



EAGLE POINT  
- CAPITAL -

## **Principles of Investing**

Matt Franz and Dan Stuart

*January 2020*



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# Who We Are

*We are long-term business owners.*

- Investment Advisor
  - Grand Rapids, MI
  - Chicago, IL
- Founded in 2017
- Separately managed accounts
- One investment strategy
- Long-only
- All industries, geographies, and sizes



Matt Franz – Principal

- University of Michigan College of Engineering
- Previous experience in quantitative hedge funds and investment advisory



Dan Shuart – Principal

- University of Michigan College of Engineering
- Previous experience in private equity investing and operations



# Compounding

You are given the choice between two sums of money:

1. one million dollars
2. a penny that will double every day for 30 days.

Which do you choose?



# Compounding

## Hint

- After 1 week, the penny is worth \$1.28
- After 2 weeks, the penny is worth \$163.84

You probably guessed the penny would be worth more than \$1 million. But by how much?

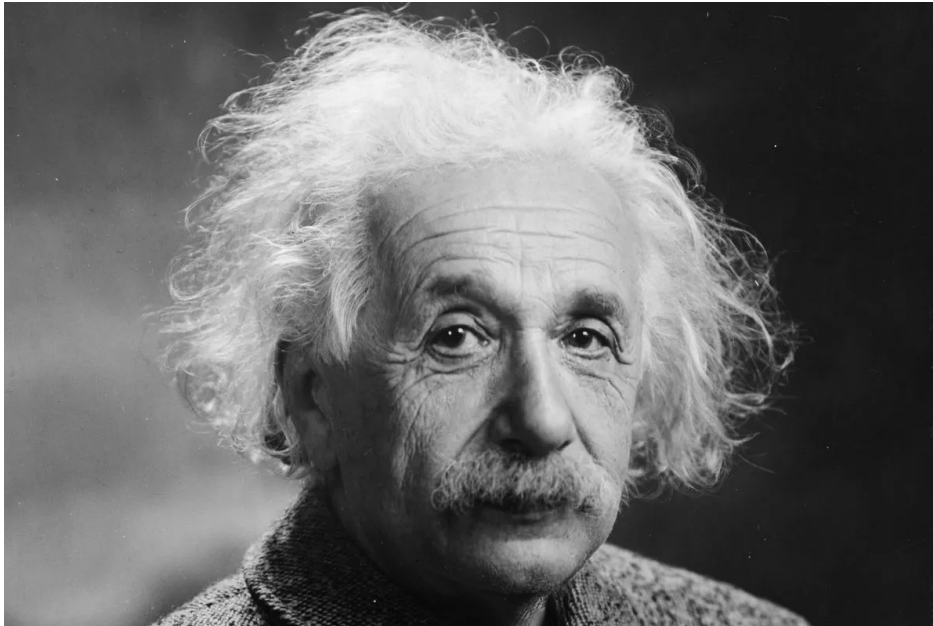
The penny is worth \$10,737,418.24 on day 30.



# Compounding

“Compound interest is the 8th wonder of the world. He who understands it, earns it; he who doesn't, pays it.”

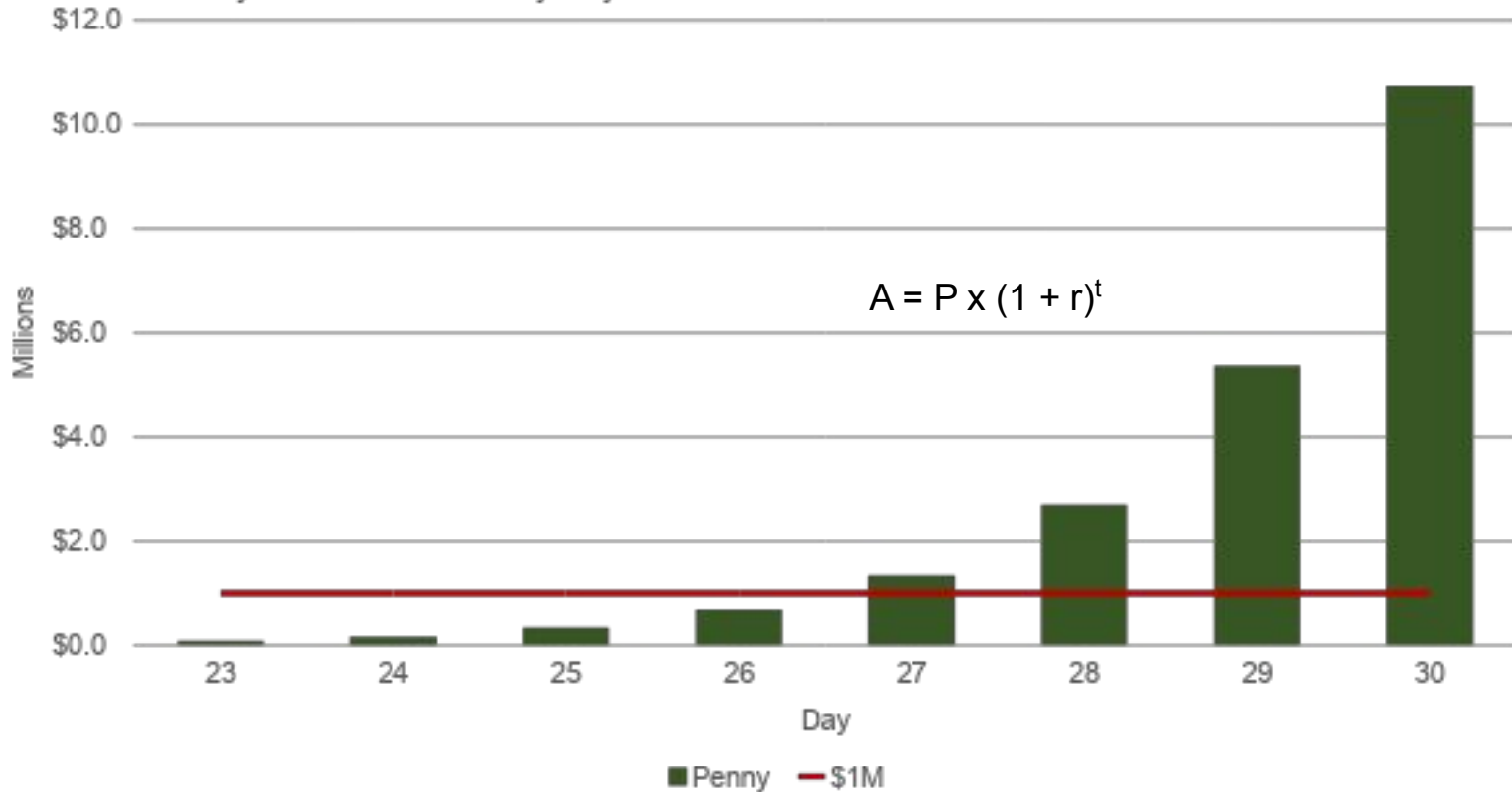
— Albert Einstein





# Compounding

Value of A Penny That Doubles Every Day

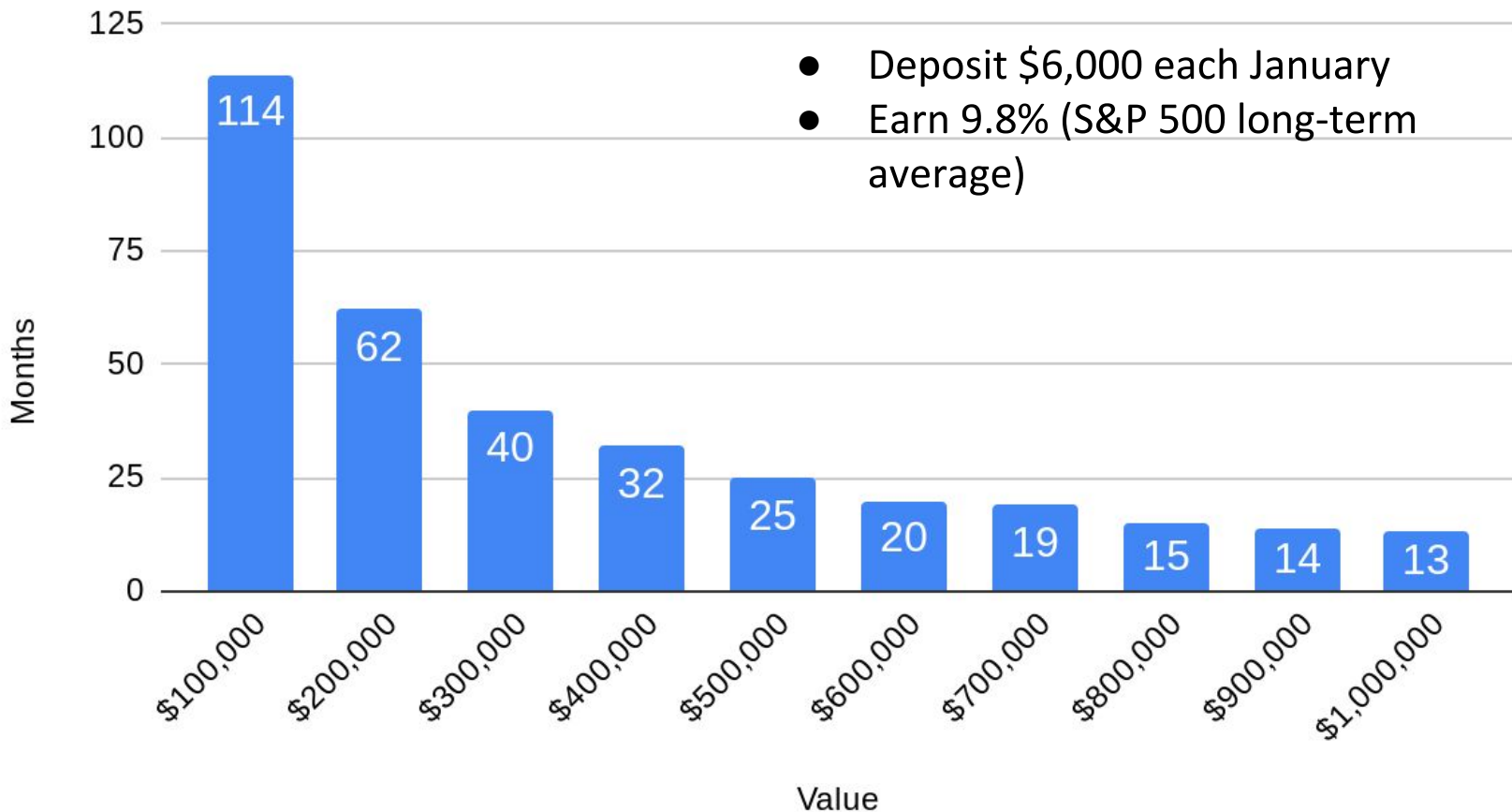


**Patience** and a **long-term perspective** are required to give the power of compounding an opportunity to do its magic.



# Maximizing IRA Contributions

## Months To Earn \$100k

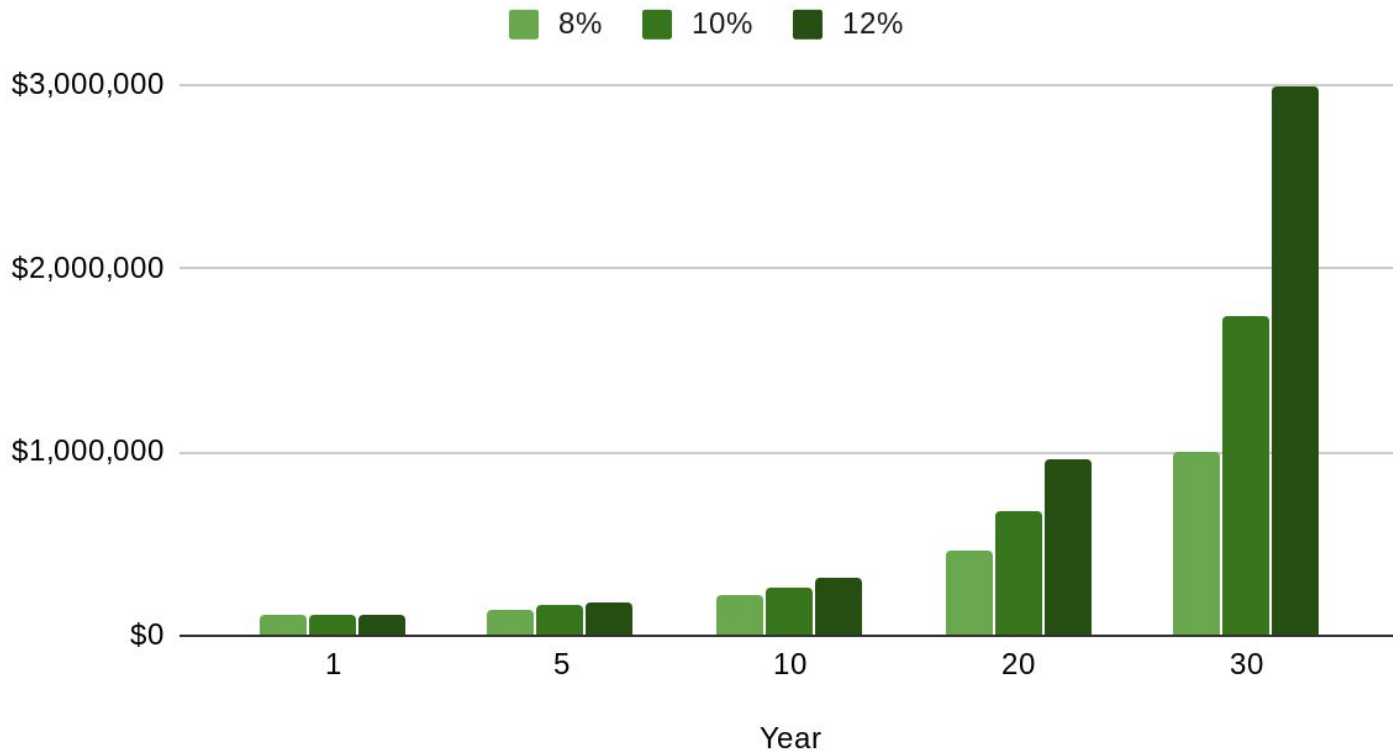






# A Small Change In Return Means A Big Change Over Time

Effect of a Change In Compounding Rates Over Time





# Objective

***Build an indestructible, long-term compounding machine.***

Rule #1: Avoid the permanent loss of capital.

—> Don't interrupt compounding

Rule #2: Maximize the increase in long-term, after-tax purchasing power of our funds.

***We look down before we look up.***



# Method

Figure out what something is worth, and pay a lot less for it.



# Investment Process





# Types of Investments

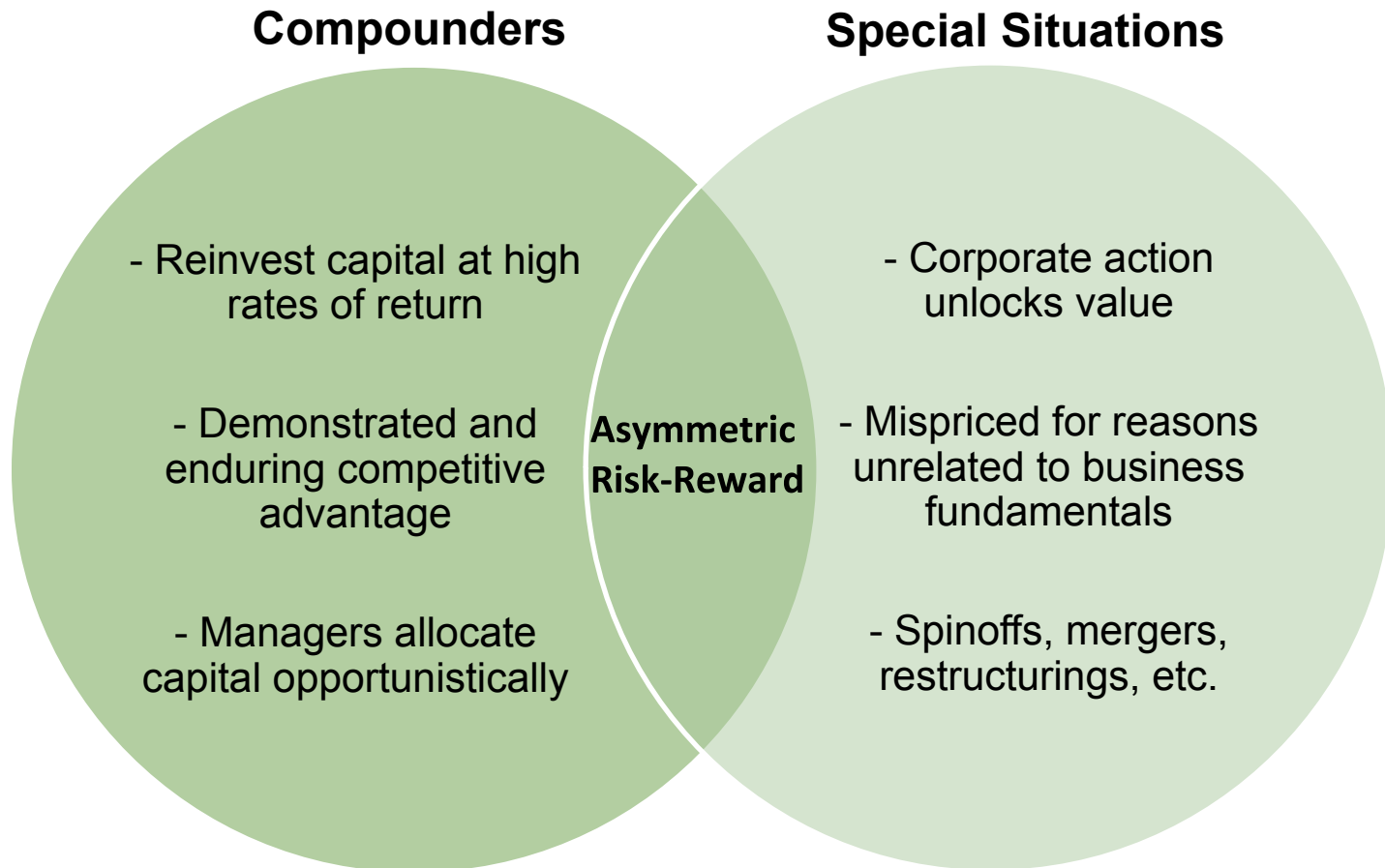
*We prefer cockroach-like businesses — very hardy and almost impossible to kill.*

— Allan Mecham



# Types of Investments

*Heads, I win. Tails, I don't lose much.*





# Investment Principles

- Think independently
- Invest with a margin of safety
- Make fewer, better, decisions
- Act like long-term business owners
- Fish where the fish are
- Profit from patience



# Think Independently

## Eagle Point Capital

- Think...
  - like a member of the board of directors
- Focus...
  - on long-term competitive advantages
- Research...
  - like an investigative journalist

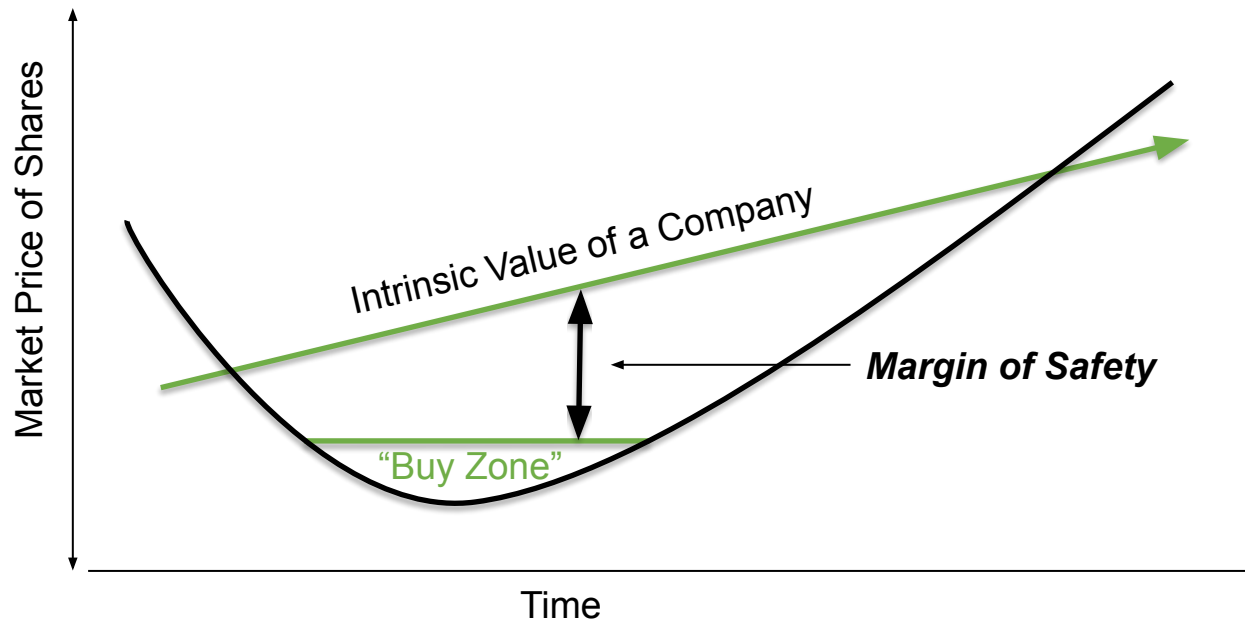
## Conventional Analysts

- Think...
  - about your excel model and all of the “noise” variables
- Focus...
  - on predicting next quarter’s earnings to the penny
- Research...
  - by reading other analysts work





# Invest With A Margin of Safety

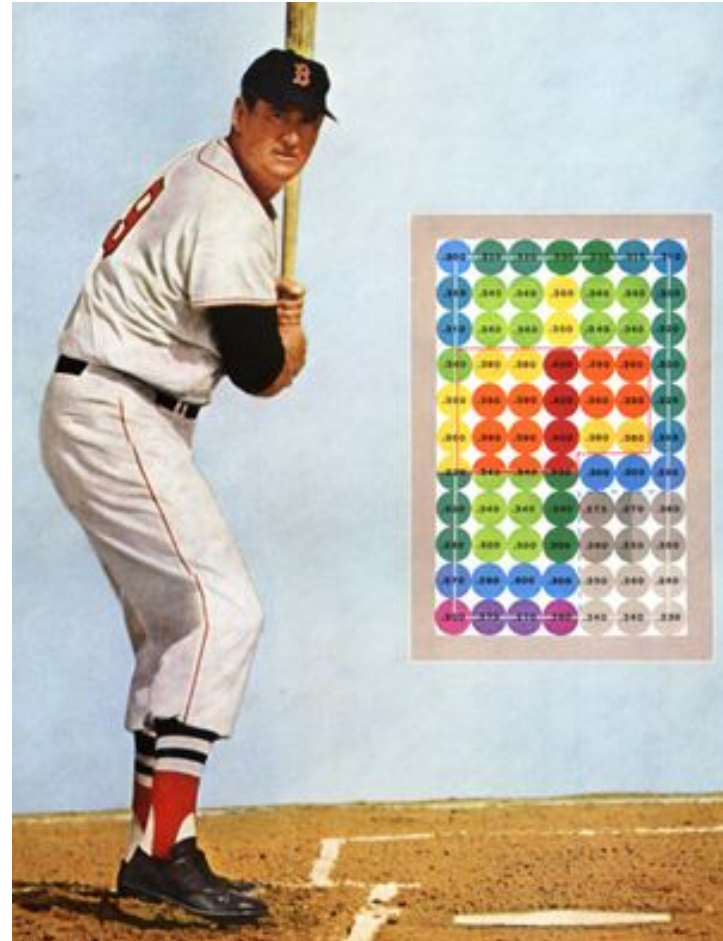


- Never buy a business that is priced for perfection
- “The margin of safety is always dependent on the price paid.” — Ben Graham



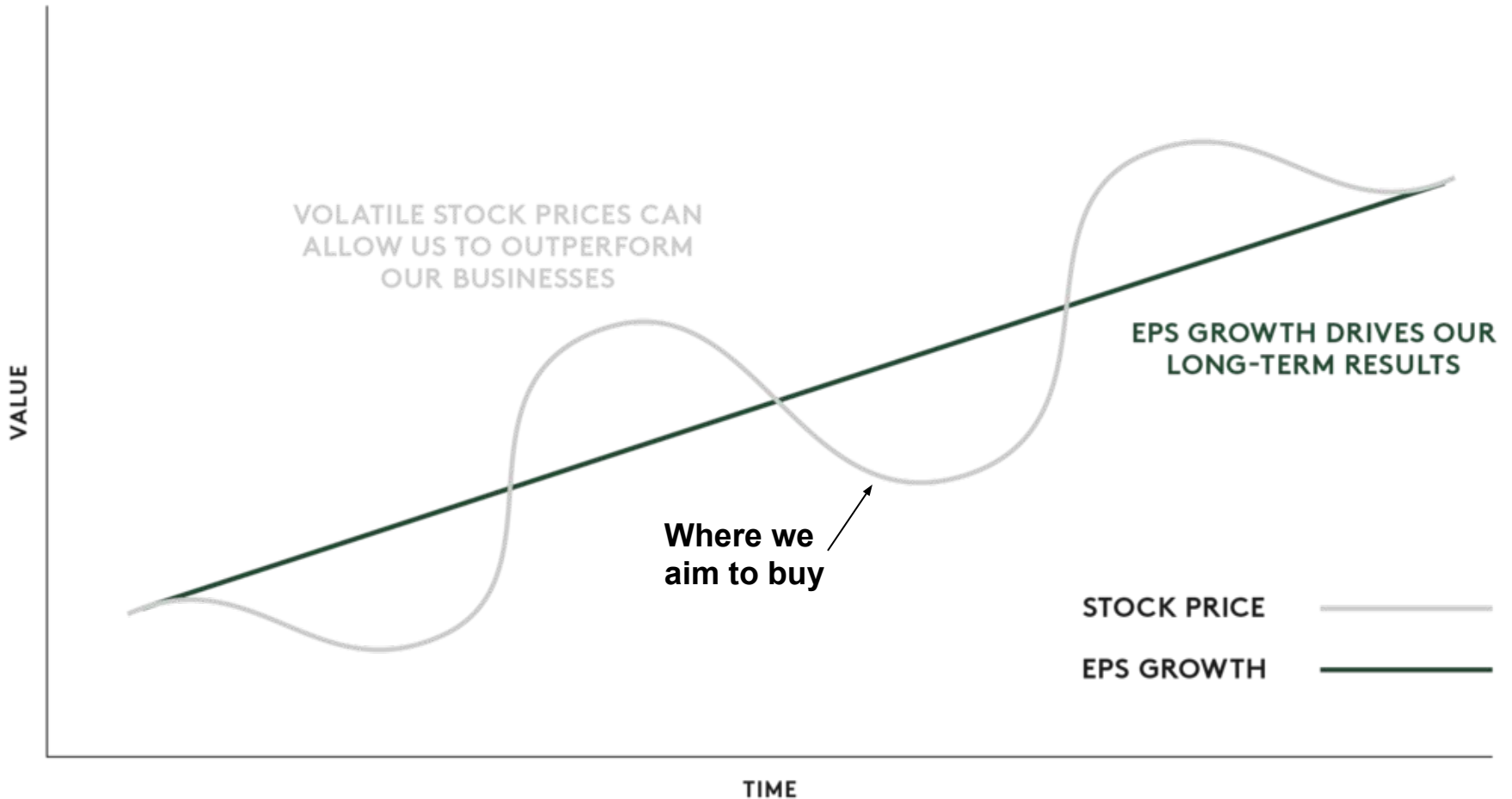
# Make Fewer, Better, Decisions

- Wait for the “fat pitch”
- Swing big when you see it
- Concentration can create wealth
- Diversification can protect it





# Act Like Long-term Business Owners





# Act Like Long-term Business Owners

***Buy a stock like you would buy 100% of a business.***

**Traditional Thinking**



Stocks are pieces of paper.

**Our Thinking**



Stocks are real businesses



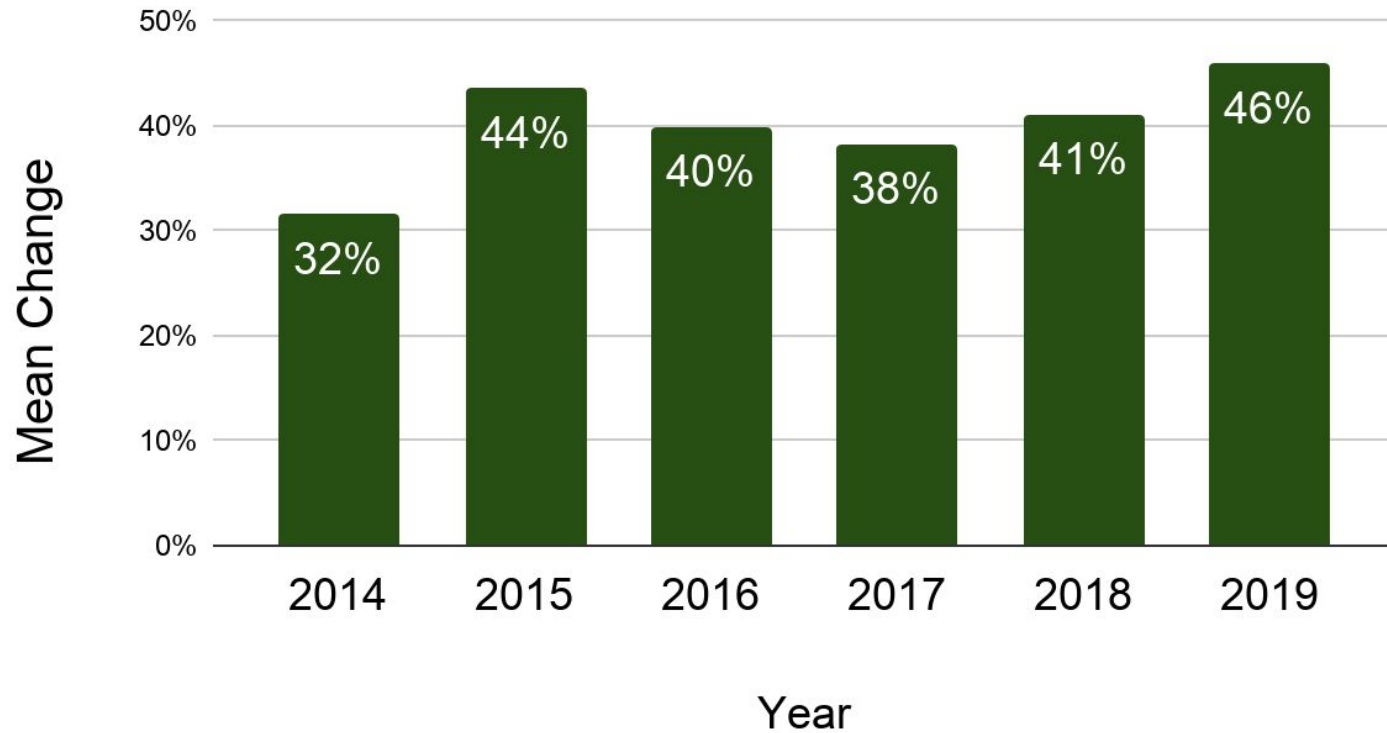
# Volatility Is Your Friend

#	Company	2019 High	2019 Low	% Change (High/Low)	Change in Value (Billions)
1	Apple	291.52	142.19	105%	\$655
2	Microsoft	158.96	97.40	63%	\$470
3	Amazon	2,020.99	1,500.28	35%	\$258
4	Facebook	208.10	131.74	58%	\$184
5	Berkshire Hathaway	227.05	191.66	18%	\$49
6	JPMorgan Chase	139.14	97.11	43%	\$132
7	Alphabet	1,362.47	1,025.47	33%	\$101
8	Johnson & Johnson	146.44	125.72	16%	\$55
9	Visa	189.39	128.13	48%	\$105
10	Procter & Gamble	126.09	90.44	39%	\$89
			<b>Mean</b>	46%	\$210
			<b>Min</b>	16%	\$49
			<b>Max</b>	105%	\$655



# Volatility Is Your Friend

Average Change of The 10 Largest Companies in the S&P 500





# Fish Where The Fish Are



Fish where others *cannot* or *will not*

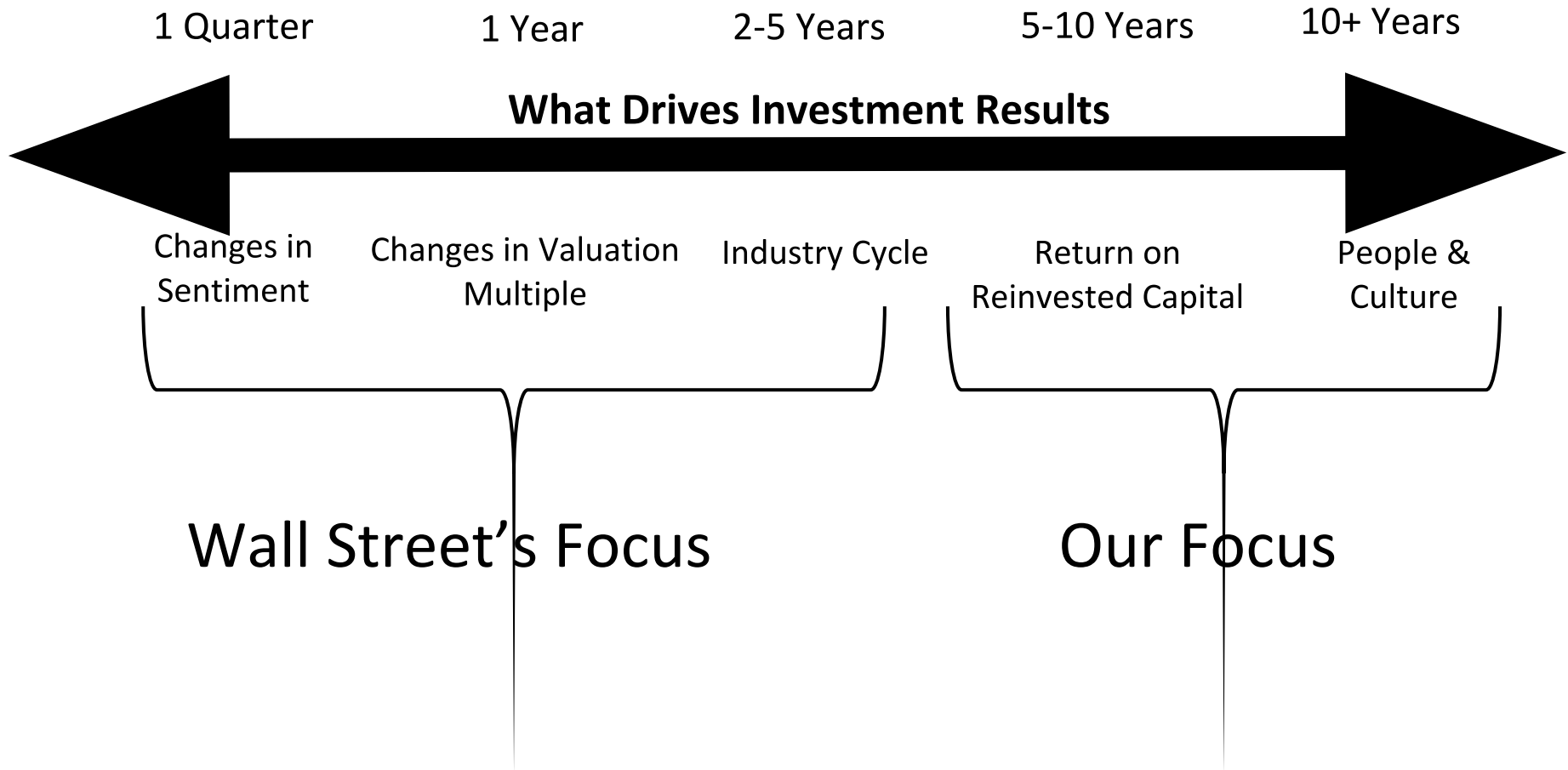
- Spinoffs
- Mergers/divestitures
- Corporate scandals
- Small-cap, under-followed stocks

Avoid popular, “fished-out”, areas

- IPOs
- Hot stock picks
- Companies priced for perfection



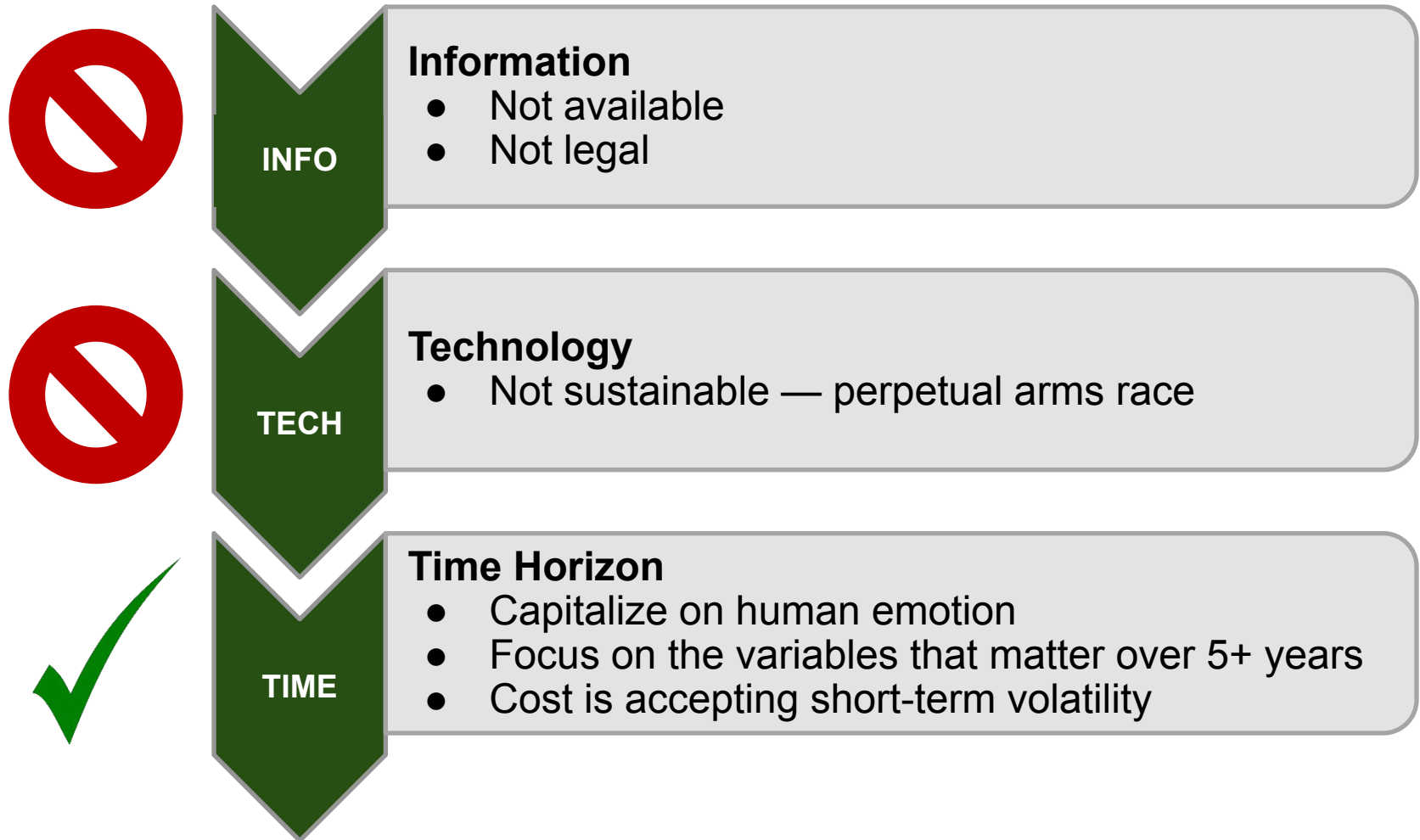
# Profit From Patience







# Our Edge





# What we are *not*:

**Market Timers**

**Macro Forecasters**

**Multi-Strategy  
Investors**

**Momentum Investors /  
Traders**



# Structure

- Account types
  - Individual, Joint
  - Retirement (IRAs, Roth-IRAs, 401K rollovers, inherited IRAs, etc.)
  - Trusts, LLCs, etc
- Accounts are managed on a *pari passu* basis
- Interactive Brokers is our broker and custodian
  - Each client has their own account and access credentials
- Minimums and Fees
  - Investment minimum: \$50,000
  - 2% management fee deducted quarterly in arrears
- Semi-annual portfolio updates to investors
  - What you own and why you own it
- We own the same positions that our clients own – **we eat our own cooking**



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**Thank You!**

**Questions?**