

## AN INVESTMENT PHILOSOPHY INFLUENCED BY WHARTON

By Henry V. Janoski, BA, MBA, CFA, CSA

Hello:

My name is Henry V. Janoski and I head up my own firm, JANOSKI INVESTMENT ADVISORY SERVICE, LLC. I was graduated from Yale University, magna cum laude, as a history major in 1955, and, after active duty service as an Army Lieutenant, from Wharton Graduate School, where I majored in finance and banking, in 1960.

My 51 years in banking and investments included Senior Credit Analyst, National Bank of Detroit, 1960-1963; Assistant Cashier, First National Bank of Wilkes-Barre, PA, 1963-1965; Senior Vice President, Northeastern Bank, Scranton, 1965-1980; Independent Investment Counselor, Clarks Summit, PA, 1980-1992; Chief Trust Investment Officer, Penn Security Bank and Trust Company, Scranton, 1992-2001. After retirement for 10 months, I returned to work as Senior Investment Officer, Linden Asset Management, Inc., Scranton, 2002-2005; Senior Investment Advisor, Northeastern Financial Consultants, Inc., Clarks Summit, 2005-2007; and in 2008 I became President & Senior Investment Advisor of my own firm, Janoski, Investment Advisory Service, LLC in Clarks Summit. My biography may be found in Who's Who in Finance and Industry (now Finance and Business) , Who's Who in America and Who's Who in the World.

Since most of my investment experience was in trust investing, I tend to be very conservative, as I was investing for the traditional "widows and orphans." Then, too, I invested a bank's own portfolio of bonds. And I also draw upon my background as a history major, looking at the history of the economy and the stock market, which go down as well as up. So, my investment philosophy reflects my emphasis upon investment as contrasted with speculation, and upon a current return, as a reason for holding in a "bad" market, which history tells us could recur.

What is an investment and what is a speculation? It is not enough to joke that "If you bought a stock and it went up, it was an investment. If it went down, it was a speculation." But how can you know before you buy it? The definition for an "investment" is given in Security Analysis by Benjamin Graham & David Dodd, 1934 edition, pp. 54-56, considered by many to be the "bible" for investing.

"An investment operation is one which, upon thorough analysis, promises safety of principle and a satisfactory return. Operations not meeting these requirements are speculative." But what is a satisfactory return? "A satisfactory return is a wider expression than adequate income, since it allows for capital appreciation or profit as well as current interest or dividend yield." The trick is for your analysis to show safety of principle before you make the purchase. "Satisfactory" is a subjective term; it covers any rate or amount of return, however low, which the investor is willing to accept, provided he acts with reasonable intelligence." But here is where Graham and Dodd get to be less clear. Apparently they wanted to allow for including other types of "investing," besides trust investing. I say let the others

try their hand at capital gain investing (I call it speculation). How many people are satisfied to be sitting with stocks today that they purchased in 2007, in hopes of capital gains? Do they at least get a current income, as in dividends?

I have put some of my clients into "good" securities that pay a current dividend of about 6%, i.e. 5% after my 1% management fee. This beats the 1/2 of 1% that they can get for their money from a bank! But I tell them that even if the market goes up, as I think it may, and their holdings drop in market value, they will still be getting their 5% on their money! If I have chosen these securities correctly, my clients should also see a slow rise in the current dividends of these securities over time. That is better than sitting with a current loss on a portfolio that also pays nothing in current dividends!

My investment philosophy obviously is affected by my 51 years of investing experience. But what does it reflect from my years at Wharton? My professor of investments was Willis J. Winn, Dean of the Wharton School. He told us students to use his side door at any time we had to see him. On the first day of class, he asked how many of us wanted to pay higher taxes. When none of us said "yes," he said that his objective was to be the highest tax payer in Philadelphia. When we looked stunned, he said, "Think about what that would say about my INCOME?" I shall never forget that, now when so many potential clients tell me they want to invest so they can pay LESS taxes! Professor Winn got us, his students, to think along lines that were not at first obvious. While working with us on a problem, he would suddenly show the market as going down, when we were sure it was going up. He would then ask us how we should have planned for something like this to happen.

A third influence on my investing philosophy was the investment experience that my parents had in investing. In 1947, when I was 13 years old, my Uncle Stanley dropped in to see us in Nanticoke, on his way back to Chicago. He had just come from a session of the U.S. Supreme Court, in Washington, DC, that had ruled that a 1935 law requiring utility holding companies to break up and distribute their holdings of other utility companies to their shareholders was constitutional. (In those days TV and other means of instant communication were not yet very common.) He suggested to my parents to do like he was going to do. Use money they could afford to lose and buy shares in one of these utility holding companies. Put them on the side and don't waste time checking what the price of the shares was every day. They put \$5,000 into one of these companies, and within a short period of time they started to receive shares from about a dozen utility companies that paid a nice dividend. (When we saw Uncle Stanley again, in 1949, he said that he went against his own rule and had to sell his shares in a bad market at a loss.)

My parents were content to just take the dividends, which increased a little each year, and just held onto the new stock certificates that they had received. But they used to give the annual reports and other information that they received from these companies to me to read, which was all Greek to me. But this may have influenced my decision in later life to go to Wharton. When they both died some twenty years later, as executor of their estate, I priced their holdings at more than \$100,000 and distributed 1/4 to each of my three sisters and to myself. I told them I was going to sell mine, since I had no tax to pay on the \$25,000 current market value, and I recommended they do the same. Two of them did, but one, influenced by her husband, continued to hold. By now I had an MBA from Wharton and

could see inflation coming, which would lower the price of my fixed-return holdings. I recommended where to put the \$25,000 for each of us. When the third sister finally sold, she got about \$15,000 for her \$25,000!

I have been rather successful during my years of investment advising, using my method, outlined above. I never lost a cent for myself or for my clients. But I did come close once. I had purchased an obligation of one of the states, which shall remain nameless, which would not pay me back at maturity. It turned out that the note issue had been illegal! Not being a lawyer, I had to rely on the opinion of a lawyer as given on the security, which turned out to be wrong!

I called the governor of the state concerned and he transferred me to the lieutenant governor. After listening to my explanation, he said, "Are you threatening me?" I said, "I'm not threatening you, I am simply telling you what I am going to do. I shall release this default information to the financial press and to the local press in your state. What are you going to do?" He told me to not do anything in a hurry. The state called an emergency session of its legislature and declared the notes legal, and paid my bank the principal plus interest on interest.

Readers: Let me know what your investment experience has been and how Wharton may have influenced it. Or let me know if you have any comments or questions on the above. This is your blog as much as it is mine. You can see my investment site at [www.hjanoski.com](http://www.hjanoski.com) or write to me at [hjanoski@hjanoski.com](mailto:hjanoski@hjanoski.com). My investment site has a paper on "High Price Earnings and the Stock Market: a Personal Odyssey" which I wrote in December, 2004. At that time I was concerned that the outlook for the economy and the stock market was not good. I plan to follow up with another paper in the near future.