THE REAL SECRET OF THE STOCK MARKET

PARK AVENUE DIGEST

FROM THE DESK OF CHARLES MIZRAHI

Back in the day, Bear Stearns was one of the leading investment banks on Wall Street.

It was run by Alan "Ace" Greenberg.

His name was synonymous with Bear Stearns. It was the company he built in his image.

In 1949, after graduating college, he came to Wall Street. He was 21 years old, had no experience in the financial markets. His started as a clerk at Bear for $32.50 a week.

He was Donald Trump's and the Sultan of Brunei's stockbroker. Ace was one of the highest profile financiers of the 1980s and 1990s.

When I met him in 1993, I was just starting my career. A few years earlier I left the trading floor and started my own money management firm.

IT'S ALL ABOUT BEING IN THE ROOM

I was invited to a fundraiser at Bear Stearns. Besides being a titan on Wall Street, Ace was a philanthropist. He not only gave big, he encouraged others to do the same.

I arrived at the fundraiser held at Bear's auditorium a little early. So early, they were still setting up the tables.

I was walking around waiting for the bar to open. I saw a small bald man, without a suit jacket walking towards me.

He was checking the place settings, and barking out orders to the young lady assistant trying to keep up with him.

That's the first time I saw Ace.

I tried to avoid him. But he was heading straight in my direction. He stuck out his hand, and In his Mid-Western twang, said, "Ace Greenberg."

All I remember was shaking his hand, I don't recall what I babbled. After shaking my hand, he continued on his rounds...making sure everything in the room was up to his standard.

Over the next 30 minutes, the room started to fill up. I had lost my chance to chat with a Wall Street legend.

KEEP IT SIMPLE: IT'S ABOUT EARNINGS

An hour later when everyone was networking, drinking cocktails, and breaking up into small group...I saw Ace standing by himself.

I built up the courage to approach him. My knees were shaking.

"Hi Mr. Greenberg. The stock market has been crazy the last couple days", was what I remembered saying. Yeah, it sounds just as stupid today as it did more than 30 years ago.

Ace didn't say anything. I gathered more nerve and asked, "where do you think the stock market is heading?" He looked at me and shrugged his shoulders.

He started telling me it wasn't about interest rates, the money supply, or who was in the White House. Stocks move because of one thing, earnings.

He said, *"It's all about the earnings. It's always been, and always will be about earnings."*

A MINUTE-AND-A-HALF OF LEGENDARY INVESTMENT ADVICE

My whole "discussion" with Ace took about 90 seconds. Yet, I never forgot what he said.

That small piece of advice had been the cornerstone of my investing approach.

While CEOs can talk a great game, and the media can hype a company--it all boils down to one thing: earnings.

A company that can make money year after year, is rare. I have a name for them. I call them "compounding machines." That's the way you really make money in the stock market.

It's not by day trading, buying penny stocks, or playing options. It's about finding companies that are compounding machines.

Charlie Munger, Warren Buffett's partner, calls it by another name. He named this approach, "sit on your ass investing."

In a nutshell, if you buy a few great companies that grow their earings, you don't have to make another decision.

All you need to do is sit on your ass and watch the company and your net worth grow.

I have seen sit-on-your-ass investors earn amazing returns... yet they never read the company's annual report or follow how it's doing.

Investors that bought Berkshire Hathaway stock back in 1965, when Buffett took over the company, didn't have to make another decision for the next 50+ years.

Back then, the shares were trading for $25. Today, they trade for more than $275,000.

A $10,000 INVESTMENT WOULD NOW BE WORTH MORE THAN $110 MILLION.

Once they made the decision to buy, they went on enjoying their lives, continued to reinvest the dividends, and saw a small investment turn into a life-changing fortune.

FIRSTHAND VIEW

I first came across sit-on-your-ass investing at a very young age.

One of my uncles was a pharmaceutical salesman for a subsidiary of Johnson & Johnson (JNJ).

Uncle George was a man who enjoyed life to the fullest.

Back in the 1960s, he worked from his home office, was home for his two daughters, spent time with his wife, and rode a motorcycle.

He was also a very good salesman.

In the 1960s, he began receiving his bonuses in JNJ stock.

He didn't know much about the stock market or what the GDP rate was for the first quarter. All he knew was that JNJ was a great company.

In the early 1970s, he left his company and went to work as an electronics salesman for another company... but didn't sell one share of JNJ stock.

Back in 1972, the farthest my data goes back, JNJ shares, adjusted for four splits and more than 35 years' worth of dividends, were trading for less than $1.

I never knew how many shares he had, but it is safe to say that he had at least $20,000 of JNJ stock back in 1972.

As Uncle George grew older, he got sick and needed full-time care. He eventually had to be placed in an assisted living facility.

Each month, his family sold a few shares of JNJ stock to pay for his care.

Right up until his last day, he was cared for in comfort, had the best medical care, and passed away with those who loved him by his side.

When he passed in 2009, each share of JNJ was worth more than $50 share... a 50x return on his money.

Even though he never read financial reports or the Wall Street Journal, he was able to amass more than $1 million, which took care of him when he could no longer take care of himself.

LESSON LEARNED

I saw close up how sit-on-your-ass investing works, and it always amazed me that most people *never* follow this simple idea.

Instead of finding a few great companies and holding them, they continually try to hit it big in option trading or by buying penny stocks. Unfortunately, they usually end up losing money and hoping the next trade will be a winner.

In all my years on Wall Street, I haven't met one investor who made as much money with as little effort as sit-on-your-ass investors.

Here are the details of three stocks that fit the mold for Munger's "sit on your ass" stock selection method.

HUNTINGTON INGALLS INDUSTRIES INC. (NYSE:HII)

Huntington Ingalls Industries, Inc. (HII) is America's largest military shipbuilding company and a provider of professional services to partners in government and industry.

The U.S. Navy currently has approximately 274 service ships… not enough to meet its global commitments. Experts agree that the optimum number of ships in the fleet should be in the 350 range. Demand for new ships will boost revenue and profits.

HII is the *only* builder of nuclear-powered aircraft carries. The company's main customer is the U.S. government.

The company is so vital to national security that the U.S. Navy indemnifies HII from losses relating to its nuclear operations for the Navy.

HII currently trades at less than 17x trailing twelve month earnings, which we consider an attractive valuation for a company that has a virtual monopoly.

We would recommend buying share only when the stock price is trading at 18x trailing twelve month earnings or less.

TJX COMPANIES (NYSE: TJX)

The TJX Companies, Inc. (TJX) is the leading off-price apparel and home fashions retailer in the United States and worldwide.

They have more than 3,800 stores that offer a rapidly changing assortment of quality, fashionable, brand name and designer merchandise at prices generally 20% to 60% below department and specialty store regular retail prices on comparable merchandise, every day.

We liked the business model, TJX's dominant position as the leader in off-price apparel business, and how they are working to increase their bottom line.

CEO Carol Meyrowitz continues to do an outstanding job leading the company forward in a very difficult retailing industry.

TJX continues to defy the retail slump. Despite the selloff in the retail sector due to declining sales, TJX has seen sales at stores open at least a year rise for 33 straight quarters.

TJX continues to thrive while only have just over 1% of sales coming from e-commerce.

Shopping at an off-price store is the main attraction… you never know what you'll find and what bargain you'll get.

Ask anyone that shops at TJX's stores and you'll quickly find out that the "hunt" for bargains is what brings shoppers out.

We would recommend buying share only when the stock price is trading at 18x trailing twelve month earnings or less.

ADIENT PLC (NYSE: ADNT)

ADNT is the world's largest automotive seating supplier. ADNT has a leading market position in the Americas, Europe and China, and has longstanding relationships with the largest global original equipment manufacturers, or OEMs, in the automotive space.

After spending $332 million last year and $182 million the year before in restructuring plans, the company forecasts operating cost savings of $280 million annually.

Due to ADNT's recent incorporation in Ireland, the company's tax rate at the end of 2016 was 14% compared to 26% in 2015.

ADNT's joint venture with YFAI makes it the leading company in China's auto market, one of the fastest-growing markets in the world with a 45% market share.

A RARE SECOND OPPORTUNITY

If you missed out on buying Berkshire Hathaway in 1965 when it was $25, or in 1985 when it was $1,900, or in 2005 when it was $80,000...now's your chance.

I'd like to tell you about a company that I'm calling, "The Next Berkshire Hathaway".

The company has been growing earnings year after year. It's a compounding machine.

A $10,000 investment, in 1985, would now be worth $2 million.

And right now the stock price is trading at a very attractive price.

It really is a Berkshire Hathaway clone.

But here's the deal: It trades for just 4% of the market valuation of Berkshire.

It's a no-brainer, in my opinion.

So you're getting that rare chance to invest in a company that has the very real possibility to grow your portfolio 109x over the next decade.

But you have to get in now.

Buy it… and sit-on-your-ass as the returns come in!