

# *Common Stocks and Uncommon Profits*

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# Mr. Philip Arthur Fisher

- Philip A. Fisher started his money management firm, Fisher & Co., in 1931 and over the next seven decades made tremendous amounts of money for his clients.
- Philip Fisher is considered a pioneer in the field of Growth Investing
- Morningstar Inc. has called him "one of the great investors of all time".
- In *Common Stocks and Uncommon Profits*, Fisher said that the best time to sell a stock was "almost never".
- His most famous investment was his purchase of Motorola, a company he bought in 1955 when it was a radio manufacturer and held until his death.



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# SCUTTLEBUTT

- Scuttlebutt means information gathered about a company or industry that's gathered via non-traditional means.
- Scuttlebutt usually involves being creative and going the extra mile to gain *proprietary* insights about a company - the type of insights that, on occasion, can lead to big profits
- Sources like vendors, customers, professors, trade association executives, former target company employees, and so on can give us so much of insight about a company which probably no one else can.
- So, reading a company's annual report and SEC filings, listening to a conference call, attending a management presentation, or even visiting the company are *not* examples of scuttlebutt.

## Contd...

**“The business ‘grapevine’ is a remarkable thing. It is amazing what an accurate picture of the relative points of strength and weakness of each company in an industry can be obtained from a representative cross-section of the opinions of those who in one way or another are concerned with any particular company. Most people, particularly if they feel sure there is no danger of their being quoted, like to talk about the field of work in which they are engaged and will talk rather freely about their competitors. Go to five companies in an industry, ask each of them intelligent questions about the points of strength and weakness of the other four, and nine times out of ten a surprisingly detailed and accurate picture of all five will emerge.”**

## Fifteen Points to Look for in a Common Stock

- All good principles are timeless, and Fisher's famous "Fifteen Points to Look for in a Common Stock" from *Common Stocks and Uncommon Profits* remain as relevant today as when they were first published.
- The 15 points are a qualitative guide to finding superbly managed companies with excellent growth prospects.
- According to Fisher, a company must qualify on most of these 15 points to be considered a worthwhile investment.

## Contd...

1. Does the company have products or services with sufficient market potential to make possible a sizable increase in sales for at least several years?
2. Mgt's determination to continue to develop products or processes that will still further increase total sales potentials when the growth potentials of currently attractive product lines have largely been exploited?
3. How effective are the company's research-and-development efforts in relation to its size?
4. Does the company have an above-average sales organization?

## Contd...

5. Does the company have a worthwhile profit margin?
6. What is the company doing to maintain or improve profit margins?
7. Does the company have outstanding labor and personnel relations?
8. Does the company have outstanding executive relations?
9. Does the company have depth to its management?



## Contd...

10. How good are the company's cost analysis and accounting controls?
11. Are there other aspects of the business, somewhat peculiar to the industry involved, which will give the investor important clues as to how outstanding the company may be in relation to its competition?
12. Does the company have a short-range or long-range outlook in regard to profits?
13. In the foreseeable future will the growth of the company require sufficient equity financing so that the larger number of shares then outstanding will largely cancel the existing stockholders' benefit from this anticipated growth?

## Contd...

14. Does management talk freely to investors about its affairs when things are going well but "clam up" when troubles and disappointments occur?
15. Does the company have a management of unquestionable integrity?

## WHAT TO BUY : Applying this to your own needs

- First and the foremost thing is **INVEST YOURSELF.**
- If not, then only consult an advisor.
- Points to look for in an advisor are as follows:
  - Look at his credibility
    - When markets are falling he might still make money by investing in the high grade bonds.
    - And, when markets are up then he might make money out of high risk stocks.

But this can be just a one time performance and not always.
  - Look at his track record
  - Should be experienced enough
  - Talk to him and test his knowledge about financial markets.
  - Try to know his method of making money
  - Keep regular track of your money being invested

## Contd...

- A young growth stock might give a lot of money but it might also make it zero. Therefore, a lot of risk is attached to it.

For Example,

- A widow with no children
  - A widow with 3 children
  - A businessman with a lot of savings.
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- All daily expenses should be kept aside and then the money should be invested. For example, school fees of a child and his school expenses should never be put in the stock markets.

# When to Buy



- The right time to buy a stock is very important if a person wants to make close to maximum gain than just a substantial one.
- Don't waste your time predicting for an economic downturn. Times like 1929 and 2008 don't come too often.
- When the markets go up, the investment advisors say it will go more up and vice-versa.
- A person should have confidence and take his own decisions. Until and unless a person will make mistakes, he will not learn anything.
- Introduction of new product  $\Rightarrow$  Machinery & Land Acquisition  $\Rightarrow$  Pilot test  $\Rightarrow$  Problems arise  $\Rightarrow$  Delay in launch  $\Rightarrow$  Special Sales Expense  $\Rightarrow$  Sag in the PAT  $\Rightarrow$  Price of the Stock goes DOWN  $\Rightarrow$  **SENSATIONAL BUY**

# When to Sell

- Selling depends upon a person for his personal affairs. For example: Childs Marriage, New house, New Car, etc.
- Otherwise, WHY SHOULD A PERSON SELL A GROWTH STOCK:
  - When the investor thinks that he might not get the returns he had thought of. **DON'T, I REPEAT DON'T LET THE ' EGO ' COME IN BETWEEN.**
  - It should be sold immediately as soon as it no longer qualifies for the 15 points discussed before.
  - If the investor finds a new company with a better growth prospect and has no more money to invest.

**BOTTOM LINE:** If the job has been correctly done when a common stock is purchased, the time to sell it is **ALMOST NEVER.**

# The Hullabaloo About Dividends

- People think that if a company does not pay dividends then it is doing nothing for the Stock Holder.
-  in Dividend Rate = Favorable
-  in Dividend Rate = Nearly always called Unfavorable
- It might be so that the company is spending its earnings in building up a new plant, launching a new product or maybe installing some major cost saving equipment in an old plant, which might benefit the shareholder more than just getting dividends.
- Companies like MICROSOFT and BHARTI have never paid dividends and still they have given much higher returns to their investors.

# Five Don'ts for an Investor

- In investing, the actions you don't take are as important as the actions you do take.
- A lot of people say a lot of things. It is finally up to us to take the decision.
- Never take any decision without researching.
- The 5 don'ts for an investor are as follows:
  1. **Don't buy into a Promotional Company.**
  2. **Don't ignore a good stock just because it is traded “over the counter”.**
  3. **Don't overstress diversification.**
  4. **Don't quibble over eighths and quarters.**
  5. **Don't follow the crowd.**



## How does Mr. Philip A. Fisher go into finding a growth stock?

### STEP 1:

- Talk to business executives and scientists about another company.
- Read only those printed material that is published by the brokerage house, for a few selected people.
- Out of all this Mr. Fisher gets  $1/5^{\text{th}}$  of the leads that excites him to further study and then this leads to  $1/6^{\text{th}}$  of all worthwhile purchases.

### STEP 2

#### THREE THINGS THAT HE WILL NOT DO AT THIS MOMENT.

- He does not approach anyone in the management at this stage.
- He does not spend hours and hours going through the old annual reports and making minute studies.
- He does not ask every stockbroker he meets that what he thinks of the stock.

#### WHAT HE WILL DO IS:

- Glance over the balance sheet to determine the general nature of the capitalization and financial position.
- If there is an SEC prospectus available then he will read with care those parts covering breakdown of total sales by product lines, competition and all earning statement figures throwing light on depreciation, profit margins, extent of research activity, and abnormal or non-recurring costs in prior years' operations.

## Contd...

### STEP 3:

Now the author will use the 'SCUTTLEBUTT' method as much as he can. Scuttlebutt will answer most of his 15 points mentioned.

### STEP 4:

Visit and talk to the management.

One rule to be followed according to the author is- **An investor should never visit management of the company, he is considering investing in, until he has gathered at least 50% of all the knowledge he needs to make an investment.**

### STEP 5:

If you have found out that it is a good company to invest in and also the time is right, then just go ahead and INVEST.

**NOTE: Nothing is worth doing, unless it is worth doing right.**



## The Most Important Paragraph of the Book

**Because I have heard them so many times, I know the objections a few of you will make to this approach. How can anyone be expected to spend this amount of time finding just one investment? Why are not the answers already neatly worked out for me by the first person in the investment business to whom I ask what I should buy? I would ask those with this reaction to look at the world around them. In what other line of activity could you put \$10,000 in one year and ten years later (with only occasional checking in the meantime to be sure management continues of high caliber) be able to have an asset worth from \$40,000 to \$150,000? This is the kind of reward gained from selecting growth stocks successfully. Is it either logical or reasonable that anyone could do this with an effort no harder than reading a few simply worded brokers' free circulars in the comfort of an armchair one evening a week? Does it make sense that anyone should be able to pick up this type of profit by paying the first investment man he sees a commission of \$135, which is the New York Stock Exchange charge for buying 500 shares of stock at \$20 per share? So far as I know, no other fields of endeavor offer these huge rewards this easily.**



THANK YOU