Two and One-Half Years of Investing Nuggets from GregSpeicher.com

115 Profitable Investing Ideas

Greg Speicher

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"Know what you own, and know why you own it."
- Peter Lynch

The following ideas are culled from the last two and one-half years of my investing blogs at GregSpeicher.com. These ideas have helped me to become a better investor, and I believe they will help you too. Read them, study them, and let them inform your investment philosophy and process. And please share them with others who may benefit from them.

1. Search broadly and continually for new investment ideas. To a large extent, it's a numbers game.

2. **Act like an owner.** Owners think differently – more seriously. *They naturally focus on the right issues*: cash flows, competitors, keeping and delighting customers.

3. Only buy what you understand. This should be completely obvious but people ignore it all the time. They trick themselves into thinking they will miss opportunities if they restrict themselves. IT'S HARD ENOUGH TO VALUE WHAT YOU DO UNDERSTAND. **YOU CAN'T VALUE WHAT YOU DO NOT**.

4. **Wait until it is completely obvious that the odds are in your favor.**

5. Buy good businesses. Nobody has a gun to your head. Why not invest your money in the best companies? You'll take less risk and get better results, *as long as you don't overpay.*

6. Invest in companies with great management. Management controls capital allocation. Invest with people who have *proven* that they have your interests at heart and that they know how to make money. **(Look at what management has done, not what they say.)** *Also, don't compromise on integrity.*

7. Buy the cheapest business available. Re-read Chapter 8 in the *Intelligent Investor*. There is no reason to overpay when Mr. Market is there to serve you.

8. Focus on your best ideas. *Invert this one, and see if it makes any sense.*

9. **Practice mega-patience.** This is the one quality virtually every investor needs more of. Figure out how to be more patient. Find whatever hacks you need to modify your behavior. This is a big one!

10. Avoid stupid mistakes. Woody Allen said that ninety percent of life is just showing up. *A big part of investment success is avoiding stupid capital-destroying mistakes.*

11. Be a learning machine. In the investing game, you are either keeping up with your reading and learning or falling behind. (Internet surfing doesn't count.)

12. Study the great investors – *systematically* – like you were studying for a major exam or certification.

13. Get enthusiastic about what you are doing. *Nobody ever accomplished anything great without passion.*

14. Buy when others are fearful (and your own gut is beginning to churn). You want to buy from people who are selling for uneconomic reasons. To do this, you need to 1) master your emotions and 2) know how to value a few good businesses. *The number is not all that important as long as you can reasonably value the companies you choose to buy.*

15. Watch out for relative valuations. Just because something is cheaper than its peers, it does not mean that it's cheap based on intrinsic value.

16. **Write down why you are buying a stock before you buy it!** Buffett has been *pounding the table* on this one for years. Too few actually do it.

17. Think correctly about intrinsic value. It is not a precise figure. At best, it's **a range** of values. Thinking otherwise is delusional.

18. If there is a real risk that you could lose your capital, don't invest. *Repeat: If there is a real risk that you could lose your capital, don't invest.*

19. Look for situations where intrinsic value is increasing. That way, if you need to wait, your investment is growing in value. **(You're being paid to wait!)**

20. Look for stocks selling at five times normalized earnings that are growing five to seven percent per year.

21. If you're holding a position in a stock that is undervalued, sell it and replace it, *if you can find another holding that is materially more undervalued.* (Key word: "materially". This is not an exact science.). Of course, don't forget to consider the impact of taxes.

22. Look for catalysts when you invest. They improve your rate of return by closing the value gap in less time.

23. When you buy a stock, try to figure out why it is selling at a bargain. **If you can't figure it out, you may be the sucker at the poker table.**

24. **Waiting for the general market to be down 20% is not a bad practice, if you want to avoid investing when equities are overheated.**

25. **SPEND YOUR TIME READING ANNUAL REPORTS.** Buffett has said over and over that this is the way he spends his time. (Isn't that enough?) The best advice Jim Rogers ever received was to read the annual report when considering an investment (advice that he put into practice and made a fortune) and that, if he did so, *he would be ahead of 98% of Wall Street.* (This may be the lowest cost, highest payoff idea in the entire list.)

26. **Read the footnotes.** This could have been 25b. Rogers was told that if he read the footnotes *he would be ahead of 100% of people on Wall Street*.

27. Invest in companies that dominate their industries.

28. Focus on where your investments will be in three to five years. *This is the sweet spot that Wall Street ignores.* IT REQUIRES THE RIGHT TEMPERMENT AND CONVICTION TO HOLD ON TIGHT. MANY CANNOT DO THIS. Shorter periods of time are unpredictable, because in the short term psychology often trumps fundamentals.

29. Don't try to make macro-forecasts. Focus on picking individual stocks that have a high probability of being successful.

30. Don’t wait for an upbeat economic forecast to invest. Accept the REALITY that *the future is always uncertain.*

31. **Don’t let what is important and unknowable get in the way of what is important AND knowable.** Many make this mistake and waste a lot of time.

32. Be skeptical of investment theses that are based entirely on a reversion-to-the-mean argument. Spend you time thinking about *the conditions that produced the past results and whether they will be present in the future*.

33. Track your performance. If you want to improve, *you need to be brutally honest with yourself.* Pick a reasonable way to do this that does not over emphasize the short and medium term.

34. *Invest in companies that will survive - and even prosper - if the economy struggles.*

35. Use checklists. Some of the smartest people do this. They will help your performance. If you’re good, you’ll get better. If you’re already good… Just do it! **MOST SKIP THIS IDEA.**

36. *Stay humble.* Some very smart people have done some very stupid and costly things when they thought they had it all figured out.

37. Don’t risk what you need for what you want and do not need. This has been a recipe for tragedy for many.

38. Never put yourself in a position that you are dependent on your stock investments for short-term liquidity needs (cash). It will affect your peace of mind and **it will greatly increase the chance of selling at the bottom (the classic investor error).**

39. Study Buffett. (It’s not about knowing more quotes or trivia.) *It’s about carefully studying the way he thinks and trying to model it.* Try to reverse engineer his investments. Carefully read and re-read his shareholder letters. You will be richly rewarded.

40. Follow the investments of the great value investors for ideas. Sites like Gurufocus, Whale Watchers and DATAROMA make this easy to do. **Remember: this is a starting point.** You must do you *your own* research. Otherwise, you will lack the conviction to make a meaningful investment and hold on to it, if it goes down.

41. Make meaningful investments. (Some diversification is prudent. The future is unknowable and you need to hedge against this.) But, **don’t over do it**. *Over-diversification is not rational if you know what you’re doing, and it’s a formula for mediocrity.*

42. Be (very) skeptical of stock recommendations. Pay attention to who is making them and why. Pay attention to incentives. They rarely align completely with your own.

43. **Focus your investments in companies that have a durable competitive advantage.** Capitalism is brutal. If a company is making above average profits, *you can be sure that a lot of smart people with money are looking to storm the castle and steel the gold*. Without a clearly identifiable moat, it’s just a matter of time.

44. Look for companies that have a structural cost advantage over their competitors. GEICO is a textbook example.

45. If growth is part of your calculation of intrinsic value, **make sure your projections are grounded in realty and that there is a long runway.** When Buffett first purchased GEICO, it was only licensed in 13 states where it only had a tiny share of the market.

46. Look for companies with *a history of* strong, predictable cash flows.

47. Consider focusing your circle of competence in a few industries with above average economics. It will improve your odds of being successful and free up research time.

48. **Look for companies with strong brands: Coke, Pepsi, McDonalds, Starbucks, etc.** It gives them pricing power and makes their customers *less likely to switch* to a competing product.

49. Use your best holding or holdings as a filter for your investment ideas. Just say no to inferior investments that do not meet this hurdle.

50. Thought experiment: **Compare your company's moat to a fictional business that provides the only source of fresh water on an unregulated, populous island.**

51. Look for companies that can reinvest capital at attractive rates well into the future. This is a huge driver of performance. It's one reason to like diversified insurers like Berkshire Hathaway, Fairfax Financial and Markel. *They have many more attractive investment options than the average company.*

52. Don't emphasize short-term performance. It is just as likely driven by luck as it is by skill.

53. **Emphasize process over outcome.** You can't control the outcome but you can control your process. Commit your process to writing. Study it! Tweak it! Focus on making it better! *This is where the great ones in all endeavors focus their energies.* It's where you'll get the biggest payoff.

54. Study the game of poker. (Better yet: play it!) The psychology is a lot like investing and there is a lot to learn by studying the best poker players.

55. Don't overly rely on third party data when studying a company. There may be inaccuracies. More importantly, *the very process of going to the source documents and carefully studying them will give you the necessary level of familiarity with the data to make better decisions.*

56. Pay attention to who DOESN'T own a stock. If one or more investors who are experts in the industry don't own it, it may tell you something.

57. Walk away from investments that are too hard to figure out. **You won't be able to handicap the odds.** There are thousands of other stocks to look at.

58. Great management is not enough. *Many brilliant managers have been humbled when they took over a business that was structurally challenged* – no moat, over levered, broken business model, etc.

59. Look at free cash flow, not GAAP earnings. There is a big difference between a business where the earnings are unencumbered (Think: See's Candy or Scott Fetzer) and one that needs to invest 100% of its earnings to simply tread water (an airliner, for example).

60. Actively look for evidence that challenges your current set of assumptions (DISCONFIRMING EVIDENCE). This is difficult because *your brain is seemingly hard-*

wired by evolution to reject it. Progress comes from seeking truth, not practicing self-delusion.

61. **Take care of yourself.** It is impossible to get world-class performance out of your mind, if your body is sub-optimal.

62. If you use discounted cash flow (DCF) analysis to value stocks, use conservative assumptions. *1.) Don't generally assume perpetual growth: a no-growth terminal multiple probably makes more sense. 2.) Use a reasonable discount rate, especially when long-term interest rates are well below long-term norms. 3.) Always build in a margin of safety by only buying shares when they are meaningfully priced below intrinsic value.*

63. Lowest average cost wins. Be prepared *psychologically* <u>and</u> *financially* to buy more shares if a stock you purchase goes down in value.

64. **Don't miss the easy ones (SIN OF OMISSION).** Every investor has looked back with regret when he saw an obvious investment that was missed. Some of this might be hindsight bias, but frequently you simply were not prepared (or were not paying attention) and missed it. Make sure it doesn't happen again by always being prepared. *A good up-to-date watchlist is a great place to start.*

65. WORK HARD! This is the great equalizer and something you can control. The most successful people in society have echoed this advice. All else being equal, this is the X factor.

66. Learn to manage your time. Good time management is to life as a lever is to lifting heavy weights.

67. Having good character is important. *Model your behavior after those whom you admire.* Remember that your reputation can be destroyed in an instant.

68. Remember that investing is based on **careful and thorough analysis**. If you skip this step, *your are, de facto, speculating*.

69. Regularly run basic computer screens: low price to sales/earnings/free cash/book value, etc. Look at the new low list. Look at beaten down sectors. Scan *Value Line* each week. The key is to establish a search routine and then **religiously follow it**! Good things *will* eventually turn up.

70. Read everything in the business press: *Forbes*, *Fortune*, *The Wall Street Journal, New York Times, Barron's, FT*, etc.

71. Read trade magazines within your circle of competence.

72. Keep a database of all the transactions – mergers ands acquisitions – within your circle of competence. This can be a great help in valuing companies. THIS IS NOT THEORY but represents what smart, informed buyers were actually willing to pay for a company.

73. Look at the entire capital structure when researching a company. There may be better opportunities in the company's debt than in its equity.

74. When considering risk, *think outside the box*. If there is catastrophe risk, move on.

75. **Don’t wait for a plague.** You need to have a lot of patience, but you also need to be realistic. **Great companies rarely, if ever, trade at distressed, going-out-of-business prices.** The key is to buy them at *good prices*.

76. Think independently. If you can’t learn to confidently do this, you probably should not be actively investing. It is comfortable to have others agree with you, but, often, *it tells you little about whether you are right or wrong*.

77. **DO NOT OVERPAY** (REPEAT: DO NOT OVERPAY). This is the biggest and most common mistake. Don’t do it. All too often, investors fall in love with a stock and *feel like they must own it*. <u>Be willing to walk away if the price is too high.</u>

78. Look for businesses with pricing power. This is particularly important in an inflationary environment.

79. Look for businesses that require little capital to grow earnings.

80. **It is rational to sell a holding if it becomes materially overvalued.** (Some investors prefer to sell when a holding reaches fair value.) There is no perfect approach here, and taxes and other factors need to be considered. However, *for every security there is a time to sell*. Figure it out ahead of time and be disciplined when the moment arrives.

81. Look for small and under-followed securities. This part of the market affords an advantage to the individual investor and often is a good place to find undervalued, mis-priced securities.

82. **Get good at accounting!** It’s the language of business. You put yourself at a serious disadvantage, if you are not at least proficient at it. If you want to be great, aim higher.

83. Don’t worry about short-term volatility or “what the market did today”? *Most of it is meaningless.* The same can be said for the reasons proffered by financial journalists to explain market action.

84. There is no inherent difference between growth and value investing. **Focus on what you get in exchange for you put out.**

85. Study economic history and the history of markets. As Twain said, “*History doesn’t repeat itself, but it rhymes.”*

86. Always insist on a margin of safety. (Re-read chapter 20 in *The Intelligent Investor.)* It may be a commonplace among value investors, but it is still true (and frequently ignored). Don’t become complacent here. Actually think it through – carefully – for each investment.

87. **Spend time thinking (do it on a regular basis).** *Unplug. Sit in a quiet room and think.* It is easy to go days or weeks without taking the time to slow down and think.

88. *Always* have enough cash on hand so that you are insulated from short-term volatility and that you can take advantage of downturns.

89. <u>You can’t pick the bottom!</u> You can learn to value securities and buy them when they are on sale.

90. Your biggest advantage may be that **you are under no compulsion to act**. Investing is a game where you must let the game come to you. *Pressing simply does not work.*

91. One constructive way to think about a stock's valuation: *get a copy of its Value Line sheet and try to predict what it will look like in ten years*, using a range of reasonable and conservative assumptions.

92. Discounted cash flows are useful tools to **reverse engineer** the assumptions that the market is making about a given stock.

93. Find your Charlie Munger. It is very rational and helpful to have another smart, knowledgeable investor to bounce ideas off. If it helped Buffett, it will help you.

94. *Look for companies that sell necessities.*

95. Read the proxy statements. They can tell you a lot about whether management is shareholder oriented.

96. A given stock may only sell off for a brief period of time before it begins to rally. You must do your work ahead of time or you will not be ready. **Preparation = opportunity.**

97. Shun false precision. *It is an illusion*.

98. Focus on identifying and thinking about *the key variable(s) that drives a business*. Try to reduce it down to its essence. If you get these questions right, you'll make money. It will also allow you to read the source documents *with a purpose*.

99. *Look for investments where it is obvious*. Buffett wants it to be like shooting fish in a barrel where the water has been drained out.

100. Look for companies that have advantages in inventory, collection, labor or raw material production.

101. What is the quality of management and the board? *Do they have a meaningful stake in the company?*

102. Attributes of a **Good Business**: *High Barriers to Entry, Brand Name, High ROIC, High FCF, Loyal Customers, Growth Opportunities, Great Management Team, Pricing Power, Strong Balance Sheet, Low Capex Requirements, High-return Reinvestment Opportunities, Commodity Inputs (suppliers have low power).*

103. Attributes of a **Bad Business**: *Obsolete Technology (newspapers), Money Loser, No Strategic Vision, Legacy Costs (high cost producer), A Commodity Product, Poor Corporate Governance, Heavy Regulation, Prone to Litigation, High Maintenance CapEx Requirements.*

104. The P/E ratio is useful as a crude screening tools but it has serious limitations. *The P/E ratio does not take into account the balance sheet and, as a result, it can materially misrepresent the earnings yield of a business.* **LOOK ALSO AT EV/EBIT.**

105. Study Henry Singleton of Teledyne. He is arguably *the best corporate capital allocator of the last century* and someone Buffett and Watsa have carefully studied.

106. **Know your limitations**. At the 1989 Berkshire Hathaway shareholders meeting, Buffett said that he had recently received a letter from the daughter of David Dodd. Dodd's daughter wrote that her father thought it was important to know your limitations. Buffett added that this was one of Dodd's favorite themes.

107. You do not need a super high IQ to be a successful investor. Buffett argues that ***it is more important to have the right temperament.***

108. Sit still. If you find investments that you clearly understand, hold on. Since it was their long-term potential that made you buy them in the first place, you should never let a short-term disappointment spook you into selling. **Patience – measured not just in years but in decades – is an investor's single most powerful weapon.**

109. Valuation is an art and, as such, **it requires practice**.

110. A caution flag should go up if a company begins making investments that are outside its core competency.

111. Always consider the impact the Internet may have on a possible investment.

112. Keep it simple. Accept the fact that you won't understand many – if not most – businesses and how to value them. Develop the habit of not worrying about it.

113. *Focus on what you can do and be at peace.* Filter out the chatter.

114. There are people making a lot of money playing basketball, winning the lottery, writing screen plays, selling software, trading cocoa beans – the list goes on and on. *You don't (or shouldn't) worry about these people, so why should you worry if another investor is able to make a bundle in potash and you don't even know what it is?*

115. **There are many things in life that are more important than money.**