**MODULE 29G: STRATEGIC INVESTING ASSIGNMENT**

**NAME \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ DATE \_\_\_\_\_\_\_\_\_\_\_**

**Great chess players don't sit at a board and just play.**

Masters of the game have a very **concrete** plan of how they **intend to play**. They bring a **framework for decision-making**that can adapt to whatever their opponents throw at them.

Investing is no different: you need a plan to guide your investment decisions

INVESTMENT STRATEGY GUIDES DECISION MAKING IN 2 WAYS

**An investment strategy will help you:**

* Decide what stocks to buy and when to buy them.
* Discard many potential investments that may perform poorly over time.

It's like having an instruction booklet guiding you through the investing process.

There are many different strategies out there and we’ll get to all of them. The key is picking one that works for you and sticking to it.

**Value Investing**

Don’t know about you, but we enjoy saving money when we buy things. There’s an investment strategy that employs this same bargain-hunting mindset to the stock market.

It’s called *value investing*.

Value investors look to buy **undervalued** companies; companies whose stock prices are cheap relative to what they are actually worth.

Easier said than done, though. Value investing requires a lot of homework and discipline but those who put in the time can reap HUGE rewards.

**LEARN FROM BUFFETT**

Value investing, made popular by billionaire investor Warren Buffett and his teacher, Benjamin Graham, attempts to **buy a dollar’s worth of stock for fifty cents**.

And value investing has worked well for Buffett -- this strategy helped him return on average 20% per year for the past 30 years.

So, how does one identify a stock that’s on sale - a value stock?

Thankfully for us, Warren Buffett likes to share his techniques. He’s done so year in and year out since 1977 via letters to his investors in Berkshire Hathaway (BRKA). <https://www.berkshirehathaway.com/letters/letters.html>

These letters are an investment goldmine because he shares his own reasons for investing in large, old-school but insanely profitable firms like Coca-Cola (KO), Procter and Gamble (PG), and Wal-Mart (WMT).

**4 STEP LIST TO INVEST IN VALUE LIKE BUFFETT**

* **Look for simple companies:** Mr. Buffett (we’re not on a first name basis, yet) missed the tech boom and subsequent bust because he doesn’t invest in companies he doesn’t understand (and he doesn't get tech). If you can’t explain the business to your 10-year-old kid’s friends, then Buffett wouldn’t touch it. Buffett’s largest holdings have typically been in large companies that sell everyday stuff (think Coca-Cola and Wal-Mart).
* **With strong brand image:** In [**Buffettology: The Previously Unexplained Techniques That Have Made Warren Buffett The Worlds**](http://www.amazon.com/gp/product/068484821X/ref%3Das_li_qf_sp_asin_tl?ie=UTF8&camp=1789&creative=9325&creativeASIN=068484821X&linkCode=as2&tag=wallstresur0b-20), Buffett’s former daughter-in-law describes his idea investment as a “consumer monopoly”. This doesn’t necessarily mean that the company has a stranglehold on the entire market (though, that’d be pretty awesome). What Buffett looks for in stocks are firms that essentially hold on to their customers with a really sticky brand loyalty. Think about people who are crazy about Apple’s (AAPL) electronic products. They line up for hours in the rain and snow to buy anything new the company releases.
* **Next, focus on earnings:** Buffett looks for stable companies that earn a lot of cash. He’s not interested in what future potential the firm has (like a growth investor would, but we’ll talk about that later). He wants to see cold, hard, consistent financial performance out of a firm.
* **Demand good management:** Buffett looks for firms with strong management. Luckily, there are financial metrics to judge how well a company’s management is performing. One way that Buffett judges a management’s performance is by looking at the stock’s Return on Total Capital (ROTC). This ratio shows how profitable a firm is for investors who contribute capital (like Buffett). Basically, it gives you an idea on how well the company is using the money you’ve invested to create profit. The greater the ROTC, the better the management is doing. Buffett looks for firms with ROTC over 12-15%.

**We will go more into depth about Value Investing in a later mission. But first, let’s practice some of these strategies that Buffett employs…**

Did you know Buffett still lives in the 5 bedroom house he bought in 1956. Talk about discipline!

## Buying Simple Companies

### BUILDING YOUR VALUE PORTFOLIO LIKE WARREN BUFFET

Armed with $10,000 in virtual cash, and (at least) a basic understanding of value investing, we are now ready to start buying stocks to build our value portfolio.

As we’ve discussed, Warren Buffett and Benjamin Graham are the fathers of value investing. So let’s start building our portfolio according to their principals

### TASK: LOOK FOR 10 SIMPLE COMPANIES:

For our first purchase, let’s take Buffett’s first principle: invest in simple companies. Look to buy companies with business models (how they make their money) that you understand. Notice long lines at your neighborhood Apple Store? That’s a good sign. Are your flights on American Airlines overbooked? That’s another.

Starting to get the picture?

Here’s another rule of thumb: It’s a really good sign if value investors can explain a company to a 10-year-old. 10-year-olds understand iPhones, Big Macs and Air Jordans. Semi-conductors...probably not.

Peter Lynch, one of the world’s greatest investors, puts it a different way:

*“Go for a business that any idiot can run – because sooner or later, any idiot probably is going to run it.”*

*Oh, Peter you devil!*

*So now it’s your turn. Click below and choose a stock you really get…*

Now that you’ve taken the first step in implementing a Value Investing strategy, you are well on your way to being the next Warren Buffett! But your work does not stop here. Make sure to stay up to date on your stock’s performance as well as news about the company. Also, remember: the key to any strategy is consistency. So keep your strategy in mind when making any changes to your portfolio.

|  |  |  |
| --- | --- | --- |
| STOCK | AVERAGE PERFORMANCE (10 YEARS+) | STOCK PRICE (DATE:  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |