HOW TO PICK STOCKS LIKE WARREN BUFFETT

Profiting From the Bargain Hunting Strategies of the World's Greatest Value Investor

TIMOTHY VICK

TIMOTHY VICK is a senior analyst with Arbor Capital Management. He is also the founder and former editor in chief of *Today's Value Investor*, a market newsletter. Mr. Vick is the author of *Wall Street on Sale – How to Beat the Market as a Value Investor*. He also serves as a business consultant in the valuation and strategic planning specialties. Mr. Vick is a graduate of Purdue University.

MAIN IDEA

Warren Buffett's track record as an investor speaks for itself – he quite simply has no equals.

So how does he pick which stocks to invest in? The core strategy he uses is built around four clear and consistent principles:
1. Have the right investment philosophy – which will encompass everything from a long-term viewpoint to a feel for the numbers.
2. Analyze potential investments astutely – looking at earnings, return-on-equity and book value rather than stock price.
3. Avoid getting into a loss situation carefully and judiciously
4. Take into account and follow the general rules of good investment strategy – a mindset more than anything else.

Clearly, then, any investor aspiring to emulate Buffett's results must first attempt to understand why he picks some stocks to invest in and not others. As Warren Buffett himself has stated on a number of occasions, investing doesn't have to be a difficult or complicated activity so long as you are prepared to develop the right kind of intellectual framework.

Warren Buffett's Investment Strategy

Principle #1
Have a street smart investment philosophy.

1. Understand the power of compounding as the engine of growth in value.
2. Buy low, concentrate your investments and watch costs to enhance returns.
3. Maximize gains with a buy-and-hold strategy.
4. Always take into account the future opportunity cost of money.
5. Don't try and create cause-and-effect relationships where none actually exist.
6. Plan on staying actively involved in making investments for 30-years or more.

Principle #2
Analyze all potential investments astutely.

1. Value a business solely on its future earnings, discounted for risk.
2. Increase in book value is the best available measure of growth.
3. Use return-on-equity as a predictor of future growth.
4. Only buy stock that will increase in value by at least 15-percent per year.
5. Don't factor in an indefinitely favorable future.
6. Select stocks for stability, not meteoric growth.
7. Pick stocks which have an earnings yield exceeding that offered by government bonds.

Principle #3
Avoid getting into loss situations religiously.

1. Avoid losses by locking in gains and taking the market out of the equation.
2. Devote at least part of your portfolio to unconventional investments which guarantee a specified return.

Principle #4
Obey the general rules of good investment strategy.

1. Follow your own counsel.
2. Never be a price taker.
3. Common sense outweighs academic ideas.
4. Ignore daily fluctuations.
5. Avoid relying on forecasts.
6. Buy a piece of the company, not a certificate.
7. Shun arrogance.
8. Make time your friend.
9. Don't overanalyze.
10. Stay with your strengths.
11. Look at worth and costs.
12. Avoid perception props.
13. Seek companies that are franchises.
14. Do your homework.
15. Don't buy or sell simply because its fashionable.
16. Buy stock in good companies, not bargains.

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