

# THE SUPER INVESTOR RULEBOOK

**PROVEN PRINCIPLES FROM  
THE WORLD'S MOST  
SUCCESSFUL INVESTORS**



**BRIAN FEROLDI  
BRIAN STOFFEL**



# Hello and Welcome!

**Investing can be overwhelming, especially with endless advice and strategies to choose from.**

**This eBook makes it simple with 10 powerful infographics that break down the timeless investing rules of 10 legendary superinvestors.**

**Wishing you investing success!**



**Brian Feroldi**



**Brian Stoffel**



**(Click The Icons To Connect)**



# INDEX

[WARREN BUFFET INVESTING RULES](#)

[CHARLIE MUNGER INVESTING RULES](#)

[BILL ACKMAN INVESTING RULES](#)

[JOHN BOGLE INVESTING RULES](#)

[PETER LYNCH INVESTING RULES](#)

[SETH KLARMAN INVESTING RULES](#)

[TERRY SMITH INVESTING RULES](#)

[RAY DALIO INVESTING RULES](#)

[NICK SLEEP INVESTING RULES](#)

[MOHNISH PABRAI INVESTING RULES](#)



CLICK TO JUMP  
TO INFOGRAPHIC

# WARREN BUFFET INVESTING RULES



BRIAN FEROLDI

## CIRCLE OF COMPETENCE

Never invest in a company **you don't understand**.

Have a “too hard” pile.

Don't speculate.



## LONG-TERM MINDSET

Always invest with a **long-term time horizon**.

Think & act like an owner.



## VALUE INVESTING

**Buy when stocks are:**

- In Bear Markets
- In Temporary Trouble
- There's a “**Margin of Safety**”
- Trading below “**Intrinsic Value**”



## PRODUCTIVE ASSETS

Buys **productive assets** that produce **cash flow** and can **grow in value**.

Avoid **unproductive assets** like gold or bitcoin.



## HOLDING PERIOD

Buffett's favorite holding period is “**forever**”.

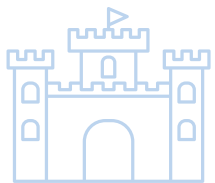
He sells when his initial analysis is wrong or the moat has been breached.



## COMPETITIVE ADVANTAGE

Only invests when there's a **moat** (durable competitive advantage).

Moats protect profits.



## INVESTOR PSYCHOLOGY

Investors must have **Emotional Intelligence**:

- Contrarian Mindset
- Discipline
- Patience
- “Inner” Scorecard
- Self-Awareness



## CAPITAL ALLOCATION

Pays close attention to management's ability to **allocate capital**.

- Acquisitions
- Buybacks
- Dividends
- Return on Equity



## POSITION SIZING

When it's “raining gold,” bet big.

Act decisively and boldly.





# CHARLIE MUNGER INVESTING RULES



BRIAN FEROLDI

## VALUE INVESTING

Buy when stocks are:

- In Bear Markets
- In Temporary Trouble
- There's a "Margin of Safety"
- Trading below "Intrinsic Value"



## MENTAL MODELS

Collect **mental models** from different fields and connect them to maximize their benefits.



## COMPOUNDING MACHINES

Looked for high-quality companies that can compound capital at high rates for decades.



## RETURN ON CAPITAL

"The longer your holding period, the more your returns will resemble ROIC."

The sign of a great business is high returns on capital.

$$\text{ROIC} = \frac{\text{Net Operating Profit After Tax}}{\text{Invested Capital}}$$

## DIVERSIFICATION

"The idea of excessive diversification is madness."

Why put money into your 12th best idea?

- Deeply research companies
- Only accept the best
- Wait patiently for the right opportunity
- Act decisive



## INCENTIVES

Pay attention to incentives.

The right incentives will motivate good decisions.

The wrong incentives will result in disastrous decisions.



## ACCOUNTING

Avoid companies that rely on aggressive revenue recognition, tout EBITDA, or have excessive "stock-based compensation."

Focus on cash flow **since it's harder to manipulate.**



## CAPITAL EXPENDITURE

Pay attention to how much a company needs to spend to maintain its moat and grow.

Look for companies that have high free cash flow relative to their CapEx.

Low-capital-intensive businesses can reinvest profits without draining cash.



## AVOID STUPIDITY

**Every investment has risk.**

Avoid risky companies with little upside.

Buy low-risk companies with high upside.



# BILL ACKMAN INVESTING RULES



BRIAN FEROLDI

## SIMPLE AND PREDICTABLE

- Single Business and Single Structure
- Operating in an Industry you understand
- Predictable Earnings



## POSITIVE CASH FLOWS

Without Cash Flows,  
there is nothing to value.

Avoid businesses that  
burn cash.



## DOMINANT PLAYERS

Look for companies that  
dominate their industry.

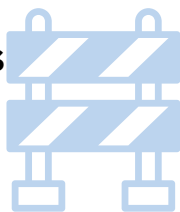
Usually a sign of a  
**competitive  
advantages.**



## COMPETITIVE ADVANTAGE

The company's  
profits must be  
protected from  
competition.

No sustainable  
competitive  
advantages means  
success will be  
short-lived.



## HIGH ROIC

Dominant companies  
almost always have  
superior **ROIC**.

The longer your holding  
period, the more your  
return will resemble  
the **ROIC**.



## LIMITED MACRO RISKS

Assume as little macro risk as  
possible.

Macro risks are everything not  
within management's control:

- Commodity Prices
- International Politics
- Interest Rate
- Regulation



## STRONG BALANCE SHEET

**Rule of Thumb:**

- A company must be able to repay all its long-term debt with 3 times its annual Free Cash Flow.



## STRONG MANAGEMENT

Own companies led by capable  
management teams.

Judge them by their  
historic ability to  
meet their goals.

Use activism only  
when necessary.



## BUY BELOW INTRINSIC VALUE

Buying below the  
intrinsic value of  
the company.

Invest when the  
estimate of 'fair  
value' exceeds the  
current stock  
price.





# JOHN BOGLE INVESTING RULES



BRIAN FEROLDI

## REVERSION TO THE MEAN

All extreme deviations from the mean will be short-term.

Over- and underperformance eventually reverts to the mean.



## TIME IN THE MARKET

Great wealth is built by compounding.

- Start as early as you can.
- Never interrupt the process.



## YOU MUST INVEST

Not investing is the biggest risk people can take.

There's no equal alternative to participating in the markets.



## THE RIGHT EXPECTATIONS

The historical real return for stocks is about 7%.

At 7%, your money doubles every ten years.

Unrealistic expectations drive people into bad, risky investments.



## BUY THE HAYSTACK

Most people are better off buying the haystack than looking for the needle.

Index funds are a great opportunity to be in the markets without doing your own research.

Stock picking isn't for everyone.



## HOLD TIGHT

Most people aren't traders by choice.

Their research before establishing a position is insufficient.

Small changes in price intimidate them.



## INACTIVITY BEATS REACTIONISM

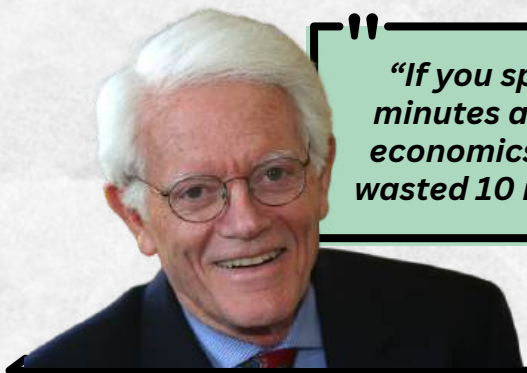
You're bombarded with news every day.

Remaining unaffected by this has been the most profitable thing to do.

Stay the course.



# PETER LYNCH INVESTING RULES



"If you spend 13 minutes a year on economics, you've wasted 10 minutes."



BRIAN FEROLDI

## PERSONAL EDGE

Individual investors can outperform Wall Street.

Use your personal edge: knowledge gained from your job, hobby, or experience.



## FOCUS ON STORIES

People get sold on stories, not numbers.

Fundamentals drive stock prices, but stories can dominate for a long time.

Have a long-term story for every company you own.

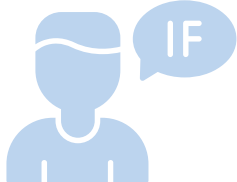


## LONG SHOTS MISS

Long shots are the stories all investors hope for.

But almost all long shots miss.

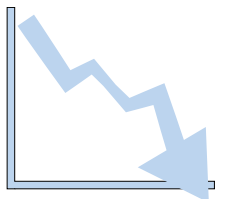
Stay away from stories that involve too many "ifs."



## STOMACH OVER BRAINS

"The real key to making money in stocks is not to get scared out of them."

Most investors cannot stomach the hard times, but that's when your investing track record is decided.



## COMPANY CLASSIFICATION

Lynch classifies companies in 6 categories.

This is how they behave on a risk/reward spectrum:

	High Return	Average Return	Low Return
High Risk	<i>Fast Growers</i> 10-100x / (80%-100%) <i>Turnarounds</i> 10x / (80%-100%)		<i>Cyclicals</i> 10x / (80%-100%)
Low Risk	<i>Asset Plays</i> 2-5x / (-20%) <i>Cyclicals</i> 10x / (80%-100%)	<i>Stalwarts</i> +50% / (-20%)	<i>Slow Growers</i> +30% / (-20%)

## TURN OVER THE MOST ROCKS

Research 10 stocks, you might find 1 good one.

Research 50 stocks, you might find 5 good ones.

The really great opportunities were obvious but often require looking through hundreds of stocks to find.



## EARNINGS = PERFORMANCE

In the short term, earnings and financials can be ignored.

In the long term, fundamentals matter most.

Look for mismatches between stocks and earnings.





# SETH KLARMAN INVESTING RULES



BRIAN FEROLDI

## THE VALUATION PROBLEM

- Every Valuation will be wrong.
- Great investors are less wrong than others.
- “I’d rather be vaguely right than precisely wrong.”

## RANGE OF VALUE

- Intrinsic/Fair Value is a Range.
- Neglect Precise Price Targets
- Find a Reasonable Range

Undervalued      Intrinsic Value      Overvalued



## FINANCIAL HISTORY

- History doesn’t repeat itself, but it does rhyme
- Studying historic booms and busts
- Don’t time the market, but be aware of historical deviations

## ONE-SIZE FITS ALL

There is no “One Size Fits All” Method. You have to look at every company and ask yourself:

- What’s the key driver for value in this company?
- How can shareholders get to the value?

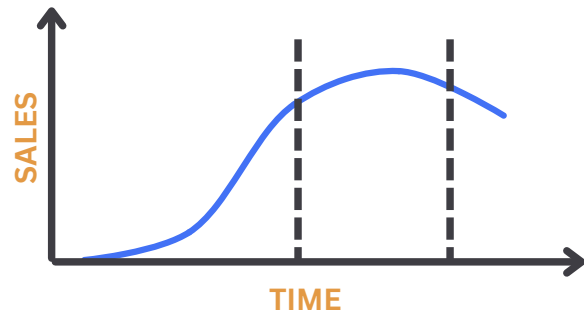
## VALUATION METHODS

### 1. Net Present Value (NPV):

The discounted value of all future cash flows a business is expected to generate.

#### When to Use NPV?

Use for Mature companies at the end of the cash flow-generating phase of their life cycle.



### 2. Liquidation Value:

The value resulting from the sale of all the company’s assets.

#### When to Use Liquidation Value?

Liquidation Value: “Dying” companies with bad operating results.



### 3. Relative Value:

The prices of similar companies compared to each other.

#### When to Use Relative Valuation?

When two companies show very similar characteristics:

- Growth Potential
- Earnings Potential
- Customer Bases
- Moat Potential
- Phase of Life Cycle



# TERRY SMITH INVESTING RULES



BRIAN FEROLDI

## USE THE RULE OF 3

Follows these 3 investing principles:

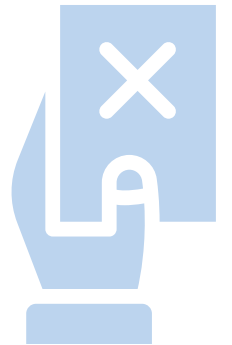
- Buy Good Companies
- Don't Overpay
- Do Nothing



## DISQUALIFYING FEATURES

Instead of starting with qualifying criteria, **use disqualifying criteria.**

This eliminates the worst ideas to reduce the chance of big mistakes.



## HIGH RETURNS ON CAPITAL

Pay attention to a company's **Return on Capital.**

The ultimate sign of a quality company.

$$\text{ROIC} = \frac{\text{Net Operating Profit After Tax}}{\text{Invested Capital}}$$



## LOOK FOR HIGH FCF YIELDS

Compares the Free Cash Flow Yield of a company to what you believe the long-term bond yield should be. ("3% over the expected rate of inflation")

Formula:

$$\frac{\text{FCF}}{\text{Market Value of the Company}}$$

## CREATE A WATCHLIST

Have a watchlist.

Most companies you analyze will be fairly priced at the time, but don't forget about them.

1. Create a Watchlist
2. Keep It Updated
3. Use Price Targets



## EXPLOIT ADVANTAGES

Use the advantages of being an individual investor.

1. Play the Long Game
2. Go for the Unloved Stocks
3. Go for the Unloved Industries
4. Invest Anti-cyclical





# RAY DALIO INVESTING RULES



→ BRIAN FEROLDI ←

## REALITY AND DREAMS

The basis for success is **embracing reality**.

Understand how the world really works and use that knowledge to get what you want.

If you accept reality and have dreams, it's about determination to reach them.

**DREAMS + REALITY + DETERMINATION =  
A SUCCESSFUL LIFE**

## 5-STEP PROCESS TO SUCCESS

**Ray Dalio's 5-Step Process for Success:**

1. Have Clear Goals
2. Identify Problems
3. Diagnose Problem's Root Causes
4. Design a Plan
5. Execute the Plan



## DIVERSIFICATION

Two ways he diversifies his investments:

- a) **Between Asset Classes**  
(Stocks, Bonds, Commodities, etc.)
- b) **Within Assets Class**  
(Geographies, Industries, Size)

## MARKET CYCLES

There are short (5–8 years) and long-term (75–100 years) market & debt cycle.

Pay close attention to these cycles for long-term positions.

**He wants positions that can survive and thrive in the consequences of these cycles.**

## PURE ALPHA STRATEGY

Generate returns that are uncorrelated to the market.

1. **Macroeconomic Analysis**  
Finding and analyzing global trends around interest rates, currencies, and growth.
2. **Uncorrelated Assets**  
Finding investments that gain when the market loses.
3. **Risk Management**  
Balancing expected returns and volatility.

## EFFECTIVE DECISION-MAKING

Invert the process of good decision-making. The biggest threat to good decisions are **Harmful Emotions**

The process of decision-making depends on:

1. Learning
2. Deciding

**4 Steps of Good Decision-Making:**

1. Synthesize the Situation
2. Calculate Expected Values
3. Weigh gaining additional info against cost of deciding now
4. Decide based on expected values

# NICK SLEEP INVESTING RULES

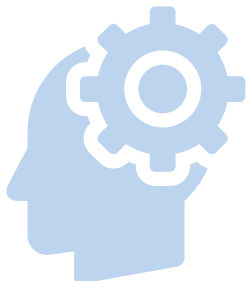


BRIAN FEROLDI

## STOP COLLECTING. START THINKING

Take far more time thinking about information than collecting it.

You can't draw different conclusions by simply collecting more information.



## SCALING LAWS

Scaling Laws turn the size of a company into an asset instead of a burden.

The two important tenets:

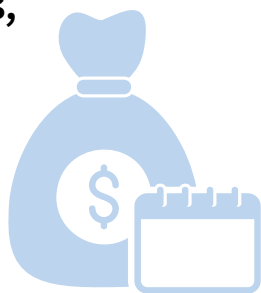
1. The ability to **self-fund** growth
2. Increasing **Barriers of Entry** with increasing size



## IGNORE THE NOISE

Wall Street profits from volumes, so they dramatize everything.

Long-term investing success comes from **ignoring short-term noise**.



## FIND SPAWNERS

Spawners have one big profit center which creates cash flow that is reinvests in many small, low-cost ventures with huge potential.

Most will fail, but the **ones that succeed** become **huge** and **profitable new businesses**.



## SCALE ECONOMICS SHARED

As the firm grows in size, **scale savings** are **given back to customers** through **lower prices**.

Those prices attract new customers who **increase scale economics** even more.

A win-win value proposition between companies and customers.

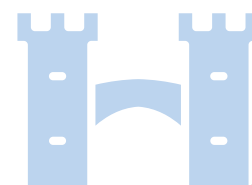


## LOLLAPALOOZA MOATS

Lollapalooza Moats consist of many small competitive advantages.

They add up to create a strong and well-diversified competitive advantage.

Due to their **diversification**, these are the **most durable moats** and **found** at any **great compounder**.



## DESTINATION ANALYSIS

Ask: **Where will the company be when it exits the growth phase?**

You want to know:

- The size of those markets
- The markets it operates in
- The position in those markets

Being vaguely right is better than precisely wrong.



# MOHNISH PABRAI INVESTING RULES



BRIAN FEROLDI

## INDUSTRIES TO AVOID

You need to be able to judge a company's **long-term outlook**.

Not precisely, but roughly.

In rapidly changing industries, that's impossible.



## MONEY IS EARNED WAITING

You don't make money by selling stocks.

**Money in the stock market is earned by waiting.**

Buy right and sit tight.



## BUY THE COPY!

History shows that the innovators often die quickly.

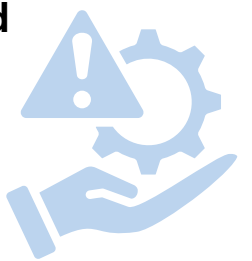
**The best copy the one that survives.**



## ENTREPRENEURS

Investors and entrepreneurs need many of the same qualities.

They have to manage risk and focus on capital allocation.



## OUTSTANDING OPPORTUNITIES

The best investing opportunities are **easy to spot, though hard to find**.

They will be so obvious that you don't need much time dissecting them.

Thus, look through as many companies as possible, but don't spend too much time on each.

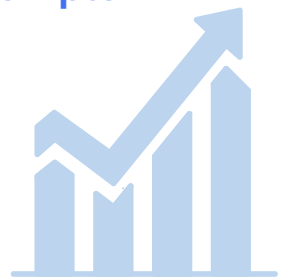


## KEEP IT SIMPLE!

**Good investing shouldn't be complex.**

Focus on fundamentals, risk management, and valuation.

If you don't understand it, move on.



## FORGET ABOUT CATEGORIES

Many investors limit their investment horizon by subscribing to investment categories like **Growth vs. Value**.

But that's the wrong approach to investing. Growth and Value are part of the same equation.



## STUDY THE GREATS

Study superinvestors like Charlie Munger and Warren Buffett.

There are thousands of hours of material from them. **Use it!**





# Thanks for reading!

If you enjoyed this free ebook, you'll love our full Investing Infographic ebook - **Investing Explained Visually**

The full ebook contains 100 infographics that explain the fundamentals of investing, including:

- Types of moats
- Management quality checklist
- How to read financial statements
- When to sell
- Stocks vs Bonds
- Asset classes

And more!

Here's a sneak peak:



[Click here to buy it for just \\$7](#)



# Thanks for reading!

## Connect with us below!



**Brian Feroldi**



**Brian Stoffel**



**(Click The Icons To Connect)**