

Warren Buffet: How To Identify Superior Stocks (Moats)

What is a moat?

Moat is a sustainable competitive advantage. A competitive advantage is the attribute that allows an organization to outperform its competitors. The signs of overperformance are the following:

- Higher profitability
- Higher return on capital
- Large market share

To find a moat, you have to understand the business. There are not exact formulas for finding a moat.

The key question to identify moat?

Warren buffet said that

| If I have \$100M, can I take see's candy? - Warren Buffet

Because it's impossible to dethrone a very wide moat company.

The business moats of Berkshire Hathaway?

Coca Cola

We have to take a perspective of a buyer or a costumer to understand a business moat. For example, a coca cola soft-drink is a share of mind moat. Because it means something to them.

There is also a reliability, meaning that a coca cola is always available outside of US.

Apple

- Apple company also has **a share of mind** in that a premium mobile phone product.
- Network effect, the more people buy apple, the more valuable it becomes. It's because the demand will keep rising.
- Technical lock-ins, which the apple has its navigation and apple has its own environment for data transferring and synchronization.

BNSF

- A moat that is the market that is too hard to compete. The market itself needs a high capital and time to build a similar company.
- For example, a train company. A competitor train company need to have a land and time to build, which is costly.

See's Candy

- Has a share of mind of premium candy.

Geico

- Geico has a low operational cost where price is significant to a customer.
- Low-cost producer in a commodity business.

All moats are not created equal

For example, the moat of **coca cola** is not equal with **Facebook**.

When the industry can gain a competitive advantage quickly, you have to worry that i can lose it competitiveness quickly too.
- Warren Buffet

Finding business with moat quickly

You can start to find a business that has an overperformance today. Then, measure its moats accordingly.