

**ELECTION FALL-OUT** Why **THE ROADS** could have clinched it

# open road

MOTORING + TRAVEL

**NRMA** MEMBER MAGAZINE September/October 2010



# 20 **SPECIAL REPORT** NEW CARS THAT COULD CHANGE YOUR LIFE



## RED HOT CHILLI HATCHBACKS

RENAULT SPORT CLIO VS VOLKSWAGEN GOLF R



**JERSEY BOYS  
BONANZA**

# WIN

- DINNER
  - SHOW • HOTEL
  - MEET THE STARS
- 10 WINNERS**

## AUSSIE DRIVERS ARE PATHETIC

F1 CHAMP SPEAKS HIS MIND



## WILDLIFE ESCAPES

- SLEEP WITH LIONS • CUDDLE A ROO
- STARE AT A BEAR • PAT A PORPOISE



## Uncommon sense

Why research, not speculation, is the key to success

**"OCTOBER. THIS IS ONE OF THE** peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

Mark Twain wrote that in his novel *Pudd'nhead Wilson*. The author was qualified to comment, having burned millions of his own dollars on shares. It's interesting, though, that he uses the word 'speculate' rather than 'invest' – because that distinction lies

at the heart of *Value.able*, a new book by Roger Montgomery.

Part one in particular outlines the difference between buying shares in a company and hoping it will do well and actually investigating a company to discover if its shares are worth buying.

Montgomery uses a case study from his own career as a funds manager to make the point. When retailer The Reject Shop came to his attention, he says it had around 100 stores and was generating a profit of \$4.6 million on the \$11 million its owners had invested in it. Most importantly, even though it was small, 90 per cent of adult Australians knew the brand – something that usually requires a huge marketing budget to achieve.

Many so-called experts thought The Reject Shop was about to take a dive. Why? Because two competitors that ostensibly had similar retail models were struggling. But

Montgomery took the time to properly study the business and saw it was not like its competitors at all. He began to buy shares at \$2.40 for his clients. By 2009 The Reject Shop had grown to 171 stores and the annual report showed the owners were getting a 74 per cent return on their investment, while share dividends were at 20 per cent of the purchase price. Good figures in anyone's book.

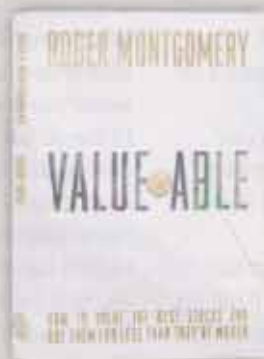
What Montgomery

advocates might sound like a stunning flash of the obvious, but perhaps that's no longer the case – after all, the GFC happened in part because guessing replaced sensible investment on a

worldwide scale.

Throughout *Value.able* he applies the common sense rule, whether it's working out what a business is worth or determining how successful it is likely to be. He also conveys this in clear, easy-to-understand language. In his foreword to *Value.able*, financial planner Simon Hoyle says: "Roger is the rare individual who possesses a keen insight into his subject, the desire to share it with others and the happy knack of communicating ideas clearly. Not surprisingly, those characteristics aren't terribly common in an industry that thrives on jargon and making things seem more complicated (and therefore more expensive) than they need to be."

— REVIEW BY KRIS ASHTON



*\*Roger Montgomery's regular Open Road column, Buy-ology, will resume in the next issue (November-December).*