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## Baseball Cards Can Teach You About the **STOCK MARKET**



### THE YOUNG INVESTOR

Do you remember the taste of stale gum in your first pack of Topps baseball cards? Or the excitement of seeing your favorite player flash before your eyes while sorting through a pack? Baseball cards were a great way for many of us to learn valuable skills in the world of investing.

By looking at the past, it is easy to see that baseball cards can hold great value. And it is a thrill for kids to try and pick out the next Willie Mays or Nolan Ryan while they are still young, thinking that their cards might someday make them rich.

Children who collect baseball cards often have a good understanding of the sport and its players. They can predict who will be next year's MVP and explain why. But they are just kids, right? Actually, children know a lot more about the game of baseball than many investors know about the stocks they choose to own and the industries they compete in.

### SUPPLY AND DEMAND

No matter how good a baseball player is, the value of their cards will have a lot to do with the supply. The baseball cards of old time legends such as Babe Ruth and Mickey Mantle are worth a lot of money because the supply of their original cards is very limited. Back then there were only a handful of companies making baseball cards, and the quantities produced were limited. If there were 100 million shares of Mickey Mantle's rookie card issued in 1951, they would fetch nowhere near the \$8,500 that the card sells for today.



Take the ultimate case of Honus Wagner (inset photo), "The Flying Dutchman," as another example. Wagner's 1910 T-206 baseball card has sold for well over one million. A great deal of mystery surrounds this card, since Wagner pulled it from the market during production in the year it was issued. Either way, only 58 of these cards are known to exist today.

Likewise, the price of a share of stock is determined by the demand for the shares, or what someone is willing to pay for them. If there were an unlimited number of shares issued by a company, they would be virtually worthless. But if a desired company had only a limited number shares outstanding, there would be a lot more demand for the shares and they would fetch a much higher price. For instance, if Coca-Cola had only 250 million shares outstanding today, instead of roughly 2.5 billion, the shares would be worth 10 times as much.

### WHAT TO BUY — SETS, PACKS, OR SINGLE CARDS?

A great lesson in the endless debate on diversification can be illustrated using baseball cards as an example. Buying a set of baseball cards would be similar to buying a broad index fund in the stock market. It is an easy way for investors to own a piece of everything. Buying packs, on the other hand, is risky but potentially rewarding, given some luck.

Investing in single cards is a way to concentrate your investments on a specific number of players that you know and understand. By investing in single cards, investors are able to focus on only the best players, while limiting risk through their detailed knowledge of the game.



### STICK TO WHAT YOU KNOW

If you are a big fan of baseball, you know all about each team and its players. At the same time, you probably don't have intimate knowledge of soccer or field hockey. You know who the best baseball players are because you have seen them play, but you don't have first hand knowledge of who the top soccer players are because you don't even understand the sport.

We feel the same way about investing. Why would someone with great knowledge of baseball buy soccer cards if they could invest in baseball cards? In the stock market, investors should stick with businesses that are within their circle of competence. This is why we choose to invest in simple businesses like Wrigley's Chewing Gum instead of complex businesses like JDS Uniphase.

### THE RIGHT HORSE IN THE WRONG RACE

While baseball cards do serve as a good learning tool for investing, they are not an investment vehicle we would recommend because they do not have intrinsic value. A security's intrinsic value is the present value of its future net cash flow. The value of baseball cards depends too much on perception, and they are very liquid compared to the stock market. In the long run, good trademarks and physical assets will out produce things like baseball cards.



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Lance Helfert (photo, left) and Paul Orfalea (photo, right) are the co-founders of West Coast Asset Management Inc., an independent money manager in Ventura. Orfalea sold his interest in Kinko's two years ago. Atticus Lowe, an analyst at the firm, contributed to this column. Please e-mail questions to [info@wcam.com](mailto:info@wcam.com). The principals of West Coast Asset Management, or its clients, may own shares in the companies written about in this column.



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