**Case Study: Investing in Quality Companies**

**Wedgewood Partners Inc (**[**www.whalewisdom.com**](http://www.whalewisdom.com)**)**

* [Summary](javascript:void(0);)
* **[13F Holdings](javascript:void(0);)**



**Holdings**

| Stock | Shares Held | Market Value | % of Portfolio | Previous % of Portfolio | Rank | Change in Shares | | % Change |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | |  |
| [AAPL](http://whalewisdom.com/stock/aapl) | 638,033 | $ 282,431,690 | 9.68% | 9.89% | 1 | 236,518 | | 58% |
| [AXP](http://whalewisdom.com/stock/axp) | 1,499,469 | $ 101,154,177 | 3.47% | 4.05% | 18 | 20,329 | | -1% |
| [BRK-B](http://whalewisdom.com/stock/brk-b) | 1,946,211 | $ 202,795,180 | 6.95% | 7.85% | 2 | 55,118 | | 2% |
| [CMI](http://whalewisdom.com/stock/cmi) | 1,193,801 | $ 138,254,091 | 4.74% | 6.06% | 7 | 14,380 | | -1% |
| [COH](http://whalewisdom.com/stock/coh) | 2,280,812 | $ 114,017,796 | 3.91% | 4.08% | 13 | 692,818 | | 43% |
| [CTSH](http://whalewisdom.com/stock/ctsh) | 1,854,397 | $ 142,083,903 | 4.87% | 5.16% | 6 | 346,541 | | 22% |
| [EMC](http://whalewisdom.com/stock/emc) | 4,907,434 | $ 117,238,595 | 4.02% | 3.42% | 10 | 1,992,288 | | 68% |
| [ESRX](http://whalewisdom.com/stock/esrx) | 2,909,120 | $ 167,623,491 | 5.74% | 5.28% | 5 | 799,167 | | 37% |
| [EXPD](http://whalewisdom.com/stock/expd) | 2,849,284 | $ 101,804,916 | 3.49% | 3.71% | 17 | 824,874 | | 40% |
| [GILD](http://whalewisdom.com/stock/gild) | 2,251,933 | $ 110,209,598 | 3.78% | 3.95% | 15 | 70,285 | | -3% |
| [GOOG](http://whalewisdom.com/stock/goog) | 226,535 | $ 179,911,832 | 6.16% | 6.01% | 4 | 43,160 | | 23% |
| [MNST](http://whalewisdom.com/stock/mnst) | 1,796,868 | $ 85,782,481 | 2.94% | 2.73% | 22 | 681,949 | | 61% |
| [NOV](http://whalewisdom.com/stock/nov) | 1,220,499 | $ 86,350,304 | 2.96% | 2.58% | 21 | 405,051 | | 49% |
| [PCLN](http://whalewisdom.com/stock/pcln) | 134,445 | $ 92,519,668 | 3.17% | 3.01% | 20 | 29,716 | | 28% |
| [PRGO](http://whalewisdom.com/stock/prgo) | 822,635 | $ 97,679,678 | 3.35% | 2.82% | 19 | 236,178 | | 40% |
| [QCOM](http://whalewisdom.com/stock/qcom) | 2,981,074 | $ 199,553,101 | 6.84% | 6.21% | 3 | 814,157 | | 37% |
| [SCHW](http://whalewisdom.com/stock/schw) | 6,267,418 | $ 110,870,628 | 3.80% | 4.58% | 14 | 619,616 | | -9% |
| [SLB](http://whalewisdom.com/stock/slb) | 1,406,277 | $ 105,316,084 | 3.61% | 3.50% | 16 | 315,059 | | 28% |
| [SRCL](http://whalewisdom.com/stock/srcl) | 1,094,931 | $ 116,259,774 | 3.98% | 3.02% | 12 | 394,714 | | 56% |
| [V](http://whalewisdom.com/stock/v) | 697,982 | $ 118,545,260 | 4.06% | 3.84% | 9 | 151,348 | | 27% |
| [VAR](http://whalewisdom.com/stock/var) | 1,826,581 | $ 131,513,832 | 4.51% | 4.81% | 8 | 346,772 | | 23% |
| [VRSK](http://whalewisdom.com/stock/vrsk) | 1,889,680 | $ 116,442,080 | 3.99% | 3.45% | 11 | 429,119 | | 29% |
| **INVESTMENT PHILOSOPHY** | | | | | | | |

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| --- | --- | --- |
| The investment management business is unlike most businesses in that the “average” product (in this case, investment returns) is unsatisfactory from the consumers point of view. Managers who even outperform their respective peer groups could well be an unsatisfactory experience as well for the client if returns are less than the market index.  Our respect for index investing and investing as business owners has led us to two aspects of our approach that are quite different than our competitors. To outperform an index, we believe that our portfolios must be constructed as different from an index as possible. Thinking and acting like business owners reduces our interest to those few businesses which are superior. Both of these views lead to our focused (concentrated) approach.  To outperform our peers, we believe that we must emulate the most powerful attributes of index investing. By definition, index investing is “buy and hold” investing. This leads us to our history of minimum turnover of our portfolios. As a corollary, this also affects our stock selection. If we expect to invest in companies for many years, we must then focus on those select companies with the brightest multi-year prospects for growth. In addition, our view on risk is contrary to the typical manager as well. We do not view risk via individual security price volatility (beta), rather all of our risk analysis is centered on the individual business.  Wedgewood’s underlying equity investment philosophy is predicated on a strong belief that significant long-term wealth will be created by investing as “owners” in companies. In our “Invest as Business Owners” approach, we seek companies that the following characteristics:   1. A dominant product or service that is practically irreplaceable or lacks substitutes. 2. A sustainable and consistent level of growing revenues, earnings and dividends. 3. A high level of profitability, measured by return on equity without the use of excessive debt. 4. A strong management team that is shareholder oriented.   Once we have validated company performance against this set of criteria, we then analyze prospective companies with an eye toward those organizations who have reasonable, if not cheap, valuations.  With a plus 15 year history of outperforming index investing and most active managers our results are testament to the viability of our investment philosophy. It is this approach that sets us apart from our competition… we think and act unlike the vast majority of active managers.   |  | | --- | | **PROCESS** |  |  | | --- | | Successful business owners and executive managers look beyond the next quarter, taking a long-term perspective on maximizing the value in their business and enhancing the sustainability of their business model and market position. This belief is at the core of our “Invest as Owners” process.  ProcessChart-new  The process begins with a focus on up to six hundred of the largest companies as measured by market capitalization. We conduct a detailed quantitative analysis to assess each companies past excellence and to identify those organizations with exceptionally high profitability. Candidate firms are then qualitatively screened to their prospects for future excellence. During this portion of our review, we evaluate a company’s business model by comparing them to Porter’s “Five Forces of Competitive Advantage:”   1. Barriers to entry 2. Threat of substitutes 3. Buying power 4. Supplier power 5. Degree of internal rivalry   Developed by Michael Porter of the Harvard Business School in 1979, this framework draws upon industrial organization economics to determine the competitive intensity and therefore the overall profitability of a market. Once we complete this stage of our review, approximately ten-percent of the companies analyzed meet our criteria as prospective investment candidates. For these sixty or so companies, our Chief Investment Officer and Team of Advisory Managers analyze the candidates to determine which companies are trading at steep discounts relative to their intrinsic value based upon their historical and relative growth rates, conservative consensus estimates and compressed value multiples.  In the end, our “Invest as Owners” process yields eighteen to twenty-four growth companies that we can hold in our client portfolios for the long-term. | |