

Contents

Preface		xi
Acknowledgments		xix
Chapter 1	How to Generate Investment Ideas	1
	How Investment Opportunities Are Created	1
	How to Filter Your Investment Ideas	14
	Using a Spreadsheet to Track Potential and Existing Holdings	19
Chapter 2	Understanding the Business—The Basics	21
	1. Do I want to spend a lot of time learning about this business?	22
	2. How would you evaluate this business if you were to become its CEO?	23
	3. Can you describe how the business operates, in your own words?	26
	4. How does the business make money?	28
	5. How has the business evolved over time?	29
	6. In what foreign markets does the business operate, and what are the risks of operating in these countries?	30
Chapter 3	Understanding the Business—from the Customer Perspective	39
	7. Who is the core customer of the business?	41
	8. Is the customer base concentrated or diversified?	42
	9. Is it easy or difficult to convince customers to buy the products or services?	43
	10. What is the customer retention rate for the business?	44
	11. What are the signs a business is customer oriented?	46
	12. What pain does the business alleviate for the customer?	49
	13. To What degree is the customer dependent on the products or services from the business?	49

	14. If the business disappeared tomorrow, what impact would this have on the customer base?	50
Chapter 4	Evaluating the Strengths and Weaknesses of a Business and Industry	53
	15. Does the business have a <i>sustainable</i> competitive advantage and what is its source?	54
	16. Does the business possess the ability to raise prices without losing customers?	68
	17. Does the business operate in a good or bad industry?	73
	18. How has the industry evolved over time?	77
	19. What is the competitive landscape, and how intense is the competition?	79
	20. What type of relationship does the business have with its suppliers?	89
Chapter 5	Measuring the Operating and Financial Health of the Business	97
	21. What are the fundamentals of the business?	98
	22. What are the operating metrics of the business that you need to monitor?	100
	23. What are the key risks the business faces?	105
	24. How does inflation affect the business?	111
	25. Is the business's balance sheet strong or weak?	113
	26. What is the return on invested capital for the business?	123
Chapter 6	Evaluating the Distribution of Earnings (Cash Flows)	137
	27. Are the accounting standards that management uses conservative or liberal?	138
	28. Does the business generate revenues that are recurring or from one-off transactions?	146
	29. To what degree is the business cyclical, countercyclical, or recession-resistant?	148
	30. To what degree does operating leverage impact the earnings of the business?	152
	31. How does working capital impact the cash flows of the business?	162
	32. Does the business have high or low capital-expenditure requirements?	167
Chapter 7	Assessing the Quality of Management—Background and Classification: Who Are They?	173
	33. What type of manager is leading the company?	176
	34. What are the effects on the business of bringing in outside management?	180

	35. Is the manager a lion or a hyena?	183
	36. How did the manager rise to lead the business?	186
	37. How are senior managers compensated, and how did they gain their ownership interest?	192
	38. Have the managers been buying or selling the stock?	202
Chapter 8	Assessing the Quality of Management—Competence: How Management Operates the Business	209
	39. Does the CEO manage the business to benefit all stakeholders?	210
	40. Does the management team improve its operations day-to-day or does it use a strategic plan to conduct its business?	213
	41. Do the CEO and CFO issue guidance regarding earnings?	219
	42. Is the business managed in a centralized or decentralized way?	222
	43. Does management value its employees?	225
	44. Does the management team know how to hire well?	239
	45. Does the management team focus on cutting unnecessary costs?	247
	46. Are the CEO and CFO disciplined in making capital allocation decisions?	248
	47. Do the CEO and CFO buy back stock opportunistically?	250
Chapter 9	Assessing the Quality of Management—Positive and Negative Traits	255
	48. Does the CEO love the money or the business?	256
	49. Can you identify a moment of integrity for the manager?	264
	50. Are managers clear and consistent in their communications and actions with stakeholders?	268
	51. Does management think independently and remain unswayed by what others in their industry are doing?	275
	52. Is the CEO self-promoting?	276
Chapter 10	Evaluating Growth Opportunities	281
	53. Does the business grow through mergers and acquisitions, or does it grow organically?	281
	54. What is the management team's motivation to grow the business?	282
	55. Has historical growth been profitable and will it continue?	283
	56. What are the future growth prospects for the business?	284
	57. Is the management team growing the business too quickly or at a steady pace?	296

Chapter 11	Evaluating Mergers & Acquisitions	305
	58. How does management make M&A decisions?	305
	59. Have past acquisitions been successful?	310
Appendix A	Building a Human Intelligence Network	323
	Evaluating Information Sources	324
	How to Locate Human Sources	324
	How to Contact Human Sources—and Get the Information You Want	328
	Create a Database of Your Interviews for Future Reference	329
Appendix B	How to Interview the Management Team	331
	Ask Open-Ended Questions	332
	Be Aware of the Danger of Face-to-Face Assessments of Managers	333
Appendix C	Your Investment Checklist	335
Notes		339
About the Author		351
Index		353

<http://www.pbookshop.com>