INTRODUCTION

A pig farmer's approach to investing

"Mr. Hogan, would you like to see a man who has never lost money in the stock market?"

Mr. Hogan looked up, baffled. Who was that? The voice was coming from across the way. Some senior account manager at Merrill Lynch. But that guy had never spoken to him before.

Too bad, thought Hogan, he could have done with some advice. He'd done well enough since the end of World War II. Discharged from the army, he'd gone into oil rig construction and dabbled in stocks. His friends, coworkers, and even business partners seemed to be boasting of easy capital gains and they convinced him to join in the stock market game. To his dismay, he seemed to lose money every time he followed the advice of others. He tried to copy his friends, while following the advice of his broker and star fund managers at that time, but at the end of each year he always had a net loss. He tried every approach he read or heard about: technical, fundamental, and combinations of all these, but he always managed to end up with a loss. Even in the great rally of 1958, with the Dow Jones performing better than 25%, he somehow pulled a net loss.

Yeah, he would like to meet someone who'd never lost on the stock market. But who the hell was this guy?

'Would you like to see that man?' the voice repeated.

'Never had a loss?' stammered Hogan.

But what he was really thinking was - Yes, please! And tell me his secrets, too.

"Never had a loss on balance, and I have handled his account for nearly 40 years." The broker gestured to a hulking man dressed in overalls, who was sitting among the crowd of tape watchers.

"If you want to meet him, you'd better hurry," he advised. "He rarely visits our office when he's not buying or selling. He only hangs around a few minutes to check out the tape and some company information. So you better hurry up before you miss him. He's a rice farmer and hog raiser from down around Baytown."

A curious, but wary Mr. Hogan worked his way through the crowd to find a seat beside the stranger in overalls. He nervously fiddled with his portfolio sheet until he finally mustered the courage to talk to the farmer.

To his surprise, the stranger, Mr. Womack, was happy to talk about stocks. Mr. Womack pulled a sheet of paper from his pocket with a pencil-scrawled list of stocks that he had just finished selling and let Mr. Hogan look at it.

He couldn't believe his eyes. The man had made over 50 long-term capital gain profits on the whole group! One stock in the group of 30 stocks disappointed and showed up as a loss, but others had gone up to 100%, 200%, and even up to 500%.

Mr. Womack explained his technique, which was **pure simplicity**. During a bear market, he would read in the papers that the market was down to new lows, and the experts were predicting that it was sure to drop another 200 points in the Dow, then the farmer would look through the Standard & Poor's Stock Guide and select around 30 stocks that had fallen in price substantially. He would choose those that were profit-making and would pay regular dividends. He would then come to Houston and buy a $25,000 "package" of them.

And then, two, three, or four years later, when the stock market was bubbling and the prophets were talking about the Dow hitting new records, he would come to town to his broker and sell his whole package.

It was as simple as that.

Mr. Hogan remained friends with Mr. Womack until his death. During that time, he learnt a lot from Mr. Womack, who always had a great analogy from his farming work that applied to his stock investing strategy. One day while hunting ducks, Mr. Womack had another analogy ready. This time, it was his hog raising business for which he was renowned for his skills and experience among his farming community. He equated buying stocks with buying a truckload of pigs. The lower he could buy the pigs, when the pork market was depressed, the more profit he would make when the next seller's market would come along. He claimed that he would rather buy stocks under these conditions, because pigs did not pay a dividend. Plus, you have to feed pigs.

Mr. Womack took "a farming approach" to investing. In rice farming, there is a planting season and a harvesting season. Mr. Womack, in his purchases and sales, strictly observed the seasons.

He never achieved the best possible bottom prices and he was never able to sell his investments at top prices, either. He didn't aim to! Mr. Womack seemed happy to buy or sell at good average prices. When prices continued to drop, he simply ignored the old stock market cliché "Never send good money after bad" and continued buying into falling prices. He was happy to have found a productive home for his cash savings.

When the market continued to decline substantially in the 1970s, for example, Mr. Womack added another $25,000 out of his cash savings to his previous bargain-priced positions, and made a fortune on the whole package when the market rose again. Even if it took several years to materialize, he was comfortable holding stocks instead of keeping his savings in cash.

Mr. Womack didn't make investing work-intensive or complicated for himself. He didn't have a finance or MBA degree, nor did he rely on brokers or bankers for his investment decisions. He intuitively understood that the stock market was a place, like a farmers market, to occasionally take advantage of. He understood that only very few actions determine investment success, and to focus on these and to ignore anything else. That way, he could spend his time on what he did best and was trained to do -- which was raising pigs and farming.

Among the most important things Mr Womack taught Mr. Hogan was that, "you couldn't buy assets every day, week, or month of the year and make a profit, any more than you could plant rice every day, week, or month and make a crop."

If you asked a hundred professional money managers today what the single best investment strategy is, and what would be the core component of that strategy's success, I suppose you would hear many different answers. On top of that, some of their explanations would be so complex, it would make a finance professor proud.

But nobody I know in the professional money management field would put emphasis on the simple "**buy price,"** according to specific seasons that Mr. Womack practiced.

He was what I'd call an 80/20 Investor. Someone who focused only on the few tasks that made the biggest impact on his performance. It simplified everything for him and made him a wealthy pig farmer.

This book is about 80/20 Investors, their simple approach, and how you can become one, too. (Sorry, it's not about pigs and farming!) *(1)