Udemy Course on Stocks
Value Investing Program

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I. Buffet's five financial ratios to see which companies are the most profitable, hence, best to invest in
   a. Return on Equity
      i. Gives insight on the company's profitability
      ii. Tells you how much profit the company has generated using shareholder's money
      iii. Tells you how good a company is in using its investments to grow earnings
      iv. ROE = Net Income / Total Equity
         1. Net Income is for the full fiscal year
         2. Total Equity does not include preferred shares
         3. A ratio of more than 15% is very promising
   b. Intrinsic Value
      i. Shows the real value of a company or an asset
         1. From both tangible and intangible angles
      ii. Shows if a company falls below or above its market value
      iii. Multiply projected future profits by a margin of safety
         1. Then compares it with a fool-proof reference like the U.S. Treasury bill rate
   c. RE – Retained Earnings
      i. Refers to percentage of Net Earnings not paid out as Dividends
         1. Reinvested in its core business or to pay off debt
         2. Usually a certain percentage the company keeps for itself in order for growth opportunities (buying new machinery, research and development, etc.)
      ii. To calculate
         1. Add the beginning Retained Earnings to the Net Income and subtract any Dividends
      iii. If a company does not utilize its Retained Earnings well, then look for another company that does
   d. Profit Margins
      i. Measures how much out of every dollar of sales a company actually keeps its earnings
      ii. Higher profit margin indicates a more profitable company that has better control over its costs. It also means the higher chance of your investments multiplying
      iii. Profit Margin = Profit / Sales
      iv. Ex: A 20% profit margin means a company has a net income of 20 cents per dollar of sales
   e. Owner's Earnings
      i. Tells how much a profit does the true owner of the company gets
      ii. Factors that determine it
         1. Goodwill, Depreciation, Huge pension returns
      iii. OE = Net Income + Depreciation + Amortization – Capital Expenditure – Additional Working Capital Needs

II. Why companies offer shares
   a. To raise funds so that they can expand and grow the company
   b. To liquidate the company faster
      i. Liquidate def: To convert assets into cash or equivalents by selling them on the open market

III. Price of stock goes higher or lower based on how much demand for a stock is and how much the stock is being sold for

    a. Also due to perceived value of the company by investors
        i. Ex: If the investors feel that the company will expand or succeed due to new product lunch, good business management, or for any other reason, the price of the stock will go up
            1. The opposite of this will make the stock price go down

IV. Never attempt to predict the market
    a. Market is driven by two things
        i. Greed
            1. When there is more of this than fear, the market goes up
        ii. Fear
            1. When there is more of this than greed, the market goes down
    b. It is impossible to predict when it will go up or down
        i. But we can study some fundamentally strong undervalued companies

V. When market is down, take advantage of low quotes on stocks

VI. Never buy based solely on speculation
    a. Find out the true value of a company
    b. Don't treat the stock market like a casino
        i. Do proper research and analysis
    c. Base your decisions on analysis and value and you will, more often than not, come out ahead

VII. Historically, stocks make a bigger return than cash savings, bonds, or savings accounts

VIII. Invest in assets of true value
    a. Stocks, real estate, etc.
    b. Will increase as years go by

IX. Manage debts properly
    a. Any debt that is too high for you, it is bad for you

X. Live within your means
    a. Spend wisely with your wealth for a steady financial future

XI. Document all of your investments
    a. Keep a financial journal that includes all of your investments and their corresponding details

XII. Plan and strategize
    a. Think of new ways to save money and then develop a budget that will help you manage your expenses

XIII. Broaden your investments
    a. Meaning diversify (stocks, start a business, real estate, etc.)
    b. But just make sure it is something you love to do, this will make it easier to succeed

XIV. Use less credit
    a. Meaning don't buy things through credit card as a habit because it will drown you into debt
        i. Especially buying things you cannot afford
    b. General rule: If you can't afford it, then don't buy it

XV. Having 3 years of savings to pay for your current lifestyle is *enough*

XVI. The stock market is controlled by people and, as a result, emotions
    a. On the slightest news of a sales decline or the first glimmer of hope in a clinical trial for a new drug, a company's stock can plummet or skyrocket far beyond the ranges of reason and logic

XVII. The secret to wealth has always been to "buy when there's blood running in the street and sell when everyone is pounding at your door, clawing to own your equities."
    a. You must have enough faith in yourself to buy when the rest of the market is selling. Most people don't have the self-confidence and resolve to do so, and always end up following the crowd

XVIII. Phrase ***blue chip*** comes from poker where the highest and most valuable playing chip is blue

    a. If you choose them wisely, and hold them for decades, they can shower your family in ever-increasing streams of dividends
    b. Characteristics of such stock
        i. An established record of stable earning power over several decades
        ii. An equally long record of uninterrupted dividend payments to common stock holders
        iii. A history of regular increases in the dividends payable to each share
        iv. Strong balance sheets with a moderate debt burden
        v. High credit ratings in the bond and commercial paper markets
        vi. Large size relative to American businesses as a whole in terms of revenue and market capitalization
        vii. Diversified product lines (e.g., General Electric) and / or geographic location (e.g., Coca-Cola).
        viii. A competitive advantage in the market place due to cost efficiency, franchise value or distribution control
    c. The moderate debt levels and excellent credit ratings allow them to borrow money at a lower cost than their competitors
    d. Excellent market place reputation also results in higher sales; a consumer is more likely to purchase a brand with which he is familiar despite a slightly higher price tag
    e. Perhaps the most famous list of blue chip companies in the world is the **Dow Jones Industrial Average (DJIA)**
        i. An index of thirty, blue chip stocks that are traded in the United States. It is believed that by looking at the companies on the list, a person can get a general picture of how the market as a whole is performing. The Dow is perhaps the most quoted and followed index in the world, and dates back to May 26, 1896
            1. This collection of thirty stocks is selected by the editors of The Wall Street Journal. The only requirement for inclusion in the index is industrial leadership
        ii. The individual companies that make up the index rarely change
    f. There are times you might consider selling a blue chip stock, but the list of such situations is fairly short. Parting with a good holding should be like selling the family farm - you don't do it lightly, you think about it a long time before you make the decision, and you are absolutely certain you no longer want it in your life

XIX. Compounding (generating earnings from previous earnings) depends on three important factors [applicable to mutual funds and such]
    a. How much you invest and how regularly
        i. Larger amount you invest initially, the better
        ii. The more you invest regularly, the better
    b. Your growth rate
        i. The larger the growth rate of the investment, the better result you will have
    c. How long you let your money grow
        i. The longer you leave it in, the better

XX. Definition of **Compounding**
    a. The ability of an asset to generate earnings, which are then reinvested in order to generate their own earnings. In other words, compounding refers to generating earnings from previous earnings
    b. Ex: Suppose you invest $10,000 into Cory's Tequila Company (ticker: CTC). The first year, the shares rises 20%. Your investment is now worth $12,000. Based on good performance, you hold the stock. In Year 2, the shares appreciate another 20%. Therefore, your $12,000 grows to $14,400. Rather than your shares appreciating an additional $2,000 (20%) like they did in the first year, they appreciate an additional $400, because the $2,000 you gained in the first year

grew by 20% too. If you extrapolate the process out, the numbers can start to get very big as your previous earnings start to provide returns. In fact, $10,000 invested at 20% annually for 25 years would grow to nearly $1,000,000 (and that's without adding any money to the investment)!

XXI. Understand the business behind the stock
 a. This will give you better idea of what risk the business carries
 b. Also will let you know if the current down price is temporary or not

XXII. Stop looking at stock prices
 a. Spend more time on research
 b. Monitor it only once a month or quarterly but not every day

XXIII. Ignore the market ‘experts’
 a. Most of the time they are inaccurate

XXIV. Understanding your investment style
 a. Understand your goals
  i. How much you want to grow and achieve over a specific period of time
   1. Can be 5, 15, 20, etc. years
 b. Know your risk tolerance level
  i. How much can you actually put aside for investing without effecting or altering your lifestyle
 c. If you can afford higher risk investments, then you have an advantage over others that cannot
  i. You have more potential for a higher capital appreciation
 d. An adverse investor could invest in lower risk investments (REITs, etc.) and collect dividends

XXV. Advantages of long term investing
 a. The longer you hold, the more you are allowing your money to compound and hold
 b. It is less risky than short term investments
 c. You don’t need to monitor the screen for prices frequently
  i. You can check in on it once a year

XXVI. Warren Buffett likes to invest in companies whose profiles are easy to understand or small companies that have smooth and simple business portfolios
 a. Do NOT invest in companies that you are not comfortable with or those that are beyond your understanding [with regard to their portfolios]
 b. Invest in companies that have a clear goad and who are easy to understand
  i. Understand their business model

XXVII. How to pick and buy right stocks
 a. Buy low, sell high
  i. Buy during market crashes, corrections, market downturns, etc.
  ii. Don’t invest in stocks when they are trading in their peaks
 b. Buy when the management is buying
  i. If the company’s management starts to buy stocks, then it’s probably because they feel it is undervalued
 c. Buy when the news flow is bad about a particular company
  i. People might freak and start selling its stocks
  ii. Research and see if the management is sound
   1. It may be that it is a temporary hurdle, and they bounce back. Hence, it is a good time to buy their stocks

XXVIII. Learn how to analyze a stock before investing in them

XXIX. Choose companies that will be running 10 years from now and are strong as a bull

XXX. Three indicators that tell if a company has ability to generate revenue
 a. Company Earnings Growth
  i. By looking at ROE

1. It should be increasing at a larger rate than shareholder's equity

b. Dealing with inflation
    i. A steady increase in ROE determines a good quality management and the firm's ability to beat market fluctuations in inflation and commodity prices

c. Owner's Earnings
    i. Real income of the company according to Buffett

XXXI. How to determine if a business is truly an excellent one

a. Long Term Debt Strategy
    i. Does it have one?
    ii. Debt is an unreliable source of cash
    iii. High current asset to current liability ratio is preferable according to Buffet
    iv. Companies with high cash balance may have a bad cash management strategy
        1. Because cash should be reinvested to grow the company

b. Is the company soundly managed? Do following three tests
    i. Share Buybacks
        1. Best for companies to distribute cash back to its shareholders
        2. Companies should not execute share buybacks just to boost its share price or to stop a fall in the share price
    ii. Retained Earnings Usage
        1. Retained Net Income can be used in two ways
            a. Dividend giving
            b. Reinvest into the company for future growth
                i. Sign of a good company
        2. Company must be capable of offering revenue growth to its shareholders
    iii. Sticking to what you know
        1. The company should be developing and doing whatever it was set up to do rather than risking investors' money into other sectors

c. Good understanding of Company Business Model
    i. Don't buy stocks from a company you don't understand how it operates

d. Margin of Safety
    i. Does the investment offer a reasonable price with a good safety margin?
    ii. P/E ratio, Earnings, Dividend Yields, Book value, comparative rates of return, etc. are some things to consider to learn of the share's intrinsic price

XXXII. Economic Moat

a. The competitive advantage the company possesses. Creates a ring of protection for the business against competitors.
    i. Determine this through the following
        1. Identifiable Brand
        2. Intangible Assets
            a. Patents, brand recognition, government licenses, etc.
        3. Long term profitability
            a. Company generates long term profits and withstand market competition
            b. Will it still be giving away dividends 20 years later?
        4. High switching costs
            a. It is too much hassle and trouble to switch to another system or way for the customer so he sticks to the original company
                i. Ex: A PC user refusing to go to Apple

                b. Usually happens when a company has established itself strongly within an industry
        5. Huge capital requirement
                a. Usually businesses that require huge capital requirements have natural economic moats
                        i. Ex: Telecom companies
        6. Low cost producer
                a. Offering a similar product at a lower price can be an advantage

XXXIII. How to choose the best stocks
- a. Competitive advantage
    - i. It sets them apart from others
    - ii. Also protects them from their competitors
- b. Good returns without any debts
    - i. Invest in companies that generate high revenue and profits with a low level of debt
    - ii. A high debt business is risky
- c. Scalability
    - i. A company that can maintain or improve profit margins as their sales volume increases
- d. Never based on price
    - i. Don't invest in a business based on high price alone
        - 1. It is not always an indication of a successful business
    - ii. You can actually invest with less capital with huge returns if you do it properly

XXXIV. The Right Management Team
- a. Invest in companies that you
    - i. Understand
    - ii. Has an able and honest management. You can determine this by
        - 1. Management has a substantial stake in the company
            - a. The management will not risk its own interests by investing so heavily in its own company
            - b. Shows that their goals are aligned with that of the shareholders
        - 2. They are candid in admitting their mistakes
        - 3. They think and invest like a real owner
            - a. Invest in projects and work that create value for shareholders in the long run
        - 4. Consistent in their plans and results
            - a. Should be implemented and not remain on paper
                - i. Those that implement its plans with success are the best
    - iii. A reasonable offer price
- b. Can also look at
    - i. Multi-year astronomical earnings growth track record
    - ii. Higher than expected dividend payouts
- c. You can also attend the Annual General Meeting (AGM)
    - i. Opportunity to question the board & management
    - ii. Study annual report
    - iii. Look at company's historical track records
    - iv. Document important things you've learned

XXXV. The Right Numbers
- a. Three important documents for investors to review
    - i. Balance Sheet

1. Quantitative summary that shows a company's financial position at a given point in time
2. Includes assets, liabilities, net worth
3. Most important thing to look at is its liquidity
    a. Safer to invest in liquid assets
        i. It is easier to get one's money out of investment in this way
4. Liquidity reflects the degree to which the company can repay its short term debts and obligations on time
    a. Liquidity is often reflected by the company's current ratio and cash ratio
        i. If not avail, then do a simple comparison of a company's cash, current assets, and current liabilities
    b. If liquidity low, then think twice about keeping your investment
5. Look also for debt to income ratio and debt to equity ratio
    a. Will vary based on industry model

ii. Income Statement
1. Shows how a company generates its revenues and expenses and how these lead to the company's net income
2. Pay attention to the company's revenues and profits
    a. If profits go up, check whether its due to the company's revenue or because of cost-cutting
        i. Increase in revenue is more favorable and is a sign of healthy growth
    b. If revenues and profits decrease, look for signs to see if it is temporary or permanent
3. Measures the company's financial performance

iii. Cashflow statement
1. Tracks movement of cash inflows and outflows
    a. Through operations, investments, and financing
2. Measures ability of a company to generate cash through various activities
3. Cashflows is not equal to profit
    a. The management must convert profits to cash as soon as possible due to time value of money
    b. Check if company's profitability is high and check it against the cash flow from operations

b. Intrinsic Value
    i. Def: total worth of the stock minus all the deductions
    ii. True value of the business you would like to purchase
    iii. More important than focusing on face value
        1. Look into a company's credibility, past records, etc. and not just the face value, gossip, or speculation
            a. Go through their numbers
            b. Can it sustain itself for the next 10 years?
            c. Can it give its stock holders their annual dividends?

XXXVI. Portfolio Management

a. When to sell a stock
    i. Under three scenarios
        1. When the stocks are overvalued because it will eventually go down
            a. It exceeds its intrinsic value
            b. When the stock becomes undervalued again, then you can buy again

        2. When fundamentals of the company deteriorate
            a. It is a sign that the business may not last and the stock will come crashing down
            b. Can happen when a competitor exceeds is it
        3. When the management is not aligned with the shareholders
            a. When they start to put their interests in front of the shareholders

b. Red flags before investing
    i. A sudden increase in accounts receivable in relation to revenue increase
    ii. An increase in inventory when the revenue decreases
    iii. A sudden increase in accounting policy when the company's performance is poor

c. Stock buybacks
    i. Def: a company buying back its shares from the open market
        1. Company investing in its own shares
        2. Good decision when the stock in really undervalued and there are no alternative investment options available to management
    ii. Advantages
        1. Reduces outstanding shares of the company
            a. Means higher earnings per share (EPS) because distributed among fewer shareholders
        2. Investor saves capital gains stock with stock buybacks
        3. Boosts the value of each remaining share

d. Big or small cap stocks?
    i. Usually always better to invest in small cap stocks
        1. Def: Refers to stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization of between $300 million and $2 billion
    ii. Small caps are better because
        1. Small caps outperform the big caps in the long run
        2. It is easier for a company to grow in million rather than in billions
        3. They are cheaper
            a. You can invest in more stocks for less

e. Tips to pick good dividend giving stocks
    i. Look for companies with a strong financial statement
        1. Strong return year after year
            a. Shows it is stable
        2. Look for companies with low debt and high cash and REO of 10% or more and strong cash flows
    ii. Reflects at least 4% return based on current stock price
        1. Check previous years to see if the company's dividend yield has been consistent
    iii. Find out company's dividend payout ratio
        1. It should be consistent
        2. Meaning the company should be giving dividends on a consistent basis
            a. Usually true for blue chip companies
        3. Look at the last 3-5 years