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INDEXING AND DEER HUNTING

Many people subscribe to that part of modern portfolio theory which advocates buying indexing. Take what these indexes give you. Don't try and outsmart the market.

Such a view is like saying there are no gifted students in the universities. All students receive a C grade. There are no A students.

This might be a comfortable view as the ups and down of Europe have a strong correlation to the New York markets.

The other view is like going deer hunting. Sometimes, you get a shot and hit your mark and sometimes you don't. Many call this "stock picking," which says that fundamental analysis of a company balance sheet and income statement can point out which companies are better than others. It is another story to say that the companies with superior fundamental statements will outperform the market indexes. But often the superior companies will outperform the indexes. At that point, the critical indexers are likely to say: "well, you were lucky."

So take your choice, but mine for 2012 is Google, symbol GOOG.

These rainmakers come from a Ph.D. program in computer sciences at Sanford University. They are on the cutting edge of technology. Their strategy book is an A+ example of innovation and "creative destruction."

Take for example, their operating system for smart phones. Microsoft is known for selling its products, but Google gives away free to phone companies the Google's brains for smart phones, known as Android. Google is not acting out of charity but as the architect of a new business model, called "open source software."

Google is not a phone company. <u>Google is an advertising company.</u>

"Know thy customer!" This is a time-honored business principle which Google has fine-tuned. Google then matches up searches with advertisers who pay Google to find new customers.

As a result, Google is believed to have the majority share of smart phones' operating systems. Don't forget there are many more cell phones than computers.

Google has no long term debt, a war chest of cash, revenues are growing rapidly, return on equity is A+, and the company dominates key markets.

There are draw backs. Google pays no dividend. And we know that dividends matter, especially in bad markets. We have to drill in our minds that Google is not a cash cow, but a growth stock. In order to make a profit, we have to live with the ups and down and hold on for the long-term which is the fundamental thesis herein.

Yes, there are A+ students and there are A+ stocks.