



How to pick stocks? The Warren Buffett Way

Stock investing as part ownership of a business

- “THE” fundamental premise
 - Not something which goes up and down in price everyday
 - Not something you hope to sell at a profit in a week
- Everything that follows depends on this

Stock ownership as partnering

- Wide choice
 - Choice of
 - Government, MDA, ADA, Sunil Mittal, Rahul Bajaj, Narayana Murthy, Tatas, Kumarmangalam Birla, Yash Birla, KP Singh, Mafatlals, Adani, Godrej, Tanti, Jindals, Anil Agarwal, Sheths, Mallyas, Wadias, Piramals, Ruias, Dhoots, Munjals, ‘Professionally’ run businesses, MNCs
- How does one choose?

Your choice?



Integrity towards partners

Competence and hard work



What business?

- Again a wide choice
 - Banks, Pharmaceuticals, Hotels, Airlines, Daily use Consumer Goods, Power, Textiles, IT, Metals, Oil & Gas, Petrochemicals, Shipping, Automobiles, Telecommunications, Media & Entertainment, Real Estate, Cement, Infrastructure, Retailing
- How does one choose?

Simple

Choose the characteristics which you would like the business to have



Characteristic 1 – High return on equity

- A business which generates the most amount of profits for a given amount of investment
- *** We are not talking stock price movement here



OR



Characteristic 2 – High entry barriers

- Brand
- Patents / technology
- Network effect / First mover advantage / Industry standard
- Legislation / Licencing
- Natural monopoly
- Or any other reason



OR



Characteristic 3 – NOT Capital Intensive

- Usual story
 - Husband “We made Rs. 5 crores in profits this year”
 - Wife “Wow, can I have a diamond necklace?”
 - Husband “Of course not, its ‘invested’ in the business”
- Importance of free cash flow
 - Not against growth businesses
 - Against monsters eating up capital



Characteristic 4 – High cash / Low Debt

- Saves you from going bust in times like these
- Free cash flow available to shareholders rather than lenders
- Less volatile earnings
- Allows opportunistic uses of cash / debt for opportunities



OR



Characteristic 5 – Predictable businesses

- A grocery business is much more predictable than one of starting space tourism
- One off space tourism company may be a multi-bagger, however on an average they would do badly



"When you told me on the phone you were 42,
22, 38 I didn't realize you meant your age,
your I.Q., and your shoe size."



Blind date or girl next door?

Characteristic 6 – Understandable, Known businesses

- Known devil better than an unknown devil
- Girl next door may be better looking than the blind date
- ‘Mystery’ promoters and ‘mystery’ businesses don’t always work in favour of the investor



And finally

- Don't forget valuations!!!
 - Margin of safety
- How on earth will we get these kind of companies at 'attractive' prices?
 - Wait for times like these
 - “It is far better to better to buy a wonderful business at a fair price than a fair business at a wonderful price.”
 - “Time is a friend of the wonderful business, enemy of the mediocre”
- 20 punch rule

Thank you