The Kirk Report

There have been a number of new and rising stars in the online investment community in recent years. Jae Jun from **Old School Value** is one such star.

Much like many of you, one of my favorite types of websites I find these days are of individual investors who dedicate tremendous time and effort to share their journey and resources with others for little to no personal gain. I often learn far more from these websites and the conversations I have with those who offer them than from many seasoned so-called "expert" professionals. Jae Jun's website has become such a new and valued resource for that very same reason.

As you will soon discover by reading this interview, Jae offers a lot of interesting insight even though he doesn't mange money professionally. Instead, like many of you, he's working full-time and investing his money the best way he knows while learning and getting better as his skills and knowledge improve.

We hope you enjoy this interview and find it helpful!

Q&A With Jae Jun

Kirk: Hello, Jae. Thank you for taking the time to do an in-depth interview. I'm really excited to get to know you better and learn more about the man behind the Old School Value website.

Jae Jun: Hi, Charles. I'm the last person to have imagined that I'd be interviewed by others, so I'm very excited and humbled that you've taken the time to interview me.

Kirk: When and how did your interest in the market begin?

Jae Jun: I was part of the crowd that Wall Street managed to convince in believing that I didn't have what it takes to manage my own money. I grew up in Australia, finished my university studies and was fortunate enough to land a job in the USA, and as my small savings account started to grow, I wanted to do something with it rather than be content with the 1% interest offered by the bank.

At the same time, my wife, girlfriend at the time, was trying to become a financial planner and one requirement was for her to bring people at least five people to the company to sign them up for life insurance.

Long story short, I ended up signing a variable life insurance plan where the monthly payment was $350.

After about 10 months of paying huge fees and negative returns, I forfeited the account completely and took my first investment loss. My wife also signed up at the same time so she lost her money as well.

I then realized that no one cared for my money as much as me. This realization kicked off my investing journey.

Kirk: How did you begin to learn about the market and investing in general?

Jae Jun: Learning was quite difficult for me at first because I had never taken any finance, economics or business related classes in my life. I was always the math, science and engineering type of guy and didn't take an interest in other fields.

I started on the internet and managed to find my way to various sites such as Fool, **SmartMoney** and **Trading Markets** where I began reading investing articles on a daily basis. I eventually signed up for the 30 day trial of Fool newsletters and began to read up on stock picks and stock analysis.

Then it went from online articles to Warren Buffett books. That's when I learned what value investing meant.

Kirk: What would you say is one of the most important lessons you learned early on?

Jae Jun: Ahh so many lessons, but one I remember clearly is to not think you know it all. There will always be someone better, always someone better to learn from and always somebody else's mistake to learn from.

I read a lot of books, articles, papers and other educational material when I started and from all the dog eared pages and notes I had taken, I thought I had everything understood to start investing with real money.

The problem was that due to my lack of experience, I had tunnel vision. I thought I had the math, financial ratios and valuation methods to confidently make a killing off any investment, but of course, it doesn't work like that.

What works in theory rarely works in practice.

Kirk: Thinking back what would you say was most instrumental in your development toward becoming more successful in the market?

Jae Jun: Beginning to think like a businessman. Reading a variety of material, especially related to business and annual reports forced me to think more broadly instead of seeing stocks as dollar signs. My understanding of businesses finally grew which helps in understanding the underlying fundamentals and deciding whether the business is worth investing in.

Kirk: What have been some of the most challenging lessons you have learned?

Jae Jun: I'm not sure I can confidently say that I've learned it completely, but disciplined selling is definitely the most challenging. It's hard to bite the bullet and lock in an 80% loss, and it's even more difficult to sell when you see your position increase 400% or more and explaining to your emotions that you need to be disciplined and stick to the game plan.

Kirk: How has your approach toward the markets changed and improved over the years?

Jae Jun: My biggest change would have to be the willingness and acceptance to constantly adjust. I see the market as a game. For example, in the game of baseball, the pitcher may throw a certain pitch to the batter in the first inning. The next time however, the pitcher may have to immediately adjust the attack strategy simply because he noticed a simple shift of body weight.

In the 2008 crash, cheap stocks were everywhere. Quality companies were cheap but it was a great time to pick up as many Ben Graham type stocks as possible and the 2009 bull market proved just how profitable it was. Contrast that with 2010, where Graham stocks underperform by a large margin compared to quality companies.

I see so many investment sites and books focus purely on one type of strategy. The problem with this is that you end up boxing yourself into a single set play for every situation, instead of being versatile and having a variety of plays ready.

Kirk: Well said and a terrific analogy that we should all be constantly aware of. As we get to know you better, can you tell us a little about what you're doing right now professionally? In other words, how do you earn a living?

Jae Jun: I am telecommunication engineer by day where I work in the mobile phone industry. So I earn a living like most people with a day time job and investing is just a hobby right now. Old School Value was created to document my investment thesis and things grew from there.

Kirk: How would you describe your personal philosophy toward the market?

Jae Jun: My philosophy is to turn over as many stones to identify undervalued stocks or stocks with a catalyst and hold them to their intrinsic value.

I also tend to focus on micro to smallcaps where greater market inefficiencies exist. I'm a contrarian by nature so I enjoy going against the grain and what the herd is doing.

For each stock I uncover, I identify how it will fit into my portfolio and what I expect of it. I wouldn't buy a stock knowing that it could take 2-3 years for the stock price to appreciate and then getting frustrated when it sidelines for several months.

Teaching and sharing information is another important aspect of my philosophy. I find enjoyment in helping others to improve their process or simply just to provide them with ideas.

Kirk: As you say, much of your work seems to be focused on finding stocks that have tremendous value. Why is this the correct approach for you versus other growth-type methods?

Jae Jun: I can't even predict what will happen tomorrow so trying to predict the future and the growth of a company is beyond my ability. Of course, I oversimplified the answer but rather than focusing on the future where the range of error is huge, my method of conservatively focusing on what is real and easily foreseeable is the approach that I am comfortable with. It's an approach that lets me sleep at night.

Tremendous value doesn't just apply to a company trading for much less than its intrinsic value. Value also includes buying liquidating companies at 25 cents on the dollar and then selling at 60 cents on the dollar.

But what I have found is that by identifying companies that offer compelling value, you are always ahead of the institutions. I liken it to surfing. You paddle out to sea and just wait, knowing that the wave will come. When the institutional buying wave comes and you are on it and you are in for the thrill of your life. Of course, sometimes that wave never comes and it's time to move on to other waters.

Kirk: I am impressed your valuation spreadsheet you sell for $65. For those who are unfamiliar with it, can you provide us with an introduction to what it is, how to use it and, most important, why others may find it to be a worthwhile tool?

Jae Jun: I created an automated spreadsheet to model various stock valuation methods and bottom up analysis techniques not just to help with research but to identify companies worthy of investing in.

Research is very time consuming and involves a lot of repetition. That is, you look for the same financial numbers of every company, you then have to crunch those numbers, draw graphs and calculate how much the stock is really worth. The spreadsheet just makes it easier to do all that. I can save time and focus on analyzing stocks instead of gathering data.

At first, I was doing this all by hand like most people and took time away from socializing and family. I went to bed late trying to sort through everything. I knew there had to be a better way, and so I steadily applied all the concepts and models that I studied and it has grown with each new book, concept, formula and model that I discover and find useful.

The spreadsheet has become a full blown stock analysis software where the user simply enters a US listed stock ticker and the spreadsheet will automatically load and crunch the numbers to provide an estimated value of what the stock is worth. You then have all the numbers, graphs and information at the tip of your fingertips to move from a simple idea to in depth research.

The models included in the spreadsheet include DCF, Ben Graham’s formula from â€œThe Intelligent Investorâ€, Graham’s Net Net model, Bruce Greenwald’s Earnings Power Value, historical Piotroski F scores, Altman Z score, the lesser know Beneish M score to detect stock manipulation as well as being able to enter any competitor to compare side by side.

Future additions will include a stock tracker and additional valuation models and Guru checklists.

I also place heavy emphasis on design and data visualization. No matter how good a piece of software may be, I consider it a failure if usability is difficult and the information is not in an easy to understand format.

Kirk: To help us a little further, can you provide an example of how you evaluated a stock recently using your spreadsheet and what it helped you to figure out?

Jae Jun: Since there are so many aspects of the spreadsheet, it is virtually impossible to find a company that will fit every valuation and model I have, so I’ll mention a few.

One recent success was a company by the name of K-Tron that was bought out early this year. It was a small cap with no coverage, the company has never provided earnings guidance or held a conference call.

I entered KTII into the stock valuation spreadsheet and the numbers jumped out at me. Here was a quality company where the DCF, Graham valuation models and EPV all produced a value that was much higher than the trading stock price. Even with conservative estimates, all models were showing that it was clearly undervalued.

All the ratios and financial statements showed a consistently profitable company, growing at a nice steady pace. Everything in the market was falling but the numbers displayed by the analysis confirmed that KTII was an even better investment at a lower stock price. To my surprise and pleasure, KTII was bought out this year.

While KTII was a success based on the valuation models, VVTV (ValueVision) came on my radar when I was screening for companies trading at incredibly cheap levels compared to its assets. By applying Benjamin Graham models to the company, I calculated that the value of the assets of the company alone was worth much more than the trading price. There was clearly a floor, i.e. the minimum price the stock should fetch. Eventually, VVTV got picked up by institutions. I even have James Altucher to thank for featuring the stock in one of his video picks. Eventually VVTV rose over 1000% from my buy price, but I got greedy and held on too long.

The third success that comes to mind is my investment in the radio industry last year. A quick run through of radio stocks such as ETM, SALM, ROIAK, in the spreadsheet showed a grim picture. The companies were not profitable, had a ton of debt, high interest expense and high fixed capex BUT free cash flow was positive. This piqued my interest and got me reading about radio companies and the industry. I ended up buying a handful of radio companies based on how cheap they were relative to their cash flow and debt.

Kirk: Ok, I think that helps us know how you identify worthwhile investment opportunities. May I ask, then, what is your average hold time for an investment position? In other words, how long are you willing to wait for the proverbial wave to come in before you move onto another situation?

Jae Jun: Every stock that I hold is based on a certain strategy. Cheap stocks without a catalyst, I would hold up to 3 years to let time work things out. For stocks with a catalyst, the holding period can be anywhere up to 1 year. Special situations such as mergers and buyouts last about 1 month.

The shortest holding time would be if I found a mistake with my analysis, at which point I sell immediately.

Kirk: In your personal portfolio how many stocks do you own on average at any one time?

Jae Jun: At the moment I have 9 positions, but the most I have ever held at one time is 15. I'm with Buffett when it comes to the number of holdings and diversification. Just know what you hold and a concentrated portfolio is not risky.

Kirk: Good for you! At times I hear that people have portfolios of 20 to 50 stocks (sometimes even more) and I know instantly they don't understand how that's hindering their performance.

Moving on, at the website I've seen you offer results of a "Old School Value" stock portfolio. Is that your real portfolio or simply a model portfolio?

Jae Jun: It is a real portfolio that I manage. The account is actually my 401k so it provides the luxury of thinking long term and helps me to learn and try different things. I can't touch it until 60 anyways.

Kirk: Where can one see what stocks are in this model portfolio?

Jae Jun: While I provide full transparency of my entry, exit trades and rationale, I do not disclose my entire portfolio as I plan to roll out a members section of my site. My portfolio access and real time trade alerts will be a feature of this.

Kirk: Now that we've discussed how you find your ideas and hold times, can you tell us how you manage that investment? In other words, what would cause you to sell a particular stock?

Jae Jun: Once a purchase has been made, I go to the SEC **website** and subscribe to that particular company's documents through RSS. I also set up a Google alert for certain phrases related to the company so that I receive the news directly in my inbox or through my reader.

When it comes to selling, my three sell rules simple. I sell when one of these three conditions are present: 1) the stock price meets or exceeds my valuation, 2) I find a better opportunity, 3) I have made a mistake.

Kirk: Do you ever "average down" into a losing investment? Why or why not?

Jae Jun: Yes I do average down. If I buy something on sale at 50%, then it's an even better bargain when it is selling for 25% of the value. It's a surprise that people do not apply the same methods as they would in real life.

Kirk: I think people have to be a true value investor like you in order to adopt that kind of patient approach and can also withstand the emotional pain from doing so. They also must have tremendous confidence that their analysis is correct even though the market currently thinks it is wrong. Unfortunately, the market always wins these battles short-term, but in the long-term if your analysis is correct, you will win.

So, I must ask, do you utilize any predetermined “stop loss” method in your approach? In other words, what is an acceptable level of percentage loss you’re willing to take on to remain invested in a particular stock that has declined after your purchase before arriving to the understanding that you have “made a mistake?”

Jae Jun: I don’t equate a fall in prices as mistakes, which is why I don’t use a stop loss. If I know I’ve made a mistake, I will cut my loss immediately, whether it be at -5% or -60%, but if the price is falling due to the overall market, there is nothing I can do about that. I’ve held positions at 50% losses but averaged down with the end result being a profitable outcome. For fundamental investors, stop losses prevent you from loading up on stocks when Mr. Market is throwing a clearance sale.

Kirk: Interesting. You and I differ completely in this regard. I find any large loss completely unacceptable. After all, if I’ve done my job correctly, I have purchased the stock at an optimal low/risk high/reward level and the market should later confirm that by showing that I was correct in the days that immediately follow. For me, it is clear I’ve “made a mistake” when the stock moves against me and past my preset stop. For me, when the stop is hit, I’m out and I move on and I never run the risk of fighting the market.

So, if you don’t use stops and are willing to carry large losses when a position moves against you, do you manage your risk by using position sizing and scaling methods to buy or sell stocks or do you invest in full position sizes only?

Jae Jun: There are advantages and disadvantages to both methods but I prefer to scale into positions. It also depends on the size of the company because even retail investors have to be careful and patient when buying so as not to move the price for micro caps with small floats. For large caps such as JNJ or AAPL, I would buy full positions, so again it all comes to knowing how the stock will fit into your portfolio and how to adjust for each position.

Kirk: As a teaching example, please go through a process you went through for a previously closed out successful investment. In other words, start by telling us how you found the stock, the decision-making process you went through to evaluate it as a good buy, how long you held it, and finally what caused you to sell and close out the position.

Jae Jun: I was running my favorite Ben Graham Net Net screen last year where a company by the name of iGo Inc (IGOI) kept showing up. A net net stock is where you sum up the cash, a percentage of accounts receivables and inventory and subtract liabilities. With IGOI being a net net, the fundamentals were not great. The company was losing money, had low margins and sold commodity products.

The only thing going for the company was that its liquidation value was greater than its market cap.

However, IGOI was different in that, the company announced that it had lost its biggest customer that accounted for 40% of sales, yet the stock price did not move on that announcement. This was market inefficiency at its best. I still continued to study the company by reading the annual reports, letters to shareholders and going through the numbers and valuation process. But some things are so cheap you can spot them immediately.

My downside was protected by the liquidation value, which I calculated based on conservative numbers and the fact that nothing could be worse than losing your biggest customer.

I held the position for 6 months and exited at a profit of 122%. This was a particular investment which I didn't have to follow up very often. Without a catalyst, I was expecting to hold the position for over 1 year, but IGOI steadily released positive press releases which saw the stock price move beyond its liquidation value.

Kirk: Good for you. Now take us through an investment that didn't go right using the same process. If you can, what if anything did you learn from this loser?

Jae Jun: **Ceradyne (CRDN)** is a company that makes defense products for the military and other related fields and was a value trap that fit everything I looked for. Due to the war in the middle east, orders were constantly coming in and they were winning new projects.

Fundamentally the company is sound. Strong financials, strong past growth but what I didn't factor in was that numbers do not depict the state of the economy or market impacting news. As Obama campaigned to bring the war to an end and reduce defense budgets, CRDN stock started to slide because there was a lot of expectation that the war would continue longer.

From CRDN, I learned that a quantitative process alone to form an investment decision is never good enough.

Kirk: I find that many investors do not have the temperament to be a true value-focused investor. Do you agree with that view and, if so, why do you think so many struggle with value-focused investing approaches?

Jae Jun: Many people have the right mentality when they call themselves a value investor but there are also different levels of value investing. An investor such as Buffett back in the partnership days or Seth Klarman today is the epitome of value investing. I would even go as far as to say that Graham would rank below Buffett and Klarman as Graham himself found volatility hard to deal with. But this doesn't mean Graham was not a true value focused investor. In fact, Graham is the grand daddy of value investing.

Since everyone, including me, makes mistakes where temperament is the culprit, temperament simply differentiates the elite and the average. Not everyone can be a Michael Jordan or Derek Jeter, but there are plenty of professional players competent in what they do.

Kirk: What are some personal pitfalls you've experienced with value-focused investing?

Jae Jun: Over researching is a common theme among value investors. There are two versions of this. One is where I put in so many hours of reading, calculating numbers, discussing with other holders of the stock that it sometimes clouds logic. I have so much information on the company that I feel obligated to purchase the stock because I believe I know it so well. The second is the opposite where I have overstated the importance of a certain piece of news, preventing a purchase.

Kirk: That's a good point I seldomly see discussed. The more someone knows about a company through their research they develop a connection (and sometimes a fondness) for that company. All by itself that can create bias over their analysis and negatively impact their capacity to evaluate a company. Many traders, for example, take specific steps limit their informational intake in order to NOT know much about the companies they trade for this very reason. This allows them to trade positions without any internal bias and emotional attachment. Speaking of which, do you ever employ the use of technicals (i.e. chart analysis) in your approach? Why or why not?

Jae Jun: I did try for the first few weeks when starting to invest, but it never made clear sense to me. Just like how the concept of buying cheap stocks doesn't sink in quickly for many people, chart analysis never struck a chord with me.

Kirk: Honestly, you may want to try it again especially now that you have a solid fundamental foundation as it will help you spot better entry points for the opportunities you find. This is especially true since you don't believe in using predetermined stops to manage your risk.

Moving on, you offer a number of free spreadsheets at your website (9 at last count). How do visitors obtain these spreadsheets?

Jae Jun: Simply subscribe to the site with your email and you will receive the download list and links in the confirmation email.

Kirk: Which spreadsheet do you use most often and why?

Jae Jun: The premium version combines all of the free spreadsheets and more which I use daily but for obvious reasons, I use the valuation models the most. I use them to quickly narrow down a list of ideas.

Kirk: I find that data errors are common with many tools. How do you make sure the data that these spreadsheets are based on are clean and up-to-date?

Jae Jun: Standardized online data can't be 100% accurate, but what I have done to try and overcome that problem is to allow users to manually enter numbers into certain boxes that will override the default data. I've also applied number smoothing calculations to prevent a single number from skewing the calculations.

This way you allow for more control and at the same time, keep the inputs to a minimum which is vital when trying to save time.

Kirk: Beyond using spreadsheets for research and analysis, what is the very best way to find the most attractive values today?

Jae Jun: I get my ideas from either other value investors that I follow or from stock screening. Another method is to go through all the annual reports submitted by companies on the SEC website. To make it easier, you can subscribe for free to receive all the annual reports as they are filed. If you are familiar with financial statements, it will take only about 30 seconds to decide whether it is a stud or a dud. It is a shame that the SEC is underutilized.

Kirk: Much like me, you find valued-focused stock screens quite helpful. In fact, you provide several good ones at your website which are free and open to everyone who visits. Tell us a little about these screens and why you think these can be helpful?

Jae Jun: The screens are meant to find both cheap and quality stocks. Rather than the usual screens of low PE and PB, I've tried to apply screening methods that will factor in the fundamentals of the business. I also backtest each screen with conservative, yet realistic assumptions to picture whether it is a strategy that would work with real money.

To date, I have the following screens up on the site.

- **NCAV:** Benjamin Graham's famous net current asset value. These are stocks trading at a 33% discount to their NCAV.

- **NNWC:** A stricter variation of NCAV called Net Net Working Capital. NNWC can be considered as the liquidation value so any stock trading below NNWC is cheaper than the liquidation scenario.

- **NNWC Increasing:** Stocks that have increased their NNWC from the previous quarter. Shows signs of a potential turnaround.

- **CROIC:** Cash Return on Invested Capital. A financial ratio that calculates how well management utilizes its cash. Stocks able to generate cash off their investments.

- **FCF Cows:** Stocks that generate plenty of FCF. Very strong cash generators.

- **Negative Enterprise Value:** Stocks that trade below their enterprise value. Another method of finding cheap stocks and net net stocks.

- **Share Buy Back:** Finds stocks where the number of shares outstanding has been decreasing.

- **Insider Buying:** Stocks where insiders have been buying.

- **Altman Z:** Stocks with an Altman Z score of above 3. These companies are fundamentally healthy with no chance of bankruptcy.

- **Piotroski Score:** Stocks with strong fundamentals. Healthy stocks that also help to filter out bad investments.

Kirk: What is your favorite stock screen and why?

Jae Jun: I don't have a particular favorite screen but I do get most of my ideas from the Ben Graham and CROIC screen. My personality just fits Ben Graham like a glove. Charlie Munger managed to change Buffett into paying fair value for great companies, but that just isn't me. Ben Graham cigar butt type investments perk my interest the highest but I also like the CROIC screen because it indicates the level of profitability at the bottom line as well as managerial efficiency.

Kirk: What would you say is your least favorite screen?

Jae Jun: I don't have a least favorite screen but if I had to choose, it would be the typical low PE, PB, PS screens. However, I've been testing screens by associating growth rates with PE to try and find the optimum â€œlow PEâ€ to use in a screen. In other words, Ben Graham, through his studies found that a company with 0% growth traded at a PE of 8.5. If a company is trading at 0% growth which is baked into the stock price and the company is able to surprise even by the smallest margin, no doubt it will end up being a profitable investment. My aim is to find that borderline PE where there is a good chance that the market can be wrong on the prospect of the company. The market is likely to be correct that the prospect of a company with a PE of 1 isn't bright.

Kirk: How often do you look at these screens and evaluate the stocks that show up in them?

Jae Jun: I go through each screen on a weekly basis at the minimum and try to review interesting ideas at least once every 2 weeks. The market does not change so abruptly that new stocks appear in the results every week though.

Kirk: How do you track the performance of the screens you monitor and the stocks that show up in them?

Jae Jun: I do a lot of my work on Excel to crunch numbers and keep track of things but I utilize free sites such as **TickerSpy** or **MarketWatch** to keep track of screens, performance and news. I don't like to use installation software as I have a couple of computers and I work from different places and need mobility. So having online cloud systems helps greatly because I can access information from my computer, phone and other devices.

I noticed that you have recommended Evernote for organizing notes. Something similar that I use is **ComindWork** which is a cloud project management environment. It's free and a great tool to manage your workload.

Kirk: Are there times that you'll focus on one value screen over others and does recent or long-term performance play any role in that determination?

Jae Jun: Depending on market conditions, I would employ the same screen until the overall market value has changed. At the end of 2008-2009, I purely focused on cheap cigar butts and I started 2010 with Graham but have since changed to quality screens such as FCF, CROIC and Piotroski.

Recent and long term performance all depends on the entry point. The best screen could provide horrible results if the entry price is too high, so I keep things in perspective when looking at the past performance of any screen.

Kirk: Has it been your experience that some screens simply work better in certain types of environments? If so, what have been your observations concerning this in your work?

Jae Jun: Most definitely. When the overall market is consumed with fear, the key is to quickly identify the companies with huge price inefficiencies and then being able and to hold tight. In bear markets, I utilize the Ben Graham and negative enterprise value screens the most and it has proven to outperform the market by a considerable amount when the market stabilizes.

In a range bound market, nimbleness is required, so rather than a screen to find opportunities for the long run, I prefer to look for special situations such as liquidations, mergers, buyouts and odd lot tenders to help keep my portfolio afloat.

In a bull market, everything goes up and I'll be screening for quality companies.

Kirk: Can you share some performance metrics on these screens you share?

Jae Jun: Here are the screen results after the 2nd quarter. The stocks that show up are usually small to micro caps which is why a comparison to the Russell 2000 is more suitable.

Screens	Screen Return	vs S&P	vs Russell 2000
Insider Buys	27.5%	26.9%	23.1%
Share Buybacks	9.3%	8.8%	5.5%
NNWC Increasing	7.0%	6.5%	3.3%
Negative Enterprise	6.9%	6.4%	3.2%
Piotroski	6.7%	6.2%	3.0%
CROIC OSV	5.0%	4.5%	1.4%
Altman Z	2.7%	2.2%	-0.9%
FCF Cow	-2.0%	-2.5%	-5.4%
NNWC	-17.3%	-17.7%	-20.2%
NCAV	-33.7%	-34.0%	-36.0%

S&P YTD	0.59%
Russell 2000 YTD	4.79%

Kirk: Why do you think Insider Buy Screen has been such a strong outperformer so far this year?

Jae Jun: In such a market as 2010, where there is volatility, uncertainty and a whiff of a double dip, people are likely seeking direction, and where better to find it than following the insiders. Insiders know the state of their own company the best and people buy a stock for purely one reason â€" to make money. With insider buying, it's a display of eating your own cooking and confidence of future prospects.

Kirk: Why is the NCAV screen underperforming so much?

Jae Jun: NCAV are low quality stocks. For a

stock to be trading at 33% below NCAV,
something is definitely wrong with the company. The reason for such poor performance is that poor quality stocks will continue to announce negative results. When the market is either overvalued or range bound, low quality stocks will be the first to suffer.

Kirk: Greenblatt's magic formula screen is one that has caught on in popularity of late. What do you see as its primary strengths and weaknesses?

Jae Jun: The Magic Formula is a great free screen that is directed to the majority of investors. While the strength is in its simplicity the weakness lies in the mechanical investing aspect. The whole idea of the magic formula is to buy the top 20-30 of the stocks in the list for 1 year, sell and repeat.

Mechanical investing eliminates all of the emotions of investing, but with a little extra work the losers can be quickly identified and cut out from the list.

Kirk: Are there any new screens you are thinking about adding to your website?

Jae Jun: I'm working a few new screens at the moment. Thanks to your screen of the week on Ben Graham, I'm working on another Graham-esque variation which won't be as blunt as the net net screen.

As I mentioned previously, I'm also working on a screen to determine the optimal low PE screen.

The third screen underway is a short screen. A simple short screen would be to highlight stocks with low Altman Z scores or Piotroski F scores, but because shorting requires more fundamental analysis, data and confidence, I've been gathering input by readers to set up a list of short selling criteria.

Some of the following inputs consist of:

There is also a new free powerful stock screener called **Robot Dough** allowing you to create your own rules and screen equations. A great alternative to a paid service like **AAII**.

Kirk: I truly hope you find far more success than I have with building short-focused screens! Have you ever thought about employing the use of growth-focused screens or at least a combination of growth and value?

Jae Jun: I've tried and like I said I'm horrible at trying to predict growth even through a screen. I don't like to pay for growth so I just stick to value based screens.

Kirk: Many of your screens are based on the work of others. If investors would really like to learn more about these methods, what are some books you highly recommend that you think many investors would benefit from other than simply utilizing the screens?

Jae Jun: Not just the screens but also the spreadsheets. I'm not smart enough to make up my own. All the tools available on the site are twists of concepts read in books such as The Intelligent Investor, F Wall Street and The 5 Rules for Successful stock investing. A free great read is â€œThe Detection of Earnings Manipulationâ€ by Beneish for the M score which seeks to determine whether the company manipulates its earnings.

For those interested, I have a book review section for the books where I took away a valuable lesson. The reviews can be found in the book review **page**.

Kirk: What has been your favorite book and why?

Jae Jun: My favorite is undoubtedly â€œF Wall Streetâ€. It's best suited for beginners and as a brush up. It explains clearly what investing is about and how to go about it in a businesslike manner. It tackles subjects that many books do not. It is most definitely the first book that any budding investor should read.

Kirk: What is your opinion about so-called “elephant tracking” by trying to copycat the buys and sells of above-average value focused investors currently managing money now through websites like AlphaClone?

Jae Jun: I understand the appeal, especially for people who do not have $50,000 to sign up with a hedge fund or the time to research and monitor their own stocks.

I too have benefited by piggy backing some investments of renowned fund managers and it has worked out quite well. But it’s vital to know and understand the manager’s investment style and philosophy as well as your own objective.

Kirk: Very good point, Jae. As we begin to wrap up this interview, what have you been working on recently if anything to improve your performance?

Jae Jun: The answer may be a copout but learning is always at the top of my list. Stop learning and so does your improvement. There are still many industries and companies I do not know how to value, and investing isn’t limited to just equities. For the first half of this year, I was involved in distressed equities, which didn’t work out favorably. But the point is that I now know I’m not great at investing in bankruptcies so I can focus on other things to improve. You have to know what you aren’t good at and focus on the things you are.

Kirk: What would you say are your primary strengths and weaknesses as an investor?

Jae Jun: One primary strength is probably being able to cut through noise and knowing what to listen to and ignore. Another would be admitting my mistakes, even publicly, while my weakness would have to be admitting it in public far too often.

Kirk: Why do you think so many people have trouble matching and beating the market consistently?

Jae Jun: Not understanding what they’ve bought would be a prime candidate. If you don’t know what or why you are buying, then you won’t know when to sell or what to do. Understanding the position gives your confidence to stick to your guns when everyone else is saying that you are wrong.

Kirk: I completely agree. By the way, do you utilize any ETFs or index funds in your approach? Why or why not?

Jae Jun: I haven’t bought any ETF’s or index funds as I’ve always spent the time searching and analyzing individual companies. I have looked at a few emerging country ETF’s, namely the South Korean Index Fund (EWY), and would definitely consider expanding it to my portfolio.

Kirk: What would you say are your favorite opportunities for the rest of 2010 and beyond?

Jae Jun: For the next few years, I continue to see a range bound market just like we are experiencing in 2010 with the Dow trading between 10,000 and 11,000. In this type of situation, I’ll continue to look for opportunities in quality large caps under pressure such as BP as well as being nimble with special situations to post small gains consistently.

Kirk: What would you say to those who are just starting to learn about the markets and investing their own money. What advice would you give to others who are just starting to learn about the markets?

Jae Jun: Investing has a steep learning curve so learn to be patient. It’s exciting when you’ve bought your first stock but there is a lot to learn. I've documented a **5 part series** on how to start investing which goes through the basics of what you need to know to get started, guides to reading financial statements, the different types of investing strategies, how investing can help your life and finally, how to value stocks using different valuation methods.

Kirk: Finally, if you had one piece of advice to share with all investors what would it be?

Jae Jun: There is no need to constantly check your portfolio. Price is what you pay and value is what you get so let price be a tool rather than a guide for your investing.

Kirk: Thank you for sharing your perspectives with us. We so much appreciate it and look forward to utilizing your screens, spreadsheets, and reading your posts.

Jae Jun: The pleasure was all mine, and I'm just grateful that you've chosen to interview me out of the hundreds of possible people who have more experience and insight to offer. If anyone has further conversations or live in Seattle and want to meet up one day, you can contact me at **jjun0366@gmail.com**