

94/05-Charlie Silk's 150-Bagger

Meet an amateur investor with an approach -- and a track record -- any professional would be proud of

By Peter Lynch

My candidate for the world's greatest amateur investor is Charles Silk. I met this fellow Bostonian halfway around the world, at a reception at the Bible Lands Museum in Jerusalem in 1992. We were part of a trade mission to Israel sponsored by the state of Massachusetts. It turned out we had a few friends and many stocks in common. On a bus ride to historic sites, we had our first extended chat. Not about historic sites, but about Blockbuster Entertainment, Charlie's most successful pick.

Charlie bought Blockbuster many splits ago, in 1984, for \$3 a share. It wasn't called Blockbuster yet. It was called Cook Data Services, which fit into Charlie's area of expertise. He had had his own data-processing company, which had fallen on hard times, and he was forced to shut it down. He was sitting home, doing telemarketing for a software outfit and wishing he could find another way to make a living.

Cook Data Services solved his problem. The shares he bought for \$3 apiece are worth \$450 today, so his \$10,000 investment became a living in itself. Thanks to this one exciting stock, he was able to abandon telemarketing and devote himself to his favorite hobby--looking for more exciting stocks. He and two of his three sons are now full-time stock pickers.

I've often said that a couple five-baggers every decade is enough to make do-it-yourself investing a worthwhile pastime. With a 150-bagger like Cook Data, one every half century or so is all anybody needs.

Call Charlie a lucky man for stumbling onto Cook Data Services, but luck didn't make him a millionaire. The hard part was holding on to the stock long enough to get the full benefit. After the price had doubled and then tripled, he didn't say to himself, I'll take my profits and run, like many investors who invent arbitrary rules for when to sell. He wasn't scared out when the price dropped, as it did several times, and he ignored the highly publicized negative comments made by forecasters and "experts" who knew less about Blockbuster than he did. He had the discipline to hold on as long as the fundamentals of the company were favorable. It was not a guess on his part. He was doing his homework all along.

In my investing career, the best gains usually have come in the third or fourth year, not in the third or fourth week or the third or fourth month. It took eight years for Charlie to get his 150-bagger, but in a way, he'd been preparing for the opportunity since college.

At the University of Michigan, where he earned a degree in accounting and finance, Charlie was first exposed to one of life's great mysteries: How do you find a good stock? A professor named Wilford J. Eiteman, famous at the time for his market theories, posed the question. Over the years, Charlie found his own answer. He searches for good stocks among small companies that are relatively debt free and have been beaten down in the market, to the point that they're selling for less than the cash in their bank accounts. "I'm paying nothing for the company itself," Charlie says in his rich Boston accent. "The only thing I'm risking is my patience."

He reminds us that on the New York Stock Exchange, 70 percent of the companies are followed by two or more analysts, but on Nasdaq, 72 percent are not covered by any analysts. This lack of coverage helps produce the great distortions between price and value that he seeks out.

Beginning in the 1960s, Charlie combed the so-called pink sheets in the over-the-counter market. Many small companies went public in the hot initial-public-offerings market late in the decade only to see their prices collapse in the 1973-74 bear market. But it was a heyday for Charlie. Roaming through the wreckage, he found several low-risk opportunities in the area he understood: computers and data processing. A company called Computer Usage had \$4.10 a share in cash; he bought the stock for \$2.25. Another was Scientific Computers, which had \$1.37 a share in cash and at one point was selling for 25 cents. On the rebound, it hit a high of \$33.50, but Charlie had bailed out at about \$6. "I learned then how tricky it is to know when to sell," he says.

Now we move forward to 1984. Another hot IPO market was followed by a collapse at the end of that year. Small high-tech stocks suffered the most. For Charlie, it was 1974 all over again, except this time he didn't have to bother with pink sheets. Nasdaq had launched its computerized trading system.

He surveyed this latest wreckage. Cook Data Services caught his eye. It sold software programs to oil and gas companies--right up Charlie's alley. It came public in 1983 at \$16 a share and quickly rose to \$21.50, but the price had fallen to \$8 when Charlie began tracking it. He was still tracking when year-end selling dropped the price to \$3.

This was the kind of risk Charlie liked to take: a company with no debt and \$4 a share in cash, selling for \$3. But cash in itself is no guarantee of success. If a company is sick to begin with, it has to spend its cash to stay alive. Cook Data was quite healthy. Its revenues had increased four years in a row. "To produce a record like that," Charlie says, "they had to have something on the ball." His \$10,000 investment was as much as he could scrape up. It made him one of the largest shareholders.

A few months after Charlie bought his shares, Cook Data announced it was moving away from data services and into the "consumer area." The company's president, David Cook, had an ex-wife who was a movie buff. Apparently, she still had some influence and convinced him to open a video superstore in Dallas.

Charlie wanted to know more. He got some of his best information by calling the company directly. He made contact with the CEO, Ken Anderson, and also with the investor-relations person, Barbara Phelps. She agreed to send him articles about Cook Data that appeared in the Dallas newspapers.

One of the most interesting things the company sent Charlie was an independent study on the future of the video-rental industry. "When I read that thing," Charlie says, "I found out that 30 percent of American households owned VCRs, and that eventually 60-70 percent would own these machines. [This estimate turned out to be conservative.] All these millions of people with VCRs were going to need an endless supply of tapes."

It got more interesting when he went to the library and looked up company filings in the SEC's Official Summary of Security Transactions and Holdings. He saw that two different groups, the Sanchezes from Texas and Scott and Lawrence Beck from Illinois, had become major shareholders. Scott Beck was

coauthor of the video study and obviously impressed by his own research. Charlie also learned that revenues from the Dallas superstore had more than doubled in the first three months of operation. His sources at the company confirmed these numbers and told him how crowded the store was. It was amazing, they said. People were driving from as far as 30 miles away.

Meanwhile, the stock price had begun to rise on heavy volume. Volume is something Charlie watches very closely. In his experience, stocks on the way down usually don't hit bottom until the volume has subsided. Heavy volume in the upward direction is often a harbinger of more big moves. In six months from late 1984 to early 1985, he'd already made five times his money. Some of his friends were urging him to be sensible and to take his wonderful profit. This is where many investors would have tripped up, but having missed some spectacular gains in the 1970s, Charlie kept his focus where it belonged--not on the stock price but on the company itself.

In spring of 1986 Blockbuster opened an outlet in West Roxbury, a mile from Charlie's house. Suddenly, everything he had been hearing about came to life, and he could see the crowds for himself. It is a tremendous advantage for investors to have stores owned by immature public companies open in their neighborhoods. They get an early whiff of success or failure before Wall Street picks up the trail. Perhaps if there had been a Blockbuster in my own little suburb of Boston, I would have noticed what Charlie noticed. "My sons and I would go over there on Saturday night and count cars," he said. "The parking lot was always packed. I thought to myself, 'This is going to be incredible.'"

By late summer 1986, three new superstores had opened in Texas, and the Becks had bought franchise rights to four new cities. Revenues continued to grow at a rapid pace. A secondary stock offering was planned for September to raise money for more expansion. The company was changing its name from Cook Data to Blockbuster Entertainment.

A week or so before the offering, Charlie was reading Alan Abelson's column in Barron's, when he came to a pan of Blockbuster. Abelson's argument: Who needs another video store?

Abelson's comment produced a spate of selling that caused the stock price to drop 15 percent. Charlie was a fan of Abelson's, but he was confident he knew more about Blockbuster. The sales figures from Blockbuster showed that people were flocking to the new superstores. But enough investors backed away from the offering that instead of the anticipated \$20 million, Blockbuster could raise only \$3.7 million.

Wayne Huizenga, the Waste Management tycoon, entered the picture in late 1987. A partner with Scott Beck's father, Huizenga jumped on the Blockbuster opportunity, eventually taking complete control. "Now I was really impressed," Charlie says. "I was aware of the terrific job Huizenga had done at Waste Management. I also liked the fact that he wanted to concentrate on company-owned stores, more profitable than a franchise operation."

Toward the middle of 1987, Charlie started worrying about the stock market in general and the fact that he had too much money riding on one issue. So he sold a portion of his shares in the high 30s, just before the big correction in October of that year. Short term, this proved to be a smart move, because Blockbuster stock promptly fell by half, to \$16. But longer term, he would have been better off to hold on to every share to get all of Blockbuster's tenfold gain over the next four years.

In 1989, another Wall Street expert spooked the shareholders. Lee Seidler, an analyst for Bear Stearns, made a big fuss over the company's practice of carrying a large quantity of older and less-popular video tapes on the books as assets, when in his opinion they were worthless. This, he argued, made the company appear more profitable than it was.

Seidler's salvo was taken so seriously that the stock price got clobbered (falling 36 percent). The accounting flap was still an issue six months later when Huizenga visited Fidelity in December 1989. I was running Fidelity's Magellan fund at the time and was impressed with his explanation. He said that even if the company changed accounting methods, the result would be a one-time earnings drop of 10 to 15 cents. This was peanuts compared to the tremendous growth of the company.

Having done his own research, Charlie didn't need to meet Huizenga to reach the same conclusion. He and his sons had traveled to New York, Connecticut, and elsewhere to visit other Blockbuster stores. Everywhere the stores were jammed with customers.

Today, Charlie still owns a big chunk of Blockbuster. The recent merger with Viacom, which in turn has swallowed up Paramount, has complicated the story considerably. He's studying the situation.

For all the benefit he's gotten from this one company, following its progress has taken him only a few hours a month. These days, Charlie works at his investing full-time, though his method is basically simple. Every morning, he scans the Nasdaq section of the business pages, looking for stocks that have fallen to new lows. From the Moody's OTC Industrial Manual and other sources, he finds out which of these beaten-down companies are cash rich with no debt and have a potential for a turnaround.

He is excited by the hundreds of new small companies launched at high prices in the hot IPO market of the past three years. Already, some of these 1,400 or so companies have fallen out of favor. Whenever we get the next sharp correction, Charlie will be ready to pick up the valuable pieces. ----- Peter Lynch writes the Investor's Edge column for each issue of Worth. From 1977 through 1990 he managed the Magellan fund, the best performing of all mutual funds over a 15-year period, and he is a vice-chairman of Fidelity Management and Research. His latest book, *Beating the Street*, is published by Simon & Schuster.

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