How Mr. Womack Made A Killing

By John Train, Fortune Magazine, 1978

Everybody who finally learns how to make money in the stock market learns in his own way.

I like this tale of his own personal enlightenment sent in by reader Melvid Hogan, of Houston:

“Right after I was discharged from the Army at the close of World War II and went into the drilling-rig building business, on the side (and at first as a hobby) I began buying and selling stocks. At the end of each year I always had a net loss. I tried every approach I would read or hear about: technical, fundamental and combinations of all these… but somehow I always ended up with a loss.

It may sound impossible that even a blind man would have lost money in the rally of 1958 – but I did. In my in-and-out trading and smart switches I lost a lot of money.

But one day in 1961 when, discouraged and frustrated, I was in the Merrill Lynch office in Houston, a senior account executive, sitting at a front desk, whom I knew, observed the frown on my face that he had been seeing for so many years and motioned me over to his desk..

“Would you like to see a man”, he asked wearily, “who has never lost money in the stock market?”

The broker looked up at me, waiting.

“Never had a loss?” I stammered.

“Never had a loss on balance”, the broker drawled, “and I have handled his account for near 40 years.” Then the broker gestured to a hulking man dressed in overalls who was sitting among the crowd of tape watchers.

“If you want to meet him, you’d better hurry”, the broker advised. “He only comes in here once every few years except when he’s buying. He always hangs around a few minutes to gawk at the tape. He’s a rice farmer and hog raiser down in Baytown.”

I worked my way through the crowd to find a seat by the stranger in overalls. I introduced myself, talked about rice farming and duck hunting for a while (I am an avid duck hunter) and gradually worked the subject around to stocks.

The stranger, to my surprise was happy to talk about stocks. He pulled a sheet of paper from his pocket with his list of stocks scrawled in pencil on it that he had just finished selling, and let me look at it. I couldn’t believe my eyes! The man had made over 50% long-term capital-gain profits on the whole group. One stock in the group of 30 stocks had been shot off the board, but others had gone up 100%, 200% and even 500%

He explained his technique, which was ultimate in simplicity. When during a bear market he would read in the papers that the market was down to new lows, and the experts were predicting that it was sure to drop another 200 points in the Dow, the farmer would look through a Standard & Poor’s Stock Guide and select around 30 stocks that had fallen in price below $10 – solid, profit-making, unheard-of, little companies (pecan growers, home furnishings, etc) and paid dividends. He would come to Houston and buy a $25,000 package of them.

And then, one, two, three or four years later, when the stock market was bubbling and the prophets were talking about the Dow hitting 1500, he would come to town and sell his whole package. It was as simple as that.
During the subsequent years as I cultivated Mr. Womack (and hunted ducks on his rice fields) until his death, I learned much of his investing philosophy.

He equated buying stocks with buying a truckload of pigs. The lower he could buy the pigs, when the pork market was depressed, the more profit he would make when the next seller’s market would come along. He claimed that he would rather buy stocks under such conditions than pigs because pigs did not pay a dividend. You must feed pigs.

He took a “farming” approach to the stock market in general. In rice farming, there is a planting season and a harvest season; in his stock purchases and sales he strictly observed the seasons. Mr. Womack never seemed to buy a stock at its bottom or sell it at its top. He seemed happy to buy or sell in the bottom or top range of its fluctuations. He had no regard whatsoever for the old cliché – Never Send Good Money After Bad – when he was buying. For example, when the bottom fell out of the bottom in the market of 1970, he added another $25,000 to his previous bargain-price positions and made a vitual killing on the whole package.

I suppose that a modern stock market technician could have found a lot of alphas, betas, contrary opinions and other theories in Mr. Womack's simple approach to buying and selling stocks. But none that I know put the emphasis on "buy price" that he did.

I realize that many things determine if a stock is a wise buy. But I have learned that during a depressed stock market, if you can get a cost position in a stock's bottom price range it will forgive a multitude of misjudgments later.

During a market rise, you can sell too soon and make a profit, or sell on the way down and still make a profit. So, with so many profit probabilities in your favour, the best cost price possible is worth waiting for.

Knowing this is always comforting during a depressed market, when a 'chartist' looks at you with alarm after you buy on his latest "sell signal".

In sum, Mr. Womack didn't make anything complicated out of the stock market. He taught me that you can't be buying stocks every day, week or month of the year and make a profit, any more than you could plant rice every day, week or month and make a crop. He changed my investing lifestyle and I have made a profit ever since.

John Train, a New York-based investment advisor and author, was born in 1928 and attended Harvard University.