Think like an investor…

What Makes A Good Stock?

The sure way to success is to buy the market, but obviously there's more advanced investment strategies. The simplest? Buy & Hold.

But how do you decide which stocks to hold?

Key Takeaways From This Module

Guiding Questions

- What is a "good stock"?
- What are some ways to analyze a stock?
- How do investors choose what to invest in?

Enduring Understandings

- Every investor has a different definition of a good stock.
- Investors should look to the future to understand a company's potential for growth.
- The best investors remain steady in their positions during market turbulence.

Key Terms About Investing (1 of 2)

Investment multiples: Any metric that measures company performance calculated by dividing different financial values. Commonly expressed as a ratio

Price-To-Earnings (P/E): A Ratio used to value companies which measures current share price against per share earnings

Earnings: Returns from a company's activities after expenses have been subtracted. This may or may not include tax expense depending on the context

Revenue: Income generated from selling goods and services. These returns are from normal business operations so it does not include windfall gains

EBITDA: Profit earned by a company before accounting for interest expenses, tax, depreciation and amortization

PEG: Price/earnings-to-growth ratio is the price-to-earnings ratio divided by the growth of earnings during a specified time period. It is a way to value companies that accounts for expected growth

Key Terms About Investing (2 of 2)

Yield: Earnings generated by an investment over a period of time. Yield is calculated in different ways depending on the investor interest

Depreciation: It is the decrease in tangible asset (machinery, vehicles, etc.) value over time due to wear and tear. It is also an accounting allocation of the cost of an asset

Debt equity ratio: It is the monetary value of total liabilities divided by shareholders' equity. The ideal ratio varies significantly depending on the industry

Working capital: It is the difference between short term assets and short term liabilities. Working capital indicates how liquid the company is and whether the company is financially sound

Return on equity: It is net income divided by shareholders' equity. It serves as an indicator of financial performance aka profitability

Think About The Future

Back To the Future

It is important to think about whether a company is “future-proofed.” You want to invest in companies that are in line with new trends and technologies. For example, A DVD company is not a great investment today

No Hype Beasts Here

Some companies grow because they are inherently well performing companies and others grow because of hype. The latter can be extremely volatile and requires extremely precise investment timing

Is it a Boomer or a Zoomer?

Earnings, margins and growth can tell you where a company lies in its life cycle. More mature companies can be a stable part of your portfolio while high growth startups can bring strong returns with risk.

Look At Competitors For Relative Value

Investment Multiples

There are a variety of investment multiples that can tell us about a company's profitability, potential bankruptcy, cash position and operational efficiency.

However, these don't mean much without considering industry standards since they vary wildly between industries. Here are some multiples to look out for:

- **Price to Earnings Ratio (P/E)**
- **Debt to Equity Ratio**
- **Price to Earnings Growth (PEG)**
- **Return On Equity (ROE)**

Industry Position

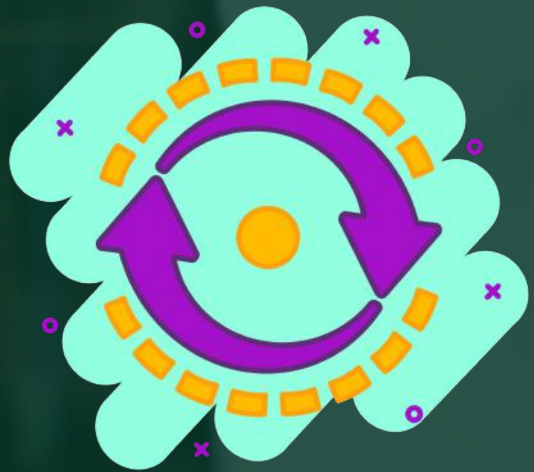
You also want to consider how much market power a company has in its industry. A monopolist is more likely to be profitable than a company in a highly competitive space, however, eventually companies with dominant market share face regulatory risk, like Amazon and Facebook as people ask to "Break Up Big Tech.".

In more competitive industries, understanding what makes your company unique is important. This could be in terms of product, marketing, cost structure, distribution channels etc

Stick With What You Know

The best investors become experts on the companies they invest in and typically seek out long-term investments that they feel comfortable holding for 10+ years.

Each investor has their own methodology. Some look for value. Others look for opportunities. In both cases, investors stick with investment strategies they understand.



One of the greatest investors of all time, Warren Buffett is famous for not making investments in the technology space. It isn't because he doesn't believe in the industry; quite the opposite. Buffett doesn't invest in a lot of technology companies **because he doesn't understand them** & he's okay with the missed opportunity.

Don't Be Hasty

Another critical aspect of the best investors is that they don't get spooked by short-term market fluctuations. As a seasoned investor, you need to recognize that stock prices fall, sometimes it appears without reason.

During these moments, if the underlying reason for your investment and the company's fundamentals are not impacted,
why would you sell?

These moments could represent an opportunity to buy more of the stock at a discount. This is the concept of dollar-averaging and allows you to increase your gains when the company's stock performs well.

Remember: If news comes out that negatively impacts your company and changes your investment thesis, do not wait. Research shows that ordinary investors statistically wait too long to sell stocks that are losing money.

Take Advantage of Long Term Growth

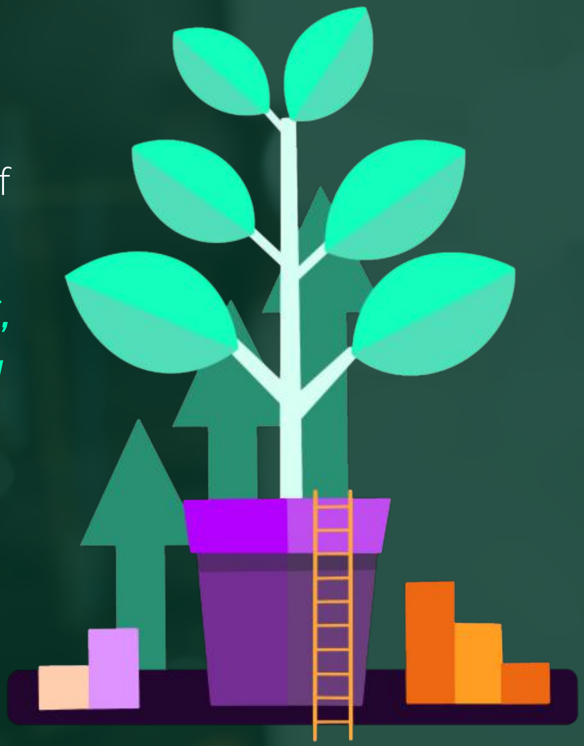
Compound growth allows you to earn a return on the returns that you make as stock prices rise, year over year, and you continue to dollar-average and buy shares.

This becomes really powerful when you reinvest dividends instead of using them to supplement your income.

Since its inception the market has delivered average returns of 10%, even when factoring in Bear Markets. You can do this too by owning the market and investing in index-based ETFs.

Remember, diversification across industries mitigates risk associated with investing in certain sectors, and as you'll see…

Even the world's greatest investors buy the market.



Learning From The Best: Warren Buffett

- **Chairman and CEO of Berkshire Hathaway, a multinational holding company**
- **Berkshire Hathaway returned a compound annual gain of 20.3% from 1965-2019, double the S&P 500**
- **He authored 2 editions of "The Essays of Warren Buffett"**

Ownership Mentality: Warren Buffett advocated that buying shares should be viewed as becoming an owner of the company for the long run. He believed in "buy and hold" investing and often worked to protect management from

Passive Management: Buffett is skeptical of active management as a means to achieve returns due to high associated returns. Instead, he believes that index funds are superior in the long run

What Does This Mean For You?

Competitive advantage is the most overlooked & important concept in investing. Think of your investment as a castle. Competitive advantages are the equivalent of large moats protecting your castle

Words of Wisdom From Warren Buffett

BUY-AND-HOLD

"All there is to investing is picking good stocks at good times & staying with them as long as they remain good."

Regardless of the economic climate, if the story for a company doesn't change, then you shouldn't sell.

When a stock price declines, you may want to invest more because you can purchase the stock at a discount.

VALUE INVESTING

"Know that price is what you pay but value is what you get"

The idea of value investing is to pay a discounted price for the value you receive.

Just because a stock has performed well and is expensive, doesn't mean it will continue to increase.

KNOW YOUR PRICE

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

Just because a stock is cheap doesn't mean that it is a good investment.

Buffett says he would rather pay more for a good business, than purchase a mediocre business at a discount.

THINK LONG-TERM

"The best chance to deploy capital is when things are going down."

Market turbulence will happen, it is inevitable. The correct term for this is volatility.

Buffett believes you should mentally prepare yourself to not panic during downward moves, because if you sell at the bottom, you'll miss when stocks rebound.

Cathie Wood: Picking the Future's Best

- **Founder, CEO, and CIO of ARK Investment Management**
- **Named the best stock picker of 2020 by Bloomberg News**
- **She authored "One Up On Wall Street," "Beating the Street," and "Learn To Earn"**

Disruptive Innovation

Cathie Wood is known for purchasing high growth investments before the market recognizes their value., specifically choosing stocks that she believes will change the world.

Also, she's known for booking hundred of millions of dollars of profit by betting big on companies such as Peloton, Zoom, and Tesla. These investments often see exponential growth trajectories because Cathie is investing in innovation which has the potential to capture market share & transform the world.

What Does This Mean For You?

Be passionate about the companies you invest in. Impact driven investments can drive immense profitability in your portfolio.

Key Takeaways From This Module

CORE & FUNDAMENTALS

- A "good" stock has a competitive advantage and strong financials.
- Look to competitors to compare value.

APPLIED KNOWLEDGE

- Investment multiples offer a quantitative view of a company.
- Don't let FOMO inform your investments.

RELEVANCE FOR YOU

- If you stick with industries you know, it will be easier to find great investments.
- You should be confident enough in any stock you choose to stick with it or even buy more when the price goes down.