

## If You Don't Know What You're Looking For, You Probably Won't Find It

December 27, 2024

If you know what you're looking for, you have a higher probability of finding it.

So what are we looking for? As fiduciaries, we're looking for companies with a low probability of falling and a higher probability of rising.

The first primary parts of that equation is: What is the financial condition of the company? Is it...

- Strong and getting stronger?
- Strong and stable?
- Strong but getting weaker?
- Moderately strong and getting stronger?
- Moderately strong and stable?
- Moderately strong and getting weaker?
- Weak but getting stronger?
- Weak but stable?
- Weak and getting weaker?

We have to rate the changes and magnitude of the changes of the company financial condition over the past 1, 3 and 5 years, and decide how important the past 1 year of financial changes is compared to its 3-year, 5-year or longer-term changes. It's quantitative data analysis work, not merely an *opinion* on the significance of the rate of change of those important financial metrics.

We're looking for companies that we can clearly identify as "strong", or at least "moderately strong", and ideally "strong *and* getting stronger".

Today, we're contrasting two companies:

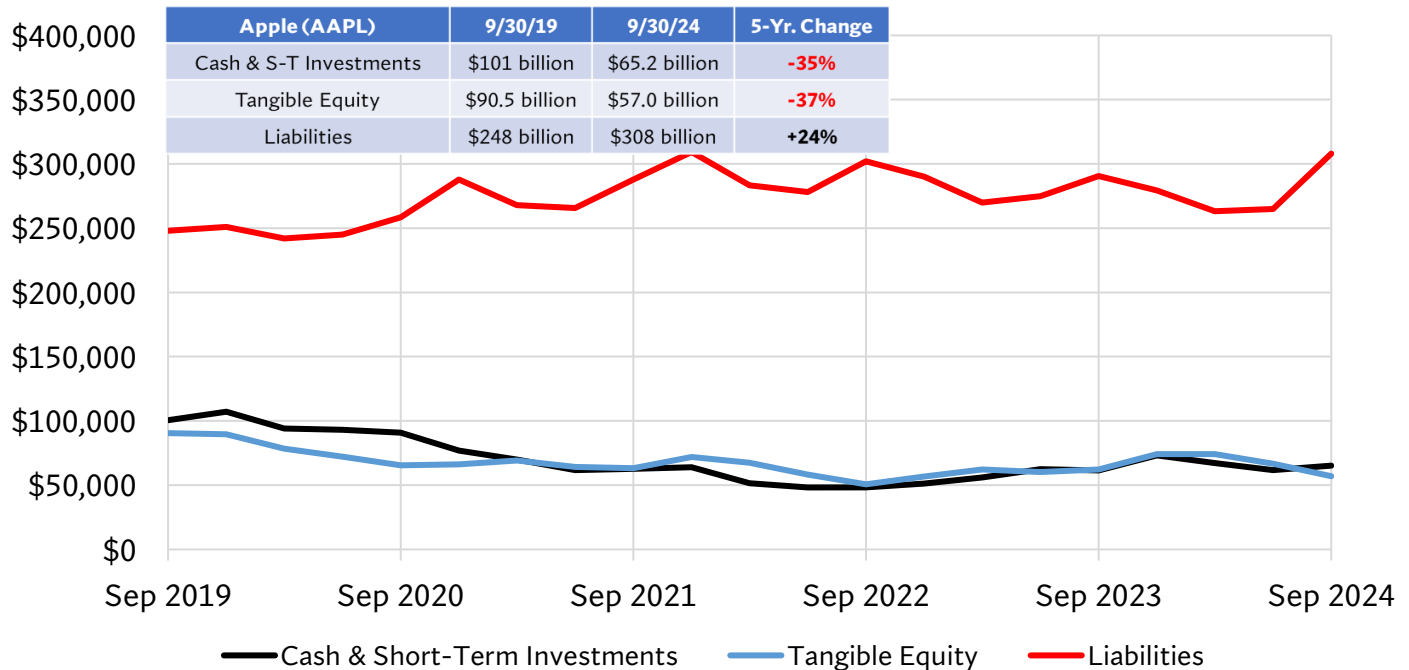
Company A, Apple, a stock that everybody knows and loves, and Company B.

We'll examine just three items from their financial statements: their cash, their total liabilities and their tangible book value, and we'll examine the changes in those three items over the past 5 years.

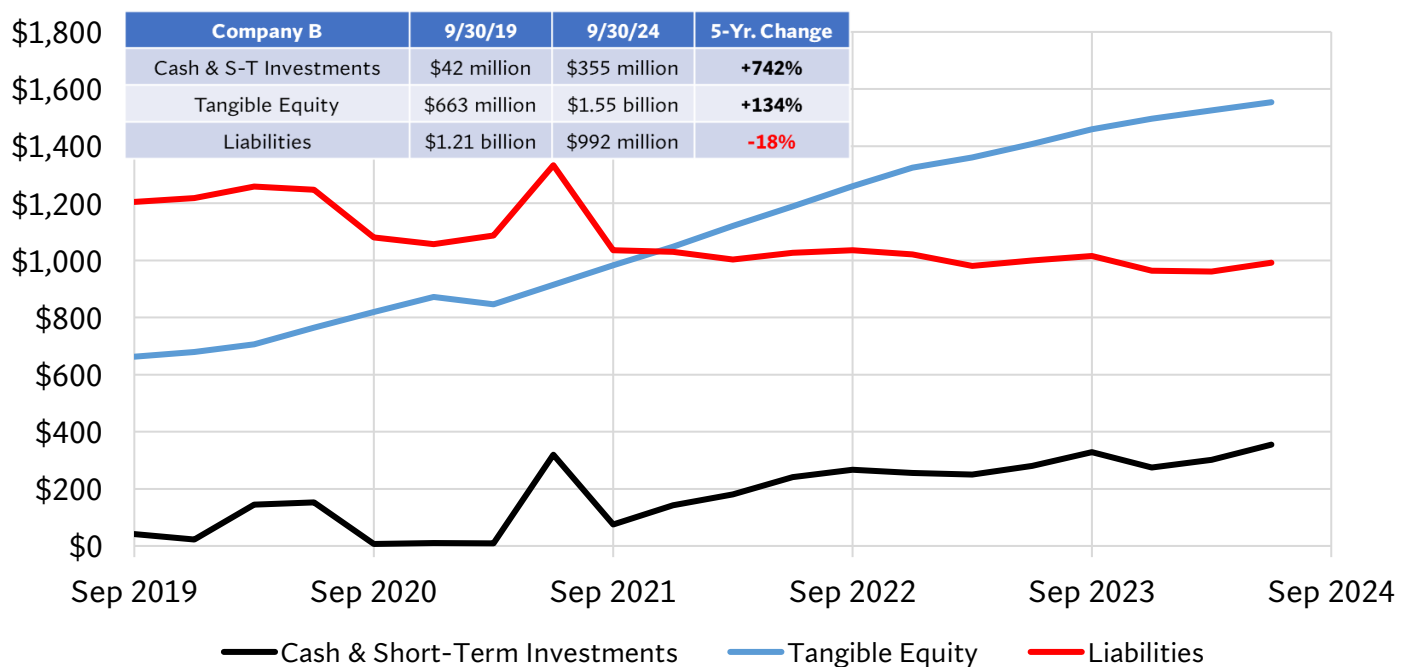
Examine those two stocks as though you owned the entire company. Is Apple stronger today than it was five years ago? Would you be happy owning 100% of the company, knowing it has far less cash, far more debt and far less tangible equity?

What about Company B? It has experienced very significant cash growth, very significant tangible equity growth and only modest debt growth, far less than its growth of tangible equity. When you compare this data about these two companies like this, Apple compares very poorly to Company B. Agreed?

### Apple – 9/30/19 to 9/30/24



### Company B – 9/30/19 to 9/30/24



I'll be happy to share the name of Company B with you, just call or send me an email.

Have a great weekend.

My best,

Raymond Mullaney, CEO