



Benjamin Graham and the *Nouveau Marché*

Dear Investors,

- Sextant's assets total €5.2 million.
- You can no longer see Sextant's performance on the Boursorama website (code 98105). This fantastic website, of which you are now shareholders, changed its investment fund data supplier. Sextant will return to Boursorama in mid-November. At 25 October, the unit price was €1,000.81.

MORE DEAD THAN ALIVE

Don't worry, I am in excellent health, and the COB¹ has not put a bounty on my head. But I am a bit worried about seeing your savings go up in smoke, because only a few weeks ago the financial press began claiming that the end of the world is at hand. So I once again turned to history for a bit of comfort. In times of trouble, I re-read the words of the great sages. In June 1932, Benjamin Graham, the greatest of the great, the father of all financial analysts, published a rather shocking series of articles in Forbes magazine, titled "Is American Business Worth More Dead Than Alive?" This series marked the end of the plunge in the Dow Jones Index; it hit its low one month later, in July 1932, after having lost over 90% of its value since 1929.

IS THE *NOUVEAU MARCHÉ* WORTH MORE DEAD THAN ALIVE?

This is the name of the article that Ben Graham could have written today. Apart from a few dates and company names, everything else probably would have been the same. Judge for yourself: "Scores of common stocks are selling for less than their pro rata of cash in the company's treasury. Corporations still have large unused cash balances furnished by their stockholders in the New Era days.... If market quotations discount huge cash reserves due to probable long-continued future losses, then shouldn't the stockholder demand liquidation before his money is thus dissipated?"

Shocking, isn't it? I thought that all American companies were on the verge of bankruptcy in 1932. But in reality, as Graham explains, they took advantage of spectacular gains in their stock between 1928 and 1929 to carry out fruitful capital increases. So despite making losses in 1931, they still had quite a bit of cash, and given that their stock prices had plunged by a factor of 10, their stock was often worth less than their cash on hand! With one explanation; the market feared that losses would continue forever, and that the cash would go up in flames. Now, 70 years later, the pattern is repeating with companies listed on the *Nouveau Marché*. In 2000, they floated with capital increases at very elevated levels, reaping in huge amounts of cash. And after posting losses in 2001, and due to stock prices that have dropped by a factor of 10, some stock is worth less than the company's cash.

¹ *Commission des Opérations de Bourse*, the French stock market regulator



The fact that these stock prices stand to increase can once again be justified by Graham, who reveals that the “revolutionary” ideas of 2000 already existed 70 years earlier. “Two credible and seemingly innocent ideas – one, that good companies make good investments, and two, that their value depends on their earnings power – have been exploited and turned into the frantic ravings of financial evangelists who will end up making speculators out of all our investors.... by producing twisted accounting and valuation methods that are completely irrational.” Of course, we all remember 2000’s famous valuations based on subscriber numbers, or EBITDA, or the all-to-familiar market comparison (it’s overpriced, but since it’s cheaper, the price will go up). Apparently, speculators in 1929 were also highly creative in this matter.

Graham noted that after completely casting aside balance sheet analyses in 1929 (and who, in 2000, noticed that France Telecom, Vivendi, and Infogrames were also heading towards a balance sheet catastrophe?), in 1932, shareholders continued to beautifully ignore any such analyses. “Because a company’s value has ended up being associated only with its earnings power, stockholders are no longer paying even the slightest bit of attention to a company’s assets, not even the cash in the bank.” In 1931, most American companies were haemorrhaging money, to the point where they were being valued by a new concept, “losing power,” and faced the threat of seeing all their wealth disappear. Stock prices were divided by a factor of 10 between 1929 and 1932 (by a factor of 12 between 2000 and 2002 for the Nouveau Marché), and companies’ values (for a third of them) were less than their net current assets, or even their cash.

Would Benjamin Graham have bought stock in Auféminin.com (€1.45 cash per share at a price of €1.12), or Ad Pepper Media (€2.80 cash per share at a price of €1.5)? In any case, this is what he probably would say: “Surely the owners of a business have a better alternative than to give its present cash away, for fear that it is later going to be dissipated... Evidently, stockholders have forgotten more than to look at balance sheets. They have forgotten also that they are owners of a business, and not merely owners of a quotation on the stock ticker.”

The two top executives at Aufeminin.com still hold €5 million through their 70% stake in the company, which has around 20 employees. Do you think they want to replace four houses with a hotel on Park Avenue, hoping that on their next turn they will go directly to jail, without passing go and collecting \$200?

SEXTANT, INC.: THE IMPRUDENT TRAVELLER

Barjavel offers grown-up children magnificent journeys in his science fiction novels. The Nouveau Marché also offers a sort of time travel, as it lets us invest under 1932 conditions! Actually, I realise I’m making a rather quick jump, so please forgive me. First of all, the companies Graham spoke about in his article had lost a great deal of money in 1931, and most were still doing so in 1932. But this is not the case with our investments. Companies such as Neurones, Pharmagest, and SII have huge amounts of cash and comfortable operating margins. Auféminin.com, Ad Pepper, and Boursorama (formerly Fimatex) have cash reserves that would

make Benjamin Graham himself swoon, reached breakeven a few months ago, and are active in rapidly growing businesses. And most importantly, we are not in 1932. We are not in economic languish, nor in the midst of the Great Depression that the US wasn't able to pull out of until 8 years later. Your holding company, Sextant, Inc., didn't exist in 1932, but nevertheless holds a plethora of cash; 42% of its market cap is covered!

SHOULD I GO TO AMIRAL CLUB MEETINGS?

Yes, because thanks to the delicious food from Charlotte's Cooking, a company that is unfortunately unlisted, we eat sinfully well. Sextant PEA treats you better than any chic investment bank would. But more than that, these meetings provide an excellent opportunity to become involved in the management of your savings. Investing in the stock market is exciting, and we want to share the excitement with you. Meeting after meeting, we aim to help you better understand our management methods, so that you can invest with us in greater confidence. And maybe even give us a few good investment ideas.

Companies came to introduce themselves at the last two lunches, and I would like to sincerely thank those of you who attended. Because of your very relevant questions, I acquired an even deeper understanding of these companies' businesses. Here are a few of the investment ideas that those of you at the last two lunches were able to benefit from:

1. Sextant PEA, Sicovam code 98105, 0% subscription fee, just for you;
2. On 5 July, you met the CEO of Auféminin.com, a remarkable company whose stock price has soared 30% since then; and
3. On 11 October, you met the CEO of Neurones, an equally remarkable company whose stock price has since jumped 25%.

So see you soon, at the Amiral Club! I will tell you the date of our next meeting as soon as it is fixed.

François

This week, as a special bonus, we are including two supplements.

THE RESPONSIBILITIES OF A SEXTANT INVESTOR

Investing in Sextant PEA gives you certain rights, but also responsibilities. To be a good Sextant PEA investor, you should:

- Regularly buy your clothes at Camaïeu. Even if you don't like their latest collection, treat yourself to a few T-shirts. They are genuinely of good quality, the colours are attractive, they hold up well in the wash (Sextant's tests are ruthless), and the margins are excellent.
- Call +33 (0)1 40 35 10 10 now and subscribe to any magazine you like. You'll see, it's fantastic. You can subscribe in just a few minutes, and cancel your subscription just as quickly (but that wouldn't be very nice). However, you do need to ask the operator whether the bank (Crédit Lyonnais, Société Générale, BNP Paribas, CCF) or supermarket (Auchan) with which you have a card is an ADLP partner. If not, demand your bank/grocer to offer you the ADLP service!
- Make the Auféminin.com website your browser's home page, both at home and at work. Visit this site regularly to play games during working hours. View the latest recipes, test your IQ or sensuality, and most importantly, click on all the adverts. You will learn loads of fascinating things.
- Demand better quality service from your tech support department, and help them by suggesting they work with Neurones, a brilliant IT services provider with fantastic rates for Sextant investors (and other customers as well).
- Buy a Velsatis to replace your ridiculous Mercedes 4x4.
- Every year, replace your old bedroom curtains at Gifi.
- Threaten your chemist that you will stop buying your shampoo from him if he doesn't use the revolutionary new LGPI software from Pharmagest.
- On the other hand, you are no longer required to have your hair cut at home, as Philippe Bosc has become the first Sextant, Inc. company to fall victim to a takeover bid. Thus it will soon be leaving our portfolio, at €30 per share.

THE ANSWER TO YOUR QUESTION, "MY PORTFOLIO LOST 60% OF ITS VALUE IN 2 YEARS. I WANT TO INVEST IN SEXTANT, BUT DON'T WANT TO TAKE A LOSS. WHAT SHOULD I DO, DOCTOR?"

Say you buy a 100 m² flat, "Z," in 1991. In 1997, you decide to move, and sell flat Z at half its initial price to buy another flat, "Y," of the same size (100 m²) but in a better location, with more sunlight. Did you take a loss? No, of course not, you are still invested in property. If you are not happy with the way your equity portfolio is being managed, selling the shares or units of a fund to buy into another does not mean you are getting out of the stock market. Be realistic; in asset management, just as in all businesses, there are good performers and less-good performers. Would you call the same plumber who busted your pipes the last time? Of course not! Yet that is what most people do with their savings. Why? Because unfortunately, it is more difficult to judge an asset manager than a plumber. Or, at least, it takes more time.

A bit of advertising for my kind hosts

Today, Didier Le Menestrel, who manages the famous Aggressor Fund, is recognized as an outstanding French equity investment manager. He outperformed the CAC 40 10-year return by

over 400%. But he had to wait exactly 10 years to find out. So when selecting a fund manager, you have only three options:

1. Put your trust in past experience, and make the wise decision to buy units of the Agressor Fund, or its twin, Agressor PEA.
2. Leave everything in the hands of fate, and buy securities or units of funds of which you know nothing about, neither in terms of their intrinsic value nor management style.
3. Get more involved to better understand the Sextant PEA management philosophy, re-read Berkshire Hathaway's annual reports, hoping that your manager took in the good words, and invest with full confidence in a new fund that does not yet have a meaningful track record (your fund manager does, however, have a good education).

Unfortunately, it is theoretically completely impossible to know whether Sextant will outperform the indices, or even whether it will make or lose money for you. But because your fund manager makes an effort to think carefully about what he does, the best thing you could do would be to see whether he thought smart. How? By closely re-reading the investor guide, for example, or by coming to the next Amiral Club meeting.

