THE HIDDEN POWER *of* RISING DIVIDENDS

How to Produce Security, Income, and Growth

Greg Donaldson

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To Joyce, my beloved wife and forever travel companion, for your unwavering commitment to our family. I am eternally grateful for your love, prayers, care, and sacrifice. Your encouragement and wisdom have been a constant source of comfort throughout our 50 years of marriage. You are my guiding light through every adventure.

FOREWORD

I have to admit, I'm not a savvy investor. And I don't have extra cash lying around to buy a yacht or spend the summer in the South of France. I have a small nest egg to invest for retirement and hopefully leave to my kids when I am gone.

Why, you might wonder, is this information the lead in for my introduction to Greg Donaldson's informative and unexpectedly enchanting book, *The Hidden Power of Rising Dividends*?

Because essentially I'm not the type of person one would consider to be in Greg's readership. I'm a writer. My graduate degree is in writing. I run a small business editing and coaching writers. I'd rather read a good novel than Investor's Business Daily. And if I had to choose between a pile of money and saving the planet...well I'd choose the planet. And yet, from the moment I read the first sentence I became a devotee.

I admit, it was the gorgeous writing that got to me at first. But, ironically, the first words I said to Greg, after extolling the beauty of his prose and gushing about the moving, sometimes dramatic story of his desire to build an ethical and successful business, (yes, Greg shows that this is indeed possible) were "I am ready to invest with you."

I want to be clear. As a writer, for me this book is first a masterfully written *story.* It is not your typical dry investment book—or like I say about such things, an effective sleeping aid. Greg's book is dramatic and moving, each word carefully chosen to deliver a breathtaking narrative that will teach readers not just how to invest wisely, but how to live life fully.

What you will experience as you sit down to read this book is joy. Honestly, what kind of investment book does that? Yet, Greg's pioneering development of a safe and financially rewarding investment strategy, as well as his honest portrayal of the ups and downs of building a trustworthy financial firm is so much more than a mere book on how to invest your money.

This is a narrative that will pull at your heartstrings. It will make you think about your own life in challenging and provocative ways. It will also teach you clearly and directly the best way to invest for your future. Greg's financial strategies and his incredible knowledge deliver a sane, powerful, and responsible method for ensuring your financial future.

Leslie Schwartz
Iceland, 2024

EPIGRAPH

Even so, the old farmer said to his son:
A cow for her milk,
A hen for her eggs,
And a stock, by heck,
For its dividends.
An orchard for fruit,
Bees for their honey,
And stocks, besides,
For their dividends.
The old man knew where milk and honey came from,
But he made no such mistake as to tell his son to buy a cow
For her cud or bees for their buzz.

- John Burr Williams, *The Theory of Investment Value*

PREFACE

In life, we often encounter extraordinary people who leave a lasting imprint on us, those whose wisdom, support, and unwavering faith mold our unique journey.

Among those remarkable people in my life was Dr. Joseph W. Begley, a dear friend and client for nearly 40 years. You will get to know Dr. Begley in the pages of this book, not just as an accomplished ear, nose, and throat surgeon, but as a man whose influence inspires me to this day. Indeed, it may be said that had I not met Dr. Joe in the mid-1970s, this book would never have been written.

Though he achieved many incredible accomplishments throughout his medical career, I admired the talent that arose from his 'second career' as a painter, which he took up earnestly at age 70 and continued for years until his death in 2014. I grew especially fond of one painting titled "Plow the Long Row."

The painting hung outside my office for many years, and its title became an integral part of our business strategy. "Plow the Long Row" would be the motto that would shape our sustainability and growth for the future. The painting is a symbol of perseverance, a daily reminder to look beyond the immediate disruptions to cultivate a vision that will endure and flourish for generations. It is no coincidence that it graces the cover of this book.

As you turn these pages, I invite you to join me in honoring a remarkable friend whose absence is felt, but whose spirit continues to guide me. This book is a tribute to the wisdom he and so many others imparted. Thank you, old friend. I miss you.

CHAPTER 1
BLACK MONDAY

By the time I arrived at work on Monday, October 19, 1987, I already knew it was going to be unlike any other day of my life. A stock market meltdown had begun overnight in Asia, wiping out hundreds of billions of dollars of market value as the markets opened in every major world financial center. This sudden and unexpected financial tsunami was surging to every point of the globe. Black Monday, as it would come to be known, would be both the worst day of my professional life and the best thing that ever happened to me. By the end of that day, the Dow Jones Industrial Average would lose nearly 23 percent of its value, or over $600 billion in the United States alone.

During this time, a big day for the Dow Jones Industrial Average (DJIA) was a positive or negative change of 1 percent. As the huge stock market selloff reached the United States, the DJIA opened down nearly 10 percent before rallying back to 4 percent lower by midmorning. When it again fell by over 10 percent a few hours later, I knew the market was going to go a lot lower before the day ended. Experience taught me that the panic in the air would have to exhaust itself before calm would return to trading, and that was not going to happen anytime soon.

As stocks continued to fall, it became clear that the crash would do as much psychological harm as financial. It also posed a serious threat to the existence of our small investment management firm, which was barely a year old. This would be a battle not only to protect our investors' assets but also to save our company.

The mood in the office was grave. My partner, Tom Lynch, the rest of our small staff, and I could barely speak. Tom and I finally found our way to our conference room and tried to extract some form of intelligence out of the chaos that was raging through each of our minds.

Stocks had surged by over 40 percent during the first eight months of 1987, and during this time we had taken profits in or sold eight stocks, mostly because of their disappointing earnings results or poor price performance. Thus, we debated whether we should sell more stocks if they triggered our downside selling targets or do some bargain hunting and buy.

In the week that just ended, investors were panicked, and it was not our practice to sell into panics. At the same time, the huge selloff meant that none of our stocks would be giving us a buy signal. After just a few minutes, Tom spoke up.

"I vote we just stand back and try to make sense of what's happening before we buy or sell anything."

Everyone agreed. The meeting lasted five minutes. Tom and I went back to staring at our Quotron market trading terminals. The Quotrons provided live scrolling financial market data and news from Dow Jones and Reuters. After reading only a few minutes about the financial devastation happening around the world, I found my way back to my office and sat down to catch my breath and my bearings.

I noticed a gift that a friend of mine had given me just days before Black Monday: a daily prayer journal. I opened it to the date of October 19. A verse from Isaiah (43:2) was written across the top of the page. "When you pass through the waters, I will be with you; when you pass through the rivers, they will not sweep over you. When you walk through the fire, you will not be burned; the flames will not set you ablaze."

I realized how much I needed to read that passage.

I tried to pause and meditate on the scripture, but phones began to ring. So, I bowed my head and uttered a quick prayer asking for strength and wisdom.

The telephone calls from frightened clients came at what felt like warp speed. I had few answers for them. Even if they insisted on selling, I had no idea where most stocks were trading. According to reports, the market data on my Quotron terminal was running as much as an hour behind the actual trading. The volume of sell orders, which in most cases were handwritten, had overwhelmed brokerage firms' ability to input trades into the system. Rumors circulated that these manual trade inputs were backlogged at least an hour, maybe more. It was anybody's guess what clients would receive for the sale of a stock.

The devastation of Black Monday snuffed out most of my illusions about investing. Yet, in the blackness of the day and its assault on my state of mind and financial well-being, a flickering light appeared, offering a way out of the darkness. The light revealed itself through telephone calls with two clients and a colleague. A fourth person would add additional fuel to the faint flame by week's end. These four people reached out to me during the darkness that was Black Monday and told me where to look, asked me to believe, challenged me to see things differently, and finally gave me eyes that could see the flickering light. Without our knowing it, they would send me on a quest to find what would ultimately be called the Rising Dividend strategy.

CHAPTER 2

THE FIRST CALL: VALUING STOCKS LIKE FARMLAND

Mildred Hagedorn was a remarkable woman. Aside from giving birth to 12 children, she and her husband built a large farming operation in southern Indiana and western Kentucky. After her husband died, she added coal and oil to her business interests. I had the privilege of working with her for many years, primarily with her municipal bond portfolio.

Because she owned few stocks, it surprised me when I recognized her voice around midmorning since her bond holdings were relatively unaffected by the bloodbath in the stock market. But I was even more surprised by what she wanted to discuss. Fully aware of what was happening in the stock market, she came right to the point.

"How much money can I borrow from my bond account to buy stocks?" she asked.

Immediately, I tried to dissuade her. "Buying into the crash is not a good idea. It might take weeks, even months, before the market can put in a solid bottom."

If there was one thing I thought I knew for sure about stocks, it was how they worked their way through bad news. I had seen it hundreds of times. Investors build a kind of narrative for a company and the market. Over time, that narrative is confirmed, adjusted, or destroyed as official earnings data or corporate developments are released to investors. If a company's quarterly earnings results are too far below Wall Street analysts' estimates, or if its plans for new products, geographic extensions, or mergers fall short of expectations, the stock will sell off sharply, perhaps as much as 5 to 10 percent. Corporate financial blunders or bad breaks can also lead to big selloffs. My experience taught me that once a company or the overall market took a hit, it might take months, even years, to build a new narrative.

Seldom had I seen a stock or the market collapse and then suddenly recover all the lost ground and shoot higher in a matter of days or weeks.

I explained to Mrs. Hagedorn that I thought the market might go lower over the next few months, and I strongly advised her not to put any new money into the market in the next few days. Even if the stock market crash were a complete accident, as I believed it was, it would still take months to rebuild the trust necessary to push stocks higher in any meaningful way. After all, no matter what the cause of the crash, trillions of dollars had been lost worldwide, and investors would not come rushing back into the market until they had a better sense of the future.

Mrs. Hagedorn patiently listened to my warnings, and then she said, "My husband and I have accumulated thousands of acres of prime farm ground by buying when everyone else was selling. I continued that strategy after he died, and it has always eventually resulted in large gains."

I admired her tone: direct and confident. Before I could give more pushback to her plans to buy into the big selloff, she cut off further debate. "Greg, I know what I'm doing, and I'm a big girl. If I'm wrong and it doesn't work out, I won't blame you. And while I have no intention of losing this money, if I do, my life will not change."

I was awed by this self-made woman's strength and resolve at a time when uncertainty prevailed. I could not argue with her and her tenacity. "Okay, Mrs. Hagedorn. Tell me what you'd like me to do."

"I want to see a list of what you consider to be the best companies—the companies of unquestioned value, companies that will come out of this bad market, perhaps stronger than they went in."

It was an unusual request. "Are you thinking of buying these stocks to take a short-term profit if the market bounces back or to hold them for a while?" I asked.

"I want to buy companies that I can own for the rest of my life," she said unequivocally. "That's the way I buy farm ground; that's the way I buy bonds; and that's the way I'm thinking about these companies."

In between calls that day, I thought about Mrs. Hagedorn's request and what it meant to own the "best" stocks. What were the "best" stocks? How could they be defined? Before the crash, my characterization of the best stock was one that made the most money in the shortest time. But I quickly realized that this way of thinking about "best" was only possible by looking back. In this case, Mrs. Hagedorn wanted to know the best companies on a present and forward-looking basis. She was not asking me to pick companies with the best risk-reward value or those that could be big winners. Rather, she wanted me to pick a small group of the *best* companies.

I had no clear answer to her request. There were companies that were great values and those with big profit potential, but "best" was just too relative a term to apply to companies. For a while, I was confused about what kinds of companies to recommend to her. Then I thought about what she was asking me to do according to her perspective in the world of farming.

I grew up in a farming town. I had friends and relatives who were farmers. If I were to ask them what the best farm ground in their county was, they would use terms like "lay of the land," "richness of the soil," "the length of the rows," and "yield per acre." They would take into consideration location, access points, creeks, drainage, and outbuildings. But this line of thinking was not completely helpful either because farm ground is tangible. Stocks are not.

That led me to ask myself whether there was anything tangible about a company. Stocks have a book value, but that is not what truly determines most companies' price. Book value is just an accounting term—a measurement of the depreciated value of the firm's investments in its plant and equipment. In the stock market, what gives a company its value is how much its products and services are prized by consumers as well as the company's ability to create and extend its products to new markets and convert sales into profits.

Then it hit me. At the county fair, the best animal wins the blue ribbon, and the most attractive girl in the beauty contest wins the crown. A man gives his best girl a diamond. An outstanding athlete becomes a star. In all societies, the best are given the prize and are prized. So, what companies in the US were most prized? Immediately, Coca-Cola came to mind, then Disney, Procter & Gamble, Eli Lilly, and Johnson & Johnson. They were not just blue chips but icons that had stood the test of time, defeated all comers, were profitable, and had star quality. They were what some people called their "brands." The strength of a brand was as close as a company could get to being tangible. This tangible-like quality came from the trust they had built with their customers over the years.

Later that day, I finally found a small respite of silence. It seemed as if everyone had stopped to take a breath. Our client center, where many clients had gathered that morning to grasp the possible outcomes of the stock market crash, was now stone silent. Clients gathered in front of the stock market terminal screen watching the flashing lights signaling buy and sell trades in the markets and individual stocks, but they were not talking. Almost all the people who were gathered in the client center were seasoned investors. They had seen it all, but they had never seen anything like the violent collapse that was underway in the overall market or the wild swings many individual stocks were making.

I called over to one of our assistants.

"Will you go over and check if any of the clients want a coffee or a soda?"

He nodded and approached them. I noticed that they were all so frozen to the market terminal that no one even acknowledged him. As he turned to me and shrugged, one of the clients said, "You got any bourbon?"

I am sure he meant it.

I took a quick loop around the office to see how our employees were holding up under the barrage of phone calls. All of them were on the phone and seemed to be holding up okay. I walked out to our beautiful, ornate lobby. There were four high-backed Chippendale chairs that few people ever sat in. Now the chairs were full and the people in them completely silent.

In this quiet moment, I walked back to our private conference room and called Mrs. Hagedorn and gave her my line of thinking about how to define the best companies and the short list of names.

"Let's wait a few days before we start buying," I pleaded. "The market is still coming apart, and I have no idea where these stocks are trading."

She agreed that was prudent, but added, "You know what I want to do. You can use your own judgment when to buy, but remember, I want to buy before things completely calm down and everyone thinks the worst is over."

Regardless of how it made me feel, I realized she had shared with me a priceless bit of investment wisdom. It was an axiom on Wall Street that buying low and selling high was the secret to success. But here in the teeth of the biggest selloff in US stock market history, it took guts to buy stocks as Mrs. Hagedorn was doing. She had not just called me on a whim. She wanted to be a buyer of stocks because she had learned that buying farm ground when everyone else was selling almost always produced big gains. She was betting now that buying stocks when the entire world seemed to be selling them would produce the same kinds of gains. That thinking went against the grain of 90 percent of people in the stock market, including me.

The day was not over. The phone calls poured in all day long. I spoke with nearly every client I served, one after another. Sometimes, up to three calls awaited my attention. I ended my last call of the day around midnight. Considering the circumstances, people remained relatively calm, and most agreed with my decision not to sell into the crash. Only two of the hundreds of clients I served told me to sell everything.

As I spoke with each person, "Black Monday Talking Points" began to take shape. I was convinced from watching the action of the market that the collapse was, at least in some way, a structural problem. The normal interaction between buyers and sellers was corrupted because of the wild swings in stock prices and the delay in the quotation systems. As an example, on Black Monday, General Electric opened 15 percent lower than its previous close. It then retraced the entire loss before falling again by 25 percent, a swing of over 50 percent for the day. GE was a 100-year-old company that manufactured a wide range of products used all over the world. So, there was no way the fortunes of this company could change that much in a day.

My main talking point about why I was not joining the selling frenzy was that most of the companies we owned were "essential services"—companies in industries such as banks, food and beverage, healthcare, energy, transportation, and utilities. I reminded client after client of the importance of recognizing that we owned companies, not stocks. No one knew what our companies would sell for in the coming days and months, but their existence was not in danger. The US economy had been strong going into Black Monday, and it was inconceivable that it could fall apart in such a brief time. Something inside me was confident that the violent action of the market was only marginally connected to the underlying values of most companies.

CHAPTER 3
THE SECOND CALL: VALUING BONDS BLINDFOLDED

That same day, sometime after finishing my call with Mrs. Hagedorn, I received another call that would open my eyes to the value of the lessons gained from Black Monday. This time, it was from a friend, Wayne Nicely, a fellow employee of the Indianapolis-based investment firm I was with at the time. Wayne was a broker, and I was in the investment management department. He explained that he needed to sell some Indiana University bonds for a client who was in a panic about the crash.

"Why did you call me and not the bond desk?" I asked.

"The bond desk is shut down," he said.

The bond market quotation systems were overloaded by the same backlog of manually entered orders as was the stock market. For this reason, no one knew whether the prices of bonds we were seeing on our quotation systems were current or hours old.

The collapse in stocks had caused a flight to the perceived safety of US Treasury bonds, which caused them to soar in price. Under normal circumstances, municipal bonds traded with a spread to US Treasury bonds. Thus, the prices of municipal bonds like the Indiana University bonds should have been rallying along with Treasury bonds. But correctly pricing municipal bonds in the middle of wildly fluctuating stock and bond markets was next to impossible because bonds trade off their yield to maturity or yield to call. The chaos in the market made it impossible to know precisely where these yield levels were trading without seeing an up-to-the-minute price quote. Also, no one knew if the normal spread between Treasuries and municipal bonds was holding steady. As a result, many bond desks at firms across the country suspended operations.

When I heard the news that our bond desk was not bidding on bonds, my heart sank. It further opened my eyes to how big the crash was. It was starting to shut down the entire system. Shutting down the bond desk was like the power company shutting down one of its electric generating plants; the only reason they would do that was to salvage the system.

Stocks were collapsing and bond desks nationwide were suspending trading. Momentarily, I was seized with the notion that maybe this was another 1929-type crash, and everyone would lose everything. I quickly shook off that thought and steadied myself. The economy was strong and since only about 25 percent of Americans owned stocks, most people would wake up the next day, shower, shave, brush their teeth, get dressed, get in their car, and stop for an Egg McMuffin on their way to work. Life would go on as usual. I paused to add Gillette (then an independent company), Colgate, and McDonald's to Mrs. Hagedorn's "best company" list while Wayne told me about a client of his.

"The seller of the bonds is a longtime client who is convinced an economic depression is imminent, and he wants to raise his level of cash," Wayne said. He sighed and then said, "I really need a favor."

"I can't do favors with other people's money," I said.

"All I want is a bid to show my client."

I asked him how I was supposed to know where the market was trading if the bond desk did not know.

"Well," he said. "Maybe one of your investment management clients might be interested in my client's bonds."

In fact, several of my clients had told me during the day to keep an eye out for bargains on bonds.

"I'll think about it," I said. "Call me back within the hour."

By law, the State of Indiana cannot have direct debt. The law resulted from the Wabash and Erie Canal debacle of the 1840s, when the state founders dreamed of being a well-populated region with modern schools and transportation hubs that included the Wabash and Erie Canal project. Reckless and unchecked spending forced the state into bankruptcy, which eventually produced an 1851 statute prohibiting any future issuance of direct debt by the state. The prohibition meant that Indiana had one of the strongest financial conditions of any state in the nation.

As I thought about the bonds, I realized that Indiana University was as close to state debt as you could get. The good citizens of the Hoosier state would sell off their family jewels before they would let Indiana University go under. In addition, Bobby Knight and his Hoosiers basketball team had won the NCAA basketball championship the preceding March, and the state would likely have sold the Capitol rotunda rather than give up the basketball arena. The bonds were safe. But what were they worth?

In valuing the bonds, the toughest hurdle was that they were 20 years from maturity. Life and taxes would go on no matter what happened in the crash, and the tax-exempt interest the bonds paid would always be prized by investors in high income tax brackets. US Treasury bonds had started the day yielding about 10.25 percent and bond prices were rallying, so the yields were probably near 10 percent. If I could buy the IU bonds to yield the same amount as US Treasury bonds, I would have a real bargain because in normal times, tax-free bonds yielded approximately 80 percent of Treasury bonds.

When the broker called back, I told him I would buy the bonds to yield 10 percent, then told him to call the bond desk and get their approval before he told his client about my bid. The head of the bond desk called me immediately and began to explain what was happening with the bond market and his inability to bid.

I stopped him and said, “I’m aware of what’s going on, and I am willing to buy the bonds if you approve it.”

“Nine percent might be a better level for the bonds,” the trader countered.

“Ten percent,” I said. “My bid is good until the close of business.”

The broker called back in minutes to say the bond desk would not approve the 10 percent level but would allow it at 9.40 percent.

"Okay," I said.

Then I called the bond desk to say I would offer a bid for any other bonds people wanted to sell. I had budged on the yield I was willing to take on the bonds but reasoned that getting 94 percent of Treasury yields was still a good deal. I was also confident that buying Indiana University bonds when no one else would make a bid was sure to be a good buy. In addition, the destruction of hundreds of billions of dollars by the stock market crash was a deflationary event that I was convinced would cause interest rates to fall.

As I returned to my blinking phone, I paused for a moment. I had just done something I had never done before—value a bond in the absence of a trading market. I had just committed my clients to up to 20 years of ownership of this bond, and I had done it in the middle of a panic unlike anything I had ever witnessed.

What surprised me was that I was almost intuitively able to clear away all the clutter and zero in on just the few details I needed to make the decision. But that was not all. Without realizing it, I was following the investment strategy Mrs. Hagedorn said she and her husband had used for many years: buy the best when nobody else wants it.

CHAPTER 4
THE THIRD CALL: A GOOD ARGUMENT

The third illuminating call I received on Black Monday came just as I was going to bed. As tired as I was from the most difficult day of my professional life, this call would be for me the last cornerstone of a new foundation of investing. The call came from a client I had not spoken to during the day. He was very troubled. After trying to calm him with rational arguments, I realized he could not hear me over the sound of his extreme fear and agitation. The more I tried to reason with him, the further apart we drifted, like two people receding into a dense fog.

Billy Behr was, in his own words, "large and loud." He had one of the keenest minds of anyone I had ever known and was a voracious reader, student of history, and the owner of a successful Louisville-based information technology consulting firm. He often reminded me he did not need an investment manager, even though I had managed a seven-figure portfolio for him for over 20 years.

Billy was a mystery. He was my best friend one day and my interrogator the next. He delighted in telling me that the portfolios he managed were outperforming the one I managed for him. When I asked why he kept doing business with me, he would only say that he needed me to manage his conservative money.

On Black Monday, I missed calls from Billy all day. These were the days before cell phones, and he was on a business trip around the Midwest, hopscotching across the countryside from pay phone to pay phone. He knew I was not selling into the crash because he had called earlier, while I was on the phone, and my assistant had informed him of this decision. He explained to her that he agreed with that strategy but needed to speak with me as soon as possible. So, just before I left the office, I called his home and left a message saying he could call me at home any time up until midnight.

When my phone rang at 11:00 p.m., I did not recognize the voice on the other end. It was faint and strangely childlike.

"Gregor," the voice said. "Glad I caught you. I just got in and I'm shell-shocked at my losses. How far down is my account with you?"

I told Billy somewhere between 20 and 25 percent.

He said he was down much more than that in his other accounts, which were fully margined. He was sure he would have margin calls in the morning, and he wanted to know what I thought was going to happen in the next few weeks.

"My best guess is that the market will continue its volatility. I'd be surprised if it did not go at least 10 percent lower before finding its footing."

Before he had a chance to speak, I said, "Big selloffs are usually followed by a rally, then a retesting of the bottom."

There was a long pause. I could imagine him sitting there, wiped out, briefcase left at the door, an uneaten microwave dinner on the table. "I'm stunned by the day's events and afraid I've probably lost more than two million dollars," he said.

He asked me to remind him why I had decided not to sell into the crash. I repeated the talking points that I had been using all day. "We own many of the greatest companies in America, and it isn't prudent to throw away great companies at bad prices, particularly when there seems to be no economic reason for the selloff. And it's becoming increasingly clear that the crash has been caused by a structural malfunction in the market, something that computerized trading set in motion."

I suggested he look at the financial media. "It's already full of stories about how programmed trading careened out of control. There's talk that the New York Stock Exchange is going to suspend such trading before the market opens in the morning."

Billy said one guru whose telephone hotline he subscribed to was calling for a bottom of 400 points for the Dow Jones 30. That was more than 1,300 points lower than Black Monday's close of 1,738 for the Dow. I asked who was making the prediction. When he told me who the advisor was, I said the guy had never seen a sunny day in his life and for the last 20 years had been predicting the sky would fall. Billy said the advisor had been predicting a crash for a long time, and he should have listened to him earlier.

It was clear that Billy was not listening to me.

"If the Dow Jones 30 falls to 400," Billy sputtered, "it will wipe me out, and I just can't take the chance of staying in the market."

It was clear that talking about the advisor's doomsday prediction had sent him into a downward spiral. The fear in Billy's voice caught me by surprise. This was an entirely new and unfamiliar side to him; one I had never seen before. Finally, after more disjointed chatter, he told me to sell everything at the opening of trading on Tuesday.

It was now 11:30 p.m. After an exhausting day of dealing with everyone's emotions, including my own, and after speaking with clients for nearly 17 hours, my voice and energy were spent. Billy's irrational and morbid mood had begun to have a negative effect on the limited amount of clarity and confidence I had felt all day. I knew Black Monday would be the first of many long days and nights for me. I realized that to maintain enough mental and physical energy to make it through this dark time, I could not exhaust myself on one person.

"If that's what you want, Billy, I'll do my best . . .," I said, but I immediately realized I was doing him no favor. As the captain of one of his financial ships, I knew better than he did how to navigate this storm. I knew in the current market that there was a complete disconnect between prices and values. I did not know what the correct price for the Dow Jones 30 was, but I was sure that bailing out now was wrong. I also knew that trying to have an intelligent discussion with Billy in his present state was useless. So, I decided to try another tactic.

"Billy, you realize by giving me these instructions to sell everything, you are firing me. We will never work together again."

He tried to protest, but I interrupted him. “If I am being fired, I want you to understand that I think what you are doing is dead wrong, and you will soon be sorry.”

He did not respond, so I continued. “As we have been talking, something keeps coming into my head. I’m not sure you will agree with it, but I cannot let our relationship end without telling you what I’m thinking.”

He said he was so worn out that he could barely stay awake but would listen as long as he could.

“Billy, you know there’s a drought in this part of the country. Corn and soybean crops are in terrible shape and some farmers have plowed under entire fields. Have you seen the fields along I-64 just west of Louisville?”

“They’re burned up,” he replied.

“Yes, it looks like the sun has just roasted the corn and the beans. What do you think the odds are of anything ever growing in those fields again?” I asked. “Better yet, are you willing to bet me that those fields are somehow broken and will never produce crops again?”

Billy would not take the bet because he knew the field would grow crops next year. I asked him on what basis he believed that.

“It’s only natural,” he said.

“Billy, think of everything that has to go right for that field to produce crops . . . the right amount of rain all year—not too much or too little—the absence of a blight and destructive insects, the right seed, the right fertilizer, and the skill of the farmer.”

He remained silent.

I asked Billy if he thought the value of the field had fallen because of the poor crop this year.

“I don’t think so.”

“Why? Why don’t you think so?”

“Well, look. Nine out of ten years, the field does produce a crop and some big crops would make up for the shortfall this year.”

“So, from what you’ve just said, Billy, you have faith that the forces that have produced good harvests 90 percent of the time will re-establish themselves, and this year’s losses will be made up in the years to come?”

“Gregor, I know where you’re going with this, but I’m just too tired to play logic games with you. Just do what I told you and sell all my stocks at the open tomorrow."

"Billy, you hired me to manage a big portion of your assets, and I am not going to do that until you tell me I am fired. I need to convince you that your cut-and-run action is not the right one."

Billy's temper flared. "Hey, man, don't make things worse with cut-and-run talk. I'm not cutting and running. If this market keeps falling, I'll be wiped out. I've worked a lot of years to build the assets I have. I don't want to start at zero again."

"Why are you predicting a different ending for the stock market than you are for the farm ground?"

Fully awake now, Billy blurted out, "Because they are completely different animals. Farm ground did not fall by 23 percent today, and farm ground is a necessity to our way of life; stocks are not!"

"Billy, you're wrong when you say that farm ground and stocks are completely different animals. Most farm ground is valued as a means of production for food, a basic necessity. How is that different from Southern Indiana Gas and Electric? [At the time, Southern Indiana Gas and Electric (SIGECO) was the local electric and gas utility. It is now a part of CenterPoint Energy.] SIGECO is a means of electricity production —again, a basic necessity. Our society can no more live without electricity than it can without food. And how about Johnson & Johnson? It is one of the world's largest pharmaceutical companies. If JNJ were to dry up and blow away, millions of peoples' quality of life would go downhill in a hurry. Some might die. And how about Procter & Gamble, Exxon, and General Electric? The fact that farm ground is tangible, and stocks are not, has nothing to do with how either one is valued or what they are ultimately worth."

"Farm ground and stocks are not the same thing," Billy shouted. "Stocks fell today by 23 percent; farm ground probably did not move a penny."

I shot back that "probably" was the operative word in his argument. "In the stock market, we live in a real-time-quoted world. You can find out what any stock is selling for just by calling your broker, and you can buy or sell millions of dollars' worth of almost any stock on almost any day you choose. Write the check and you own it or sell it and a check arrives in your mailbox in a week. [Money market mutual funds were not as common in 1987 as they are today. As a result, traditional checks were used by many of our clients.] It's a real-time-quoted live market; there is little or no 'probably' about it. But farm ground is all about 'probably.'

"There is no real-time place where you can get a true selling price for that farm ground along Interstate 64. There is no billboard on the corner showing the land's moment-by-moment selling price. The moment-by-moment-quoted market works for stocks 90 percent of the time, but because we humans are hardwired to fear loss, a sort of reverse alchemy occurs every time stocks go into a tailspin. Cascading markets transform our heretofore golden portfolios into junk. Almost magically, vibrant and growing companies become nothing more than prices on a ticker tape, heading south. They are sold regardless of their recent financial results or their prospects."

I hoped I was getting through to him. When he did not say anything, I went on. "Billy, you didn't build a business as big as the one you own by cutting and running when the times got tough, or someone threatened to sue you or run you out of business. Why are—"

Billy interrupted me. "If you don't stop this cut-and-run talk, I'm going to hang up this phone," he growled. "You are preaching to the choir here, man. You know that my company is as big as it is because in recent years, every time the IT market took a dive, I stepped up and made acquisitions. I know how fear and greed can turn you into an idiot. That is why I keep an ongoing valuation metric for all my important competitors in the Midwest. If any of them want to sell, I know how much I will pay without stepping foot on the premises. If I get my price, I can clean up any problem they have."

"Now we're talking," I said with renewed fervor. "Would you mind sharing your valuation methodology with me?"

"Good grief, Greg. It's midnight."

I laughed. I knew I had him.

"You win, at least for tonight," he said. "Forget that I said sell everything. I'll sleep on it and call you in the morning if I change my mind. But here is something that is non-negotiable. I've got enough risk in my trading accounts and in my businesses. I want you to reshape my portfolio to be entirely of basic necessity companies. That's the only thing you've said tonight that has made sense to me."

Billy hung up.

Exhausted as I was, I lay in bed with questions running through my mind. I had the feeling of trying to drive in a race and read the roadmap at the same time. My purchase of the Indiana University bonds provided a yield above 9 percent, completely free of all taxes and backed by one of the most conservative states in the union. If that was not a good buy, then what was? The next morning, I was going to tell the firm's brokers to buy municipal bonds. Everyone would want to know what stocks to buy or sell, but it did not feel right to be jumping into the stock market until the bottoming process was further along, and it was too late to sell.

Then I thought about all the people I had spoken with that day. Among the scores of calls, the conversations with Mrs. Hagedorn, Wayne with the IU bonds, and Billy Behr stood out. I knew they were seminal and would ultimately reshape my understanding of investing.

Eventually, I would dig deeper into the impact of each call, but the one from Wayne who wanted to sell the IU bonds took center stage. As I replayed the events surrounding the purchase of the bonds, I was struck by the fact that I had been in the investment business for 12 years without knowing how to value a stock apart from its selling price on the exchange. Prior to Black Monday, I believed the market price dictated what a stock was worth. That was what I had been hearing for nearly a decade. On the night of Black Monday, I realized that the prevailing wisdom was nonsense. The average stock had fallen 23 percent in a single day. It was clear that investors were not trying to make informed decisions about the value of companies; they were just running from the storm. I was convinced of that, but I had no way to value a stock. Yet today, I had priced a bond in the absence of a trading market.

Just before I dozed off, I prayed a short prayer. "Lord, please teach me how to turn stocks into bonds."

After perhaps the longest day of my life, I fell into a deep sleep.