

## **Porter Stansberry**

### **Importance of Goodwill Accounting**

What does goodwill mean on the balance sheet? Warren Buffett spoke about goodwill in his letter in 1983.

Wynn paid \$270 million for the Desert Sands hotel that it tore down. It is now on Wynn's books for \$1.3 billion. But it is really worth like \$10 billion.

That's because goodwill doesn't allow the asset to increase in value. But it does allow you to depreciate the asset over time.

So what is the Wynn's most valuable assets? Is it the hotel itself? No, it's actually their customer list. But you will never find that on the balance sheet. They have the world's richest "losers" on the balance sheet.

Companies that can grow their assets over time without an increase in cost are capital efficient. That is goodwill.

In 1972, Buffett paid 3 ½ times book value for See's Candies... Then, it may have sounded expensive to most. But he saw See's ability to grow its earnings without increasing cost. Buffett has taken over \$2 billion in cash earnings from See's.

Hershey is a great example of this today. It can increase returns dramatically compared to net tangible assets.

Hershey's return since Porter's recommendation is up over 500%.  
Porter's 34 total picks over roughly 10 years. Average gain 76%. Average annualized gains 31%.

How do we know this really works?

Well, Porter's Capital Efficient monitor has looked at companies in quartiles. Top half is the most capital efficient, and the bottom is the least.

The top returned 41% annualized returns while the bottom returned -14% annualized gains.

Pivot to casualty insurance companies... These companies take in money and pay out claims... unless the claims don't show. And their cash is recorded on the balance sheet as liabilities.

Now, only the best underwriters are worth owning. That's because they make money on underwriting the insurance plan while the rest lose money.

Software as a service is a new capital efficient sector. Six total picks in the last two years. Average gain 127%.

Valuations are often high in these stocks, but if you understand the goodwill that's not on the balance sheet, you can make huge gains.

What do I buy today? Download the **Kings of Capitalism app**. Porter programmed everything he knows about Capital Efficiency into a nine-factor model. It's all in a single app.

All the returns Porter has spoken about are real returns in the portfolio. He also back tested his nine-factor model over ten years, which led to 28% annualized gains.

Questions...

**What do you think about the impact of inflation?**

Most people think that they should buy a gold company during inflation. But although they are selling gold at a higher price because of inflation, their cost of getting gold is also going up. Not a great deal.

But while Hershey's candy bar goes up because of inflation, the cost doesn't increase much.

**Are there capital efficient Chinese companies?**

Porter: Yes