

SUPER COMPOUNDERS

What is a compounding company?

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“The strongest force in the universe is Compound Interest.”
- Albert Einstein

When investors search for stocks, they often look for consistent, short-term returns, and are happy with 10-15% gains over a year or less. We believe that investors should be asking for more. Equity markets around the world have produced hundreds of stocks which compound at high rates over sustained periods, these are known by several names, including “Multi-Baggers,” “10-Baggers,” and “100-Baggers.” The companies that compound returns over a sustained period exhibit many similar characteristics and, while finding these stocks is by no means easy, an investor with the proper disposition and ambition can track them down.

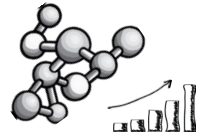
The returns necessary to create the wealth on the levels of a multi-bagger come from rare businesses. They require shareholder conscious leadership, a business which can sustainably reinvest cash flows, and consistently increasing earnings. These are a few characteristics that can indicate a company with the potential to compound growth over a sufficient period to create enormously outsized returns.

Historical Examples

Equity markets have produced many 100-Baggers—stocks that produce a 100x return—over time. Many of these companies you are intimately familiar with, but even more are companies you have never heard of. In the former category we find companies like Berkshire Hathaway, Wal-Mart, and Amazon. Of the latter category, there is a myriad of smaller companies that are now touted among small investment communities. Companies like XPEL (which we will explore more deeply in another paper), Gravity Co., and Xynex all achieved this 100x status while never achieving broad coverage or recognition.

“100 to 1” and “100 Baggers”

Two books serve as authoritative works on this topic of 100x returns. Thomas W. Phelps’ 1972 classic 100 to 1 in the Stock Market and Christopher Mayer’s 100 Baggers. Both serve to explore the topic of outsized-compounders and how to identify them. And although published 45 years apart, these books maintain many of the same conclusions which we will explore throughout this paper. Another great piece of research on this topic of Multi-Baggers is Alta Fox Capital’s Presentation “The Makings of a Multibagger” which served as a source for this paper.



There are several areas we must evaluate to properly identify these super compounders. These include Quantitative metrics, Qualitative evaluation, and our own disposition. The quantitative evaluation of a company consists of the use of metrics to evaluate the valuation and managerial effectiveness of a company and its executives. This entails the use of financial statements and ratios to determine a company's health and potential. The qualitative evaluation of a company requires an investor to read annual and quarterly communications in order to determine the long-term vision and effectiveness of management as well as its skill at capital allocation. The third, and possibly most important and overlooked aspect of acquiring 100-Baggers, is the ability of an investor to hold on. These Super Compounders require tremendous patience and conviction in maintaining a position over the necessarily long period of time. This road is generally long, bumpy and volatile, but the ability to "buy right and hold on" is vital to achieving the long-term rewards.

These Multi-Baggers follow identifiable trends, and exhibit many of the same characteristics which, if carefully observed, can allow an investor advantages not available to the common trader. Life changing wealth creation is not an overnight phenomenon. It is a concentrated effort toward acquiring a business with strong fundamentals and outlook, holding over the long term, and riding the volatility associated with rapidly growing companies. But you also must remember that it is hard to find something if you're not looking for it. As Chris Mayer wrote in his book:

"Rule number one for finding 100-baggers is that you have to look for them—and that means you don't bother playing the game for eighths and quarters, as the saying goes. Don't waste limited mental bandwidth on stocks that might pay a good yield or that might rise 30 percent or 50 percent.

"You only have so much time and so many resources to devote to stock research. Focus your efforts on the big game: The elephants. The 100-baggers."

This Multi-Bagger approach to finance is one which will require emotional fortitude to achieve the highly lucrative returns available. Armed with this information, we hope our Co/Investor Club Members will identify their own life changing Multi-Baggers. The Co/Investor Club is designed to place these small public companies with high upside potential in front of our Members. Further, Avenel Financial Group has the tools to help those companies with great potential tell their stories and reach a wider audience.

References:

Alta Fox Capital. <https://static1.squarespace.com/static/5aaacb57506fbe4636414126/t/5f85c428b4bac16b20450df0/1602602051503/Conclusion+Deck-+Makings+of+a+Multi-Bagger+-+FINAL-compressed.pdf>

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