva for consumers

“Its amazing, but kids don’t want hard copy anymore.”

Why Polaroid Failed Part II !

- Bet on “Hard copy” & Paper
- Instant Photography was his “legacy”
- Chemistry not Physics
- What would Management do if they moved to “electronics”
- Economics. How many times have we seen this.
- Instant Films had gross margins of 65%
- Saw them selves only as a “instant photograph” company

Polaroid Conclusion

- *The camera should "go beyond amusement and record-making to become a continuous partner of most human beings... a new eye, and a second memory."* – Edwin Land on his vision
- *Now that the camera has been joined to the cell phone and other handheld devices, it is truly "a continuous partner of most human beings." Ironically, the fulfilling of Land's vision led to the end of his company.*
-

On Polaroid's Tombstone – Eulogy by Theodore Levitt

The railroads did not stop growing because the need for passenger and freight transportation declined. That grew.

The railroads are in trouble today not because that need was filled by others (cars, trucks, airplanes, and even telephones) but because it was *not* filled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business.

The reason they defined their industry incorrectly was that they were railroad oriented instead of transportation oriented; they were product oriented instead of customer oriented....



Gerald Tsai

([Chinese](#): 蔡至勇; [pinyin](#): *Cài Zhìyǒng*; March 10, 1929 – July 9, 2008)¹



Meet the Maestro's Changing the rules of the game



Gerald Tsai – Career Milestones

- 1952 Joins Fidelity
- 1958 Runs Fidelity Investment Performance Fund
- 1960 Pied Piper of the GO-GO era
- 1965 Launches The Manhattan Fund
- 1973 Launches Brokerage firm G. Tsai & Co
- 1978 Buys Associated Madison Ins Holding co
- 1981 Buys National Benefit
- 1982 Merges with American Can co
- 1985 Creates Primerica, Becomes CEO of Dow co
- 1985 Buys Smith Barney
- 1987 Sells to Sandy Weil and Primerica becomes Citibank for \$1.7 Bn

Gerald Tsai – The Investment Manager as Pied Piper

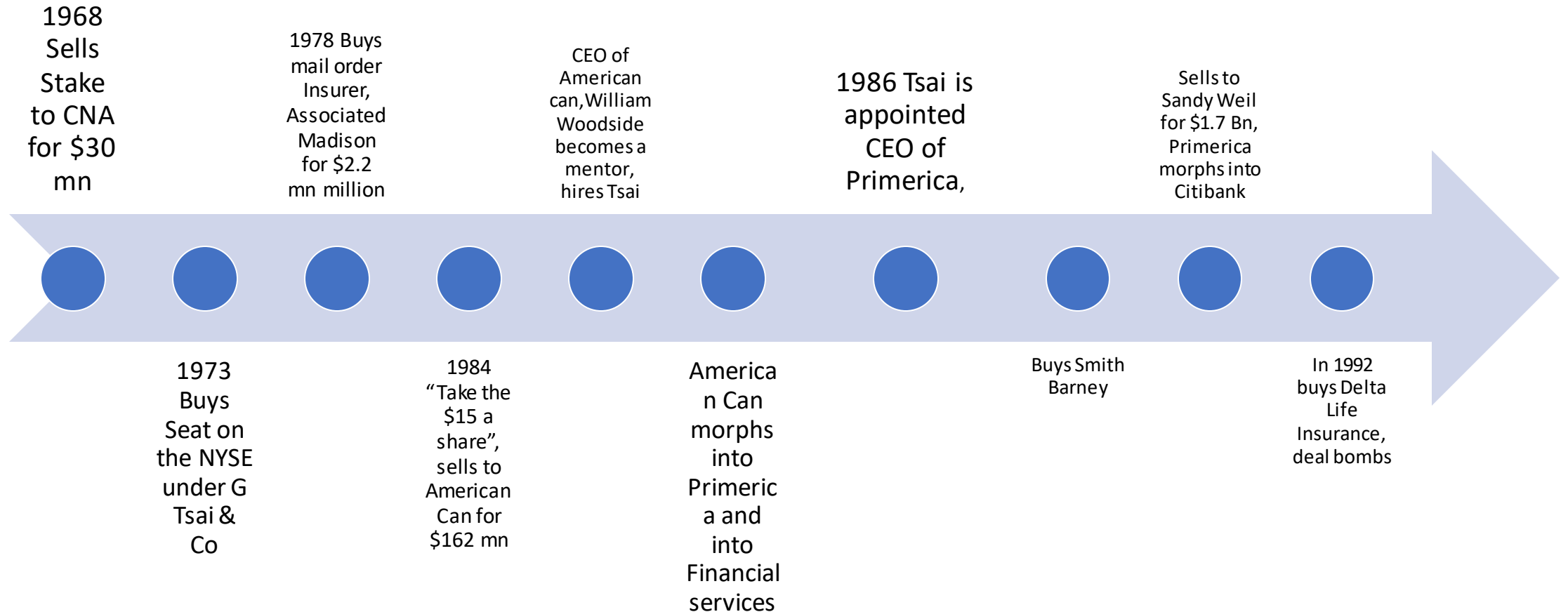
- Made Fidelity a Household name for Mutual funds
- Founder of Manhattan Fund – most coveted fund in the 60's
- Father of Momentum investing, One Decision stocks
- Steve Curry in the NBA
- “Unprecedented method of picking stocks for short term appreciation and selling them the moment their growth slowed” – Bus Week
- His Key Matrix was “rising earnings per share”
- Impeccable timer of Markets and Trends

Gerald Tsai – Genius turned Goat

- Launched career with Fidelity Growth Fund
- 7 years cumulative return was 285%, 2x that of his peers
- New Yorker called him “the stock markets certified golden boy”
- Launches the Manhattan Fund
- First year delivers 39% return
- Eight years after launch, fund loses 90% of value
- Bought by Newberger & Berman for its \$70 mn tax c/f loss

Gerald Tsai - Investment Manager to Investor

“He loved doing transactions, He loved the excitement of it.”



Gerald Tsai – Personal

The Playboy financier who seduced America

- Born in Shanghai, China in 1929 in the “year of the serpent”
- Influenced by Mother, Ruth Tsai a speculator of some renown herself
- Bachelor Degree of Economics from Boston U
- Worked 20 hrs a day, Married 4 times
- Engaged to Sharon Bush
- Architect, Pilot, Pianist, Boat designer, Philanthropist, Playboy, Gadfly
- Loved hosting over the top parties, making powerful friends
- When he became Chairman of Primerica a powerful friend said *“I went out the same day and bought some stock. I made a big bet on Jerry. Life is people, and Jerry is a champ.”*

"The further backward you look, the further forward you can see."

Lessons & Learnings from the Nifty Fifty

- Fundamental investment maxim is “ A great company is not necessarily a great stock.” Price Matters.
- Valuations Matter
- Diversification Matters
- Ride the winners
- A great stock may be a lousy investment and visa versa.
- **It's not always obvious which companies will outperform**
- Momentum becomes a respected investment style
- **No matter how bad things look, they do get better**



Thank you
Ramesh S. Damani
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