

Hello Everyone,

Kodak and the railroads aren't often linked, but we'll do so today to make an investing point.

I hope today's missive helps you view the investing world a little differently.

Signed, Your Pleased-Many-American-Businesses-Have-Learned-From-Past-Mistakes-Now-If-Only-Government-Would-Do-The Same!-:>)-Financial Advisor,

Greg

KKOB 09.24.2018 Kodak and the Railroads

Bob: So, Greg, we're still on the theme of the best investments you'll make are those where everyone agrees with you...LATER. That led to... "you must buy low." But, just because something is cheap doesn't necessarily mean it's of value...otherwise, we'd all still own flip phone stocks. So, we concluded you must buy low, but also buy something that is structurally sound. Right?

Greg: Right. But, let's take it one step further. You must not only determine what is structurally sound today, but what will be structurally sound going forward.

For example, 120 years ago, railroads dominated American business. Amazing fortunes were made as railroad tracks connected the nation.

Now, when the first automobiles were invented, there were many who urged the railroad companies to go into the car business. After all, they had the money, the power, the political clout, and the rights-of-way to dominate the new industry. But, the railroad men said, "Nope. We're in the railroad business not the car business."

And, clearly, they had something foundationally wrong. They weren't in the railroad business, they were in the transportation business. And, in many ways, cars and trucks were superior transportation.

Or, more recently, there is the story about a young man who got an internship with Kodak. This was just as digital photography was coming of age. At the time, Kodak film still dominated the space, but sales were

of age. At the time, Kodak film still dominated the space, but sales were starting to fall. One day, the intern was walking down the hall with a senior Kodak executive, who said, "You know, I think film is going to make a comeback." The intern was stunned.

Even he knew, Kodak wasn't in the film business. They were in the (I don't know) image capturing (?) business. Kodak never recovered.

The point is, at their heights, both railroads and film were considered structurally sound; but, there was a newer technology that threatened their dominance.

Bob: So, you would say Exxon isn't in the oil business, but rather in the energy business. Or, you would say, Apple isn't in the smart phone business, it's in the communication business.

Greg: Exactly. But, history tells us, successful businesses eventually lose focus. Management gets arrogant, or lazy, or maybe just tired. Or as Warren Buffett quips, "***Buy into a business that's doing so well an idiot could run it, because sooner or later, one will.***"

And, with that as a segue, investors can easily fall into the same trap. Let me explain.

Investors who came of age in the late 1960's and 70's saw inflation-sensitive investments soar, while everything else languished. People made fortunes on that trend. In the early 80's, however, the structural props to inflation collapsed; yet, many previously successful investors refused to see it. Fortunes were then lost.

The same could be said for stock investors of the 1920's or mutual fund investors of the 1950's and 60's. First, fortunes were first made, but then lost as the world changed. In each case, investors behaved like Kodak or the railroad men.

So, the lesson for your intrepid listeners is this. If you have a 401K, or IRA, or land, or savings account, or CD you own a business--- whether you think of it that way or not. You are not, however, in the stock, mutual fund, real estate, CD, or annuity business. You are in the investing business. Or, to be blunt, you are in the "make-money-and-don't-lose-money" business.

That means you must periodically ask yourself, "Do I believe the

structure of my business is sound...and will continue to be?

There are times when the answer to those questions is going to be a resounding, “Yes, they’re sound. I’m good. ” Other times though a nagging thought will say, “No. The sands are shifting.” The important thing is, you must ask...answer...and act. Otherwise, you’ll be the railroad or Kodak. Does that make sense?

Bob: It does. I don’t want to be a railroad or Kodak! How do people reach you?

Greg: My number is 508-5550, 508-triple 5 zero. Or, go my website zanettifinancial.com.

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