➢ The Investment Perspective – June 2025

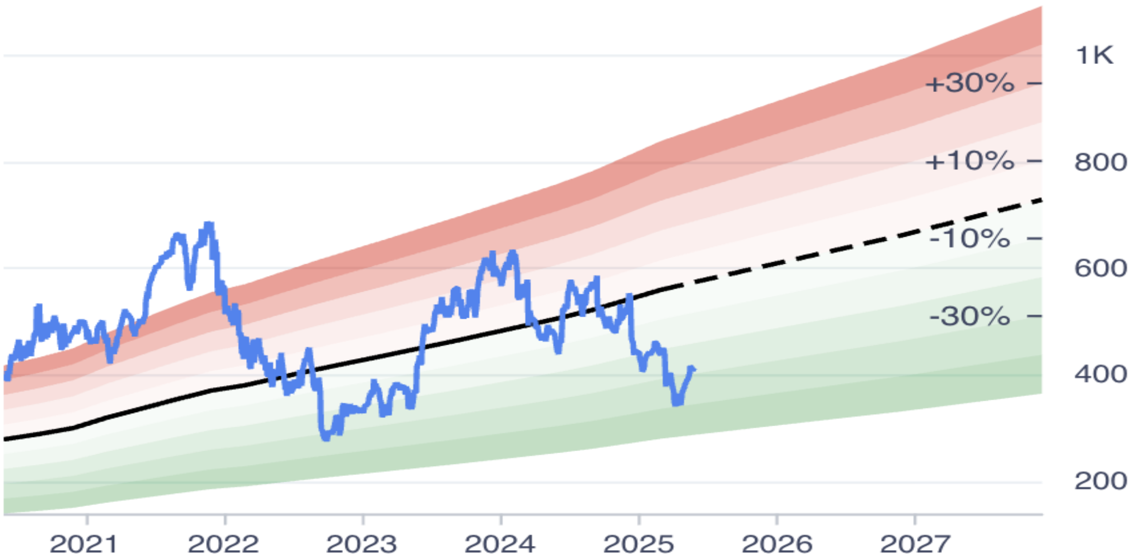
"The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage."

- Warren Buffett

Peter Flannery CFP FA

Lower your risk, increase performance

Who is this?



The graph above compares the trading price (the blue line) with the fair value (the black line). Source: GuruFocus

If only investing were as simple as applying a formula or crunching a set of numbers!

The truth is, investing is not complicated, it's just hard, very hard at times.

Successful investing relies more on emotional intelligence (EQ) than intellectual intelligence (IQ). While IQ is important, without EQ it has limited value when investing over a long term.

Most people can win in the stock market in the short term (less than 5 years). It becomes much more difficult not to lose long term when, for example, the hot investing theme dies (motor vehicles, radio, flying, silver, gold, tech, nifty 50, electric vehicles, AI), along with trading errors creating losses, inflation, and trading costs).

Price vs Value

Price and value are not the same thing for us at WISEplanning (and at Berkshire Hathaway, just saying because most do NOT invest this way).

Price and value are almost certainly the same thing for most investors. That's why many investors buy, chasing rising trading prices (and sell, hoping to avoid declining trading prices).

Sometimes this (unnecessary trading activity) works, although long-term… it becomes increasingly difficult. Long-term, it doesn't work for most (remember those online ads about trading stocks with a 'can't fail system' for 60 minutes a day while at the beach?).

Moving capital from one place to another means increased risk of timing and pricing errors that can damage investment returns. It also means transaction costs – another drag on investment performance. Not much over 12 months, but significant over 15 years.

The intrinsic value is difficult to establish. I know, there are many websites and brokers who present the intrinsic value or the fair value as a simple number. Everyone has an opinion on how to establish it. Anyway, a fundamental approach like that adopted by GuruFocus is a useful starting point.

As the graph above shows, **Adobe** is trading at a price well below its value. The market worries about the competition and the pace of future growth for Adobe. Some widely followed broking houses have cut their trading price estimates for the stock, citing competition and slower growth in the future.

For example, the market is focused on emerging competitors like Canva, which offers similar products at a lower cost and with a more user-friendly interface than some Adobe products.

Adobe management say they are working on AI initiatives to counter the competition, but the market thinks management is too slow to roll these out.

This concern is valid, but is it right? Time will tell, but taking a closer look…

2024 results

ADOBE	ORIGINAL FULL-YEAR 2024 GUIDANCE	ACTUAL FULL-YEAR 2024	RESULT
Revenue	$21.3 billion to $21.5 billion	$21.51 billion	Beat
Digital media net new annualized recurring revenue	$1.9 billion	$2 billion	Beat
Digital media segment revenue	$15.75 billion to $15.85 billion	$15.86	Beat
Non-GAAP earnings per share	$17.60 -$18.00	$18.42	Beat

The table above shows company results compared to market expectations over 2024. Source: Company Presentations.

We invest in the future and these are historical results. However they demonstrate how well the company is performing by these metrics. The performance looks to be at odds with the falling share price. The market however is less interested in the performance of the business and more interested in revenue and profit growth in the future.

Revenue?

Adobe's revenue grew on average by 10.9% over the last three years. Most of that revenue is annual recurring revenue (lower risk and more profitable revenue).

Here's a more detailed breakdown:

- **2022:** Adobe's annual revenue was $17.606 billion, a 11.54% increase from 2021.

- **2023:** Revenue reached $19.409 billion, a 10.24% increase from 2022.
- **2024:** The company's annual revenue was $21.505 billion, a 10.8% increase from 2023.
- **2025 (Q1):** Adobe's Q1 revenue was $5.71 billion, a 10.27% increase year-over-year

Profit vs Profitability

Profit is the amount of money made in a particular period (e.g. for the quarter, or the year)

Profitability is the amount of money made compared to the amount of capital used to drive that profit. Return on shareholders' funds, return on capital are two ways to measure it. The less capital required for every dollar of profit, the better.

Profit is an income statement item, whereas profitability is across both the income statement and the balance sheet of the business.

In short, profit is what the market is very focused on each quarter, but is more of a 'stock' metric. It only tells us some of what we want to know.

Adobe profitability compared to Tesla

Adobe	Tesla
ROE - Return on equity: 48.85%	ROE - Return on equity: 9.20%
ROA - Return on Assets: 22.69%	ROA - Return on Assets: 5.44%
ROIC - Return on Invested Capital: 24.06%	ROIC - Return on Invested Capital: 7.88%

Remembering that we are business owners and investors, not stock market speculators, how do the above returns compare with other investments that you think about? With the trading price down, Adobe unpopular, how reliable does that make Adobe compared to other options?

Profitability tells us how well a business uses capital. This is a much more useful piece of information to know than a lot of other stock-related data. Profitability helps us to understand how well a business is performing. So profitability is performance. *'Performance'* is less about he trading price and more about how well the business uses capital.

Profitability is often disconnected from short-term share price movements. Share price movement is more of a measure of market sentiment than business performance, particularly in the short term.

Yes, Tesla's share price is up while Adobe's is down — but what does that say about long-term value?

Tesla is not a bad business. Elon Musk is very talented. The question is… 'Where will our investment in Tesla be in 5 – 10 years from now and why?' What future probability would you apply to Tesla or Adobe growth (keeping confirmation bias to a minimum!)?

What do you choose?

Just for fun…

1. Chasing hot investing themes?
2. Moving money around to beat the market?
3. Investing in quality, productive assets?

"The stock market is filled with individuals who know the price of everything, but the value of nothing."

- **Philip Fisher**