STEP 1: STARTING YOUR RESEARCH

Once you find a company that interests you, you will want to conduct more thorough research. I like to start by identifying the highest risks for owning the company. Therefore, I focus on the current debt and current interest coverage, and then I look at the historical performance over the past ten years. After mitigating the current risks of owning the company, I then focus on its ability to earn profits into the future. You can use the following site to conduct that research: www.nasdaq.com/symbol/YourStockTickerHere/earnings-forecast

Note: For a company like Disney (DIS), simply substitute: YourStockTickerHere = DIS

1. Plot the company's stability metrics at the following link.
2. Are gross, operating, and income margins steady or increasing? How do they compare to other competitors? Here is an example of Disney's key ratios.
3. Is the FCF tracking the EPS? If not, how much is the difference? Why is there a difference?

You don't need any paid tools to pick stocks. The free versions are usually not as detailed but they are typically 80% as good as the paid resources. If you are going to use a Stock Screener the best free screener used to be Google Finance, and you can check out Preston's video of how to use the stock screener here. However, Google Finance is no longer available, and the best free screener is now Finviz.

The best paid screener is GuruFocus which is more detailed than Finviz, and has all the criteria I use when I start my research for stocks. If you are using GuruFocus' stock screener, these are the criteria I recommend you start with:

1. Market Cap > $500 Million
2. P/E Ratio < 15
3. Current Ratio > 1.5
4. Return on Equity (5Y median %) > 8
5. Interest Coverage > 6.0
6. 5Y Net Income Growth Rate (%) > 5
7. 10Y Revenue Growth Rate (%) > 5
8. 10Y EPS Growth Rate (%) > 5

You can start your 7-day free trial on GuruFocus using this link.

STEP 2: LOCATE THE MOAT

Buffett describes a "moat" as an item that protects the company from competitors. Think of Castles in medieval times. The moat is what protected the citizens from invaders. The list is truly what keeps your company competitive. If you're investing in a company with very high margins (typically classified as a "growth pick"), you'll definitely want to ensure you've got a very wide moat. High margins attract competitors like meat wagons attract dogs. Here's a great article about this idea.

Here are examples of the moats I like to see for my stock picks:

1. Brand / Trade Marks
2. Proprietary Technology
3. Patents / Copyrights
4. Trade Secrets
5. The stickiness of Product (Think Microsoft Office)

STEP 3: INVEST LIKE THE BEST WITH THE INVESTOR'S PODCAST

You're probably asking yourself how and where you should continue your journey and learn more about Warren Buffett and stocks investing.

If you would like to learn more about how Warren Buffett and other billionaires invest, I strongly recommend that you check out our free podcast: "The Investor's Podcast."

We interview famous value investors including billionaire Howard Marks, Bill Miller, Mohnish Pabrai, and Guy Spier, and talk about how you can apply their teachings in your portfolio. Make sure to subscribe to our weekly podcast by clicking on one of the icons where you listen to podcasts.

Apple Podcasts | STITCHER | SOUNDCLOUD

Google Podcasts | iHeart RADIO | Spotify

ADDITIONAL NOTES FOR USING THE CHECKLIST

When opening MorningStar.com, I typically use the "Key Ratios", "Financials", and "Valuation" tabs the most. I typically start at the top of each page and read down. Typically, a company that has great leadership also has great financials. This is where I spend most of my time trying to understand the decision making of the company leadership. By looking at the numbers, you can see how the company manages debt, how they employ retained earnings, and many other things. This is where you really need to operate and understand things.

1. If you're using our stability-graph, you'll find the important information on the "Key Ratios" tab. If you see unwanted things in the stability of the company, understand why they exist.
2. For industry research, you'll find the "Valuation" tab helpful for a cursory look. You'll want to find the #1 competitor for your company of interest and analyze their entire financial statements if you want to conduct thorough research on industry peers.
3. The margins of the company are important because they demonstrate the company's current competitive environment. It also demonstrates how quickly they will be able to grow in the future. If margins are high, the company will likely face fierce competition in the future. This is where you'll want to look at Step 3 to help identify how you can mitigate/protect those margins.
4. The FCF is the magic number. If you see fluctuation here, it might not necessarily be a bad thing; it might just mean that the company had a substantial capital expenditure. These may come every 3-5 years. If this is the case, make sure you understand why and how it might impact things in the future. The FCF is the money that the company actually has to invest and grow the business. Think of it like this; when you get your paycheck every month, how much do you have left after all your normal monthly expenses are paid? – That's your FCF. This is the money you use to invest and grow your equity. It's the same thing for a business. If you're using MorningStar for research, you'll find some valuable information at the bottom of the "Key Ratios" tab. The subordinate tab is called "Cash Flow."

WHICH BROKER I RECOMMEND AND WHY

So, I actually use two different brokers because there are advantages and disadvantages for the way I have things set-up. To start, a broker is nothing more than a company that conducts trades on your behalf.

I encourage people to separate their research tools from their broker(s). I personally find the recommendations from stockbrokers to be grossly plagued in self-interest. As you might suspect, a broker has an interest in selling you on their company's mutual funds or highest commission products. You'll want to avoid this trap. A knowledgeable investor needs to think for themselves and does their homework. Since I don't need the broker's analytical tools and subsequent high fees, I recommend the following.

MY BROKER FOR PERSONAL USE

I strongly recommend Ally Invest. The reason Ally Invest works well for me is because I want my frictional costs (or transactional costs) to be an absolute minimum. Although I don't conduct a lot of trades a year (usually about 20 a year), those costs can really add up. Since most brokers charge about $10 a trade, that means I would spend $200 a year just on trading costs.

Now, let's imagine you're like most investors and you trade a lot more than I do. For example, the typical day trader might buy and sell once a day during the 252 trading days in the year. That means they would conduct 504 trades in a year. Without much analysis, you can see that this behavior would cost the "investor" $5,040! That's a lot of money. It's very difficult to have any kind of returns when all the money is going to the broker. Ally Invest's personal trading accounts have no set-up fees. No annual fees and they only charge $4.95 per trade. They'll even refund you $150 for fees associated with switching-over to their service. So, in short, I only spend about $99 a year conducting all of my trades. For the day trader, they would save about $2,545.20 a year with Ally Invest if they were making 1 trade a day.

MY BROKER FOR CORPORATE USE

I recommend TD Ameritrade. So, I have a second broker because I also have a trading account within my business, The Pylon Holding Company. I don't use Ally Invest here because, with corporate accounts, they charge a $200 annual fee and also a $250 startup fee.

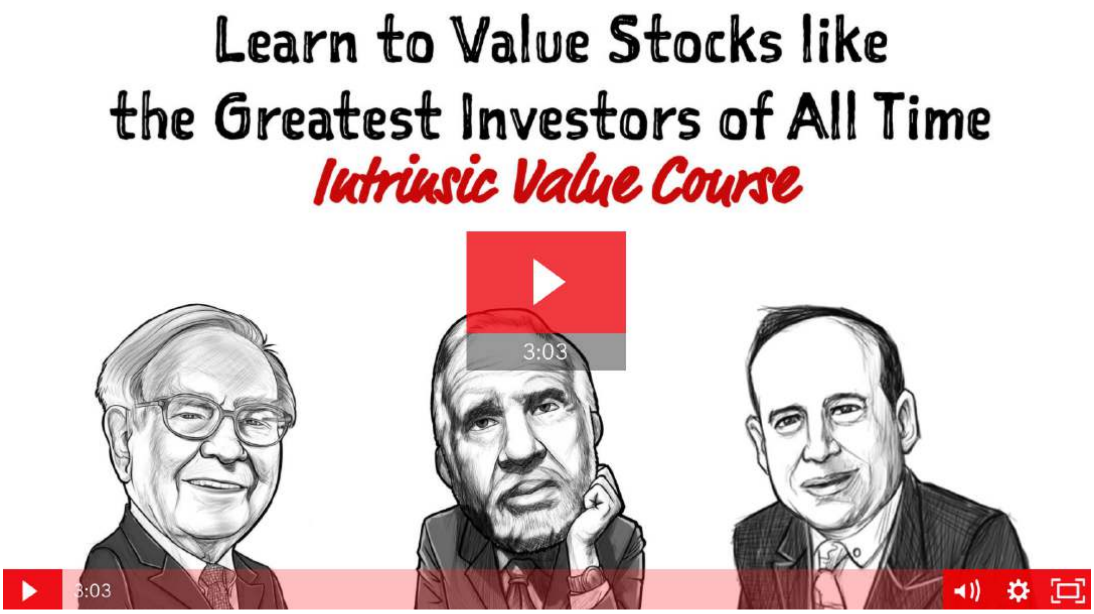
It's important to note that Ally Invest does not assess these fees for personal accounts; only corporate accounts.

As a result, I have a corporate trading account with TD Ameritrade because they have no initial sign-up fee and no annual fees. Now, the slight downside is that their trading costs are slightly higher, at $9.99 a trade. Since I only do about 20 trades per year, TD Ameritrade offers a better value for my corporate account.

WHEN IS IT TIME TO BUY OR SELL STOCKS?

If you've followed the steps in the checklist, you now know how to identify and investigate the best stocks. The real challenge for stock investors is buying and selling at the right time. We all heard that you should buy low and sell high, but how does that work in practice? We have created a comprehensive course to teach you just that.

In 18 exclusive videos, we teach you **step-by-step** how to calculate the intrinsic value of any stock, and have made our calculator and checklists downloadable for you. If you play the video below, I'll show you how.


Learn to Value Stocks like
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