Rule #1 Summary

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1-Sentence-Summary: *Rule #1 hands you the reins of personal investing, even if you've never held them before, by using a few simple rules from Warren Buffett's value investing approach to guide you towards financial independence.*

Read in: 4 minutes

Favorite quote from the author:

It sure makes for a good story how Phil Town turned a $1,000 investment into $1.45 million over five years. More than that, it sure is a convincing argument to listen to his advice, which he gladly shares with those, who choose to listen.

His advice neither mumbo-jumbo, nor particularly new. After all, it's based on Warren Buffett's criteria for picking sound businesses to invest in. Phil only distilled it in a way that makes it easy to apply, even if you're not a stock market aficionado, and don't have hours to spend looking at charts every day.

Here are 3 lessons from *Rule #1* to help you start investing without overthinking:

1. Imagine you're buying the whole company.
2. Look for moats around the businesses you invest in.
3. Have a margin of safety of at least 50% for each stock you buy.

Ready to invest yourself to wealth? Let's do it!

Lesson 1: Always imagine you're buying the whole company, not just some shares.

Even Warren Buffett doesn't buy all the businesses he invests in in full. But he sure acts as if he did. When you go into an investment thinking: "Hey, if they screw up, I can always sell my stocks." you mustn't wonder if that's exactly what'll happen.

Your investment into a business is a vote for that business to continue its practice as it operates today.

Therefore, if you're investing in a business using shady tactics, like child-labor or extortion, you're condoning and even encouraging this shitty business to continue.

So before you invest, ask yourself this: **Would you buy the whole business, if you could?** Much harder to overlook sleazy practices now, isn't it?

What this question does is force you to be a lot more cautious, make better decisions and do your homework. Now you'll want to learn as much about the company as you can and maybe even limit yourself to investing only in an area, which you know and work in yourself.

Lesson 2: Try to spot what moats a company has built around itself.

In case you don't know what a moat is, it's the kind of deep trenches castles in the Middle Ages built around them and filled with water, in order to keep enemies at bay.

Warren Buffett famously explained his idea of economic moats around companies in a talk once. He sums it up in a single question: **How much damage could I do if you gave me $100 million and I went head-to-head with that company?**

For example with Coca Cola, this wouldn't get you very far. It's one of the strongest brands in the world, and people will always choose it over other, less famous soda brands. Heck, shoeless jungle kids somewhere deep in the Amazon Rainforest will turn up wearing Coca Cola shirts – a kind of presence that sure makes for a wide moat.

Other moats could be patents, like Pfizer's Viagra patent, which kept it ahead of the competition for 20 years. Walmart built a good moat too, by using its cheap prices to open more stores and get more sales, which, in turn, led to a bigger negotiation power with suppliers to offer even cheaper prices. Another kind of moat can come from government regulations, for example when you're the only, legally allowed supplier of electric power or public transport. Lastly, if your product is crap, but it's impossible to switch (ahem, Windows), that can also be a moat.

A moat keeps a company afloat for years to come, ensuring future profits, thanks to a kind of monopoly position.

Lesson 3: Make sure you have a margin of safety of at least 50% for each stock you buy.

One of Warren Buffett's most famous quotes is this:

> Price is what you pay, value is what you get. – Warren Buffett

Contrary to popular belief, the market is *not* efficiently reflecting company values in stock prices. That difference is your advantage.

Note: Stock prices are indeed tricky to calculate though, but luckily, many online tools make it a lot easier nowadays, some of which can be found in The Little Book That Still Beats The Market.

By making sure that the **margin of safety – that is the actual value per share, based on your evaluation of the company minus the current stock price –** is large enough, it's almost impossible to lose money on an investment.

For example, if you research Apple in great detail, and determine its value comes out to at least $200 per stock, while stocks are currently priced at $100, then that's a margin of safety of 50%, which is the threshold Phil Town recommends to ensure before pressing the order button.

Rule #1 Review

You can think of *Rule #1* as "Warren Buffett's Layman Guide to Investing." It breaks down what Warren Buffett does in simple terms, and helps you create an investment strategy you can follow with little hassle and time investment. It sure won't be your last stop in terms of personal finance, but it's a great first step to start making more of your money.

Thumbs up Mr. Town, great job!

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What else can you learn from the blinks?

- What the Efficient Market Theorem is, and why it's dead wrong
- How "diversify and hold" makes sure your money doesn't grow
- Which five specific indicators you should look at over a 10-year-period for each potential investment
- What the Rule of 72 is and how you can use it to calculate all necessary figures for assessing an investment
- The one person you should take a good, hard look at, before putting your money into a stock

Who would I recommend the Rule #1 summary to?

The 21 year old with his first proper paycheck, who can get a head start by investing early, the 55 year old hobby investor, who’s sold more than half of all the investments he’s made in his lifetime, and anyone who’s a fan of Warren Buffett.