



Chapter One



JASON'S IN THE SIXTH GRADE, and he's making a fortune. My son and I see him almost every day on the way to school. There's Jason in the back of his chauffeur-driven limousine, all decked out in cool clothes and dark sunglasses. Ahhh, to be 11 years old, rich, and cool. Now that's the life. Okay, maybe I'm getting a little carried away. I mean, it's not really a limousine; it's kind of a scooter. And the cool clothes and sunglasses part, well, that's not really true, either. It's more like his belly hanging over a pair of jeans, no sunglasses, and what he had for breakfast still stuck to his face. But that's not my point. Jason's in business.

It's a simple business, but it works. Jason buys gum, four or five packs a day. It's 25 cents for a pack and five sticks of gum to a package. According to my son, once in school, Jason transforms himself into a superhero of sorts. Neither rain nor sleet nor evil hall monitors can keep Jason from selling his gum. I guess his customers like buying from a superhero (or maybe they're just stuck in school), but however he does it, Jason sells each stick of gum for 25 cents. (Supposedly—I've never actually seen it myself—Jason kind of shoves an open pack of gum into a potential customer's face and repeats "You want some, you know you want some!" until his fellow student either collapses or forks over a quarter.)

The way my son has it figured, that's five sticks at 25 cents each, so Jason rakes in \$1.25 for each pack he sells. At a cost of 25 cents per pack, that means Jason is making \$1 of pure profit on every pack he can shove . . . I mean, sell. At four or five packs a day, that's a lot of money! So after one of our daily Jason sightings, I asked *my* sixth-grader, "Gee, how much do you think this guy Jason can make by the end of high school?" My son—we'll call him Ben (even though his real name is Matt)—started whizzing through the calculations using all his brainpower (and a few fingers). "Let's see," he replied. "That's, say, four bucks a day, times five days a week. So, \$20 a week, 36 weeks of school, that's \$720 a year. If he has six years

left until he graduates, that's somewhere over \$4,000 more he'll make by the end of high school!"

Not wanting to miss an opportunity to teach, I asked, "Ben, if Jason offered to sell you half of his business, how much would you pay? In other words, he'll share half his profits from the gum business with you over the six years until he graduates, but he wants you to give him money now. How much would you give him?"

"Well . . ."—I could see Ben's wheels start to turn now that there might be some real money on the line—"maybe Jason doesn't sell four or five packs a day, but three packs—that's a pretty safe bet. So maybe he makes three bucks a day. That's still \$15 in a five-day school week. So, 36 weeks in a school year, that's 36 times 15 (I might have helped a little in here), that's over \$500 a year. Jason has six more years of school, so 6 times \$500 is \$3,000 by the time he graduates!"

"Okay," I said, "so I guess you'd pay Jason \$1,500 for half of those profits, right?"

"No way," Ben answered quickly. "First, why should I pay \$1,500 to get back \$1,500? That doesn't make any sense. Besides, the \$1,500 I get from Jason will take six years to collect. Why would I give him \$1,500 now to get back \$1,500 over six years? Also, maybe Jason does a little better than I figure and I get more than \$1,500, but he could do worse, too!"

“Yeah,” I chimed in, “maybe other kids start to sell gum in school, and Jason has so much competition he can’t sell as much.”

“Nah, Jason’s practically a superhero,” Ben says. “I don’t think anyone can sell as well as Jason, so I’m not too worried about that.”

“So I see your point,” I responded. “Jason’s got a good business, but \$1,500 is too much to pay for half. But what if Jason offered you half his business for \$1? Would you buy it then?”

“Of course,” Ben shot back with a “Dad, you’re being an idiot” kind of tone.

“So, fine,” I said, ignoring the tone for a moment. “The right price is somewhere between \$1 and \$1,500. Now we’re getting closer, but how much would you pay?”

“Four hundred fifty bucks. That’s how much I’d pay today. If I collected \$1,500 over the next six years, I think that would be a good deal,” Ben said, evidently pleased with his decision.

“Great!” I responded. “Now you finally understand what I do for a living.”

“Dad, what the heck are you talking about? Now I’m totally lost. I’ve never seen any gum!”

“No, Ben, I don’t sell gum. I spend my time figuring out what businesses are worth, just like we did with

Jason's business. If I can buy a business for a lot less than I think it's worth, I buy it!"

"Wait a second," blurted out Ben. "That sounds too easy. If a business is worth \$1,000, why would anyone sell it to you for \$500?"

Well, as it turned out, Ben's seemingly reasonable and obvious question was actually the magic question that got this whole project started. I told Ben that he had just asked a great question, that believe it or not, there is a place where they sell businesses at half price all the time. I told him that I could teach him where to look and how to buy those bargains for himself. But, of course, I told him there was a catch.

The catch isn't that the answer is incredibly complicated. It's not. The catch isn't that you have to be some kind of genius or superspy to find \$1,000 bills selling for \$500. You don't. In fact, I decided to write this book so that Ben and his siblings could not only understand what I do for a living but also learn how to start finding these bargain investments for themselves. I figure whatever career they choose in the future (even if it's not money management, a career I'm not necessarily encouraging), they'll definitely need to learn how to invest some of their earnings.

But, like I told Ben, there is a catch. The catch is that you have to listen to a long story, you have to take the time

to understand the story, and most important, you have to actually *believe* that the story is true. In fact, the story even concludes with a magic formula that can make you rich over time. I kid you not. Unfortunately, if you don't believe the magic formula will make you rich, it won't. On the other hand, if you believe the story I'm going to tell you—I mean really, truly believe—then you can choose to make money with or without the formula. (The formula will take significantly less time and effort than doing the “work” yourself, and will provide better results for most people, but you can decide which way to go when you're done reading.)

Okay, I know what you're thinking. What's this *belief* stuff about? Are we talking about a new religion, maybe something to do with *Peter Pan* or *The Wizard of Oz*? (I won't even bring up the witch-inside-the-crystal-ball thing that still scares the heck out of me, or the flying monkeys, mainly because neither has anything to do with my story.) And what about the getting *rich* part, what's that? Can a book really teach you how to get rich? That doesn't make sense. If it could, everyone would be rich. That's especially true for a book that claims to have a magic formula. If everyone knows the magic formula and everyone can't be rich, pretty soon the formula will have to stop working.

But I told you this was a long story. I'm going to start from the very beginning. For my kids and most others,

almost all of this stuff will be new. For adults, even if they think they know a lot about investing already, even if they've been to graduate business school, and even if they manage other people's money professionally, most have learned wrong. And they've learned wrong from the beginning. Very few people really believe the story I'm going to tell. I know this because if they did—if they really, truly did—there would be a lot more successful investors out there. There aren't. I believe I can teach you (and each of my children) to be one of them. So let's get started.

