

# The Little Guide To Investing

4-Steps To Financial Freedom,  
Wealth & Investment Success

DANIAL JIWANI

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# What's Coming Up

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*The best book on investing  
since "The Intelligent Investor."*

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## How You'll Get Rich

When I started investing, I felt lost.

The thing is, it's hard to know what stock to buy.

And it's hard to know when to buy it.

Hundreds of people were giving advice about how to pick stocks, but I still didn't feel confident in *my ability* to pick. Even worse, despite all these voices out there, I didn't have someone I trusted to guide me.

Fake investment gurus were everywhere online. Who could I really trust?

One day, a wild idea hit me: What if I could have Warren Buffett become my mentor (metaphorically)? After all, he was one of the most trustworthy voices in the history of investing. I decided to study everything he'd ever said, learn his thought process behind investment decisions, and get to know his investment style as well as anyone ever had.

After taking Warren Buffett as my "mentor," I had unbelievable success in the stock market. I invested in Apple at \$38 per share, which went on to become worth more than \$250 per share in the following years. I purchased Facebook at \$138 per share, which went on to be worth more than \$600 per share.

But that's not all.

About four years ago, I published a book called *Buffett's 2-Step Stock Market Strategy*.

To my surprise, readers loved it, and the book exploded.

## The Little Guide To Investing

For several years, it was listed as one of the highest-selling books about how to invest in value stocks, according to Amazon rankings. Reader after reader chimed in about how much the book had *helped* them. In trying to fill the gap in what I hadn't been able to find when I started investing, I'd ended up helping tens of thousands of readers all over the world.

Other readers sent emails asking when my next book would be available.

That made me realize my work wasn't done.

My next book was *Outlier Investors: What Successful Investors Do (That Everyone Else Doesn't)*. It became a #1 Amazon bestseller. For a while it was outselling Peter Lynch's seminal book on investing, *One Up On Wall Street*. It was even read by billionaire investors, including Howard Marks and Bill Ackman.

With two books done, I imagined Warren Buffet, my old virtual mentor, giving me a solid pat on the back.

Still, I had this nagging feeling that I'd left something on the table.

*Outlier Investors* wasn't written for the average, everyday individual (hence the billionaire readers). There was still a need to write a book for retail investors out there.

In fact, there was a big need . . .

### The Big Need

When I was 16 years old, I purchased my first book about investing. It was *The Intelligent Investor* by Benjamin Graham. For decades, it's been the leading book on investing, so I expected to walk away from that book as a master investor.

But that didn't happen. The book felt too confusing with too much terminology. It didn't seem applicable in today's markets because the book was so old.

There needs to be a new classic on investing, I thought.

Fast forward a couple years.

## How You'll Get Rich

Meet *The Little Guide to Investing*, the book I knew that I needed to write for my 16-year-old self and for retail investors across the world. It's a book that I believe can follow in Graham's footsteps and become the next classic on investing.

I hope it exceeds your expectations.

Each chapter of this book is based on how insanely successful investors have approached the markets, including people like Warren Buffett, Peter Lynch, Nick Sleep, Carl Icahn, Bill Ackman, Howard Marks, Terry Smith, and many others. Every single principle within this book is practiced by at least one of these investors.

Together, the principles in this book have continually led to wild levels of market success. Together, they form the Roadmap To Stock Market Millionaire Strategy, which states: If you buy the right company . . . at the right price . . . maximize upside potential . . . and manage risk, you'll get rich in the stock market.

Here's a quick preview of the lessons we'll cover in the following chapters. When taken as a whole, you'll know exactly what stock to buy and when.

- In **“The Roadmap To Stock Market Millionaire Strategy,”** we'll unpack a strategy for building wealth in the markets.
- In **“How to Find the Perfect Stock in 15 Minutes,”** we'll look at how Warren Buffett decided that Larson-Jhul was a company worth investing in with only 15 minutes of research.
- In **“You Can't Outperform Without Being in the Right Industry,”** we'll discover how any investor could have outperformed the S&P 500 by merely picking the

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right industry.

- In **“Never Buy a Stock Because Its Price Will Go Up,”** we’ll see how Seth Klarman earned 20% returns per year by using two financial metrics to conclude if a stock was undervalued.
- In **“Buy Good Companies That Nobody Wants,”** we’ll look at an investment principle that has churned out many self-made millionaires.
- In **“Why You Should Pay a Premium for Stocks,”** we’ll cover how Terry Smith earned more than 15% returns per year by going against the conventional wisdom of “buying stocks at a low price.”
- In **“Don’t Read Financial Statements (The Way You Do),”** we’ll look at the real reason successful investor like billionaire Orlando Bravo read financial statements. Hint: it’s not for the numbers.
- In **“How to Increase Your Upside and Reduce Your Downside,”** we’ll learn how to look for “growth stocks that have already won.”
- In **“How Anyone Can Pick 10-Baggers,”** we’ll explore how Peter Lynch picked more than a dozen stocks that grew more than 10-fold times during his career at Fidelity. You can, too!
- In **“How to Think About Risk,”** we’ll cover the several principles behind Warren Buffett’s risk management philosophy, including why he says that he’s “willing to accept huge risks” despite being known

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as a conservative investor.

- In **“Never Sell a Stock for a Profit,”** we’ll see how a woman in the 1930s turned her \$300,000 life savings into more than \$1.5 million (or \$15 million in today’s money) by never selling a stock for a profit.
- In **“When to Pass Along an Interesting Investment Opportunity,”** we’ll look at how Nick Sleep earned 20% returns per year for 13 consecutive years by *passing on* more than 99% of interesting investment opportunities.
- In **“Why Good Investors Lose Money,”** we’ll learn how Bill Ackman lost billions of dollars and got removed from the Forbes 400 richest people because he ignored the importance of sticking to his principles.

Before we get started, I want to thank you for reading my book. It’s an honor to teach you how to invest in the stock market. If you’d like to reach out to me personally, my email address is as follows: [daniel.jiwani@danieljiwani.com](mailto:daniel.jiwani@danieljiwani.com).

Best of luck to you,

Danial Jiwani



# Pieces of Businesses

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*You can become a co-owner of  
any public company. Just buy  
some stock!*

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## **The Roadmap To Stock Market Millionaire Strategy**

If someone knocked on your door today and asked you, “would you want to buy my family business from me?” how would you approach that decision?

Well, first you’d want to make sure that it was a good business. Then you might want to know if they were selling the business to you at a fair price. You would also probably care about the risk-reward trade off of buying the business.

Sounds logical, right?

That’s because it is.

We can use the same approach we can use to invest in stocks. (After all, stocks are just pieces of businesses). Thus, the Roadmap To Stock Market Millionaire system has four steps to figure out if a company is worth investing in:

1. Find the right company to invest in.
2. Decide if it trades at the right price.
3. Maximize upside potential.
4. Manage risk.

If you buy the right company . . . at the right price . . . maximize upside potential . . . and manage risk, you’ll get rich in the stock market.

Let’s take a look at each of these steps in more detail.

## 1. The Right Company

In 2016, a business professor at Arizona State University published a research paper with a bold question: “Do stocks outperform Treasury bills?”

The idea sounded absurd to everyone. “Of course stocks outperform Treasury bills!” The notion of it being a question at all was so asinine that *The New York Times* ran an article about his research paper.

But it wasn’t as absurd a question to ask as you might think.

People *say* that “stocks” generally *go up* over the long term.

That isn’t exactly true.

Consider that more than half of companies in the S&P 500 have delivered negative returns within the past 100 years . . .

. . . or that nearly three quarters of stocks underperformed the S&P 500 between 1997-2017.

. . . or that 58% of stocks underperformed three-month Treasury bills between 1926–2016.

You might be wondering, “What the heck? How can so many companies underperform the market? How can the overall market go up, but almost all the companies in the market go down?”

It turns out that returns are skewed. In other words, a small minority of stocks perform exceptionally well and drive the majority of overall stock market returns.

A striking example of this is that only five stocks (Apple, Exxon Mobil, Microsoft, General Electric, and IBM) accounted for 10% of all the wealth created by the entire stock market from 1926–2016. Similarly, only 4% of stocks accounted for all the wealth created by the entire stock market over the same period.

There are two important implications.

First, **you have to start assuming that each company within the S&P 500 is a bad investment—rather than a good**

## The Roadmap To Stock Market Millionaire Strategy

**one.** Most people assume that *most* companies in the S&P 500 will perform well over the long term. Hey, these are some of the strongest companies in America! Why wouldn't most of them do well over the long term? But the truth is that less than 5% of those companies will earn strong returns over the long term.

Second, you have to be picky as a small minority of stocks drive a majority of returns. **You must only invest in the top 2-4% of companies that you research if you want to get into the small minority of stocks that outperform.** Never pull the trigger on an investment unless you are certain it's among the top 2-4% of companies in the market.

In the first section of this book ("If You Buy the Right Company?"), we'll discuss how to find a company that's in the top 2-4% of the overall market.

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*Five stocks (Apple, Exxon Mobil, Microsoft, General Electric, IBM) accounted for 10% of all the wealth created in the past century*

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## 2. The Right Price

Imagine your friend runs an automotive dealership. He is trying to sell his company for \$1 million so that he can work on other projects. You look at the financial statements of the dealership, and you notice something interesting. For the past five years, it's constantly earned \$500,000 in profits.

Should you buy the company for \$1 million?

Heck, yeah!

You'll earn a 50% return on investment every single year! You are paying \$1 million up front and getting back \$500,000 every

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single year! That's 50% per year—much higher than the S&P 500's 8-12% returns per year.

Notice how you made that decision.

It was based on *profits*.

Since you expected the business to make lots of profit relative to its purchase price, you concluded that it was a good idea to buy.

That's how you make every financial decision.

When someone buys a rental property, real estate investors ask themselves, "How much does it cost to buy this property? How much rental income will this property help me earn?"

When a student pursues a degree, they ask themselves, "How much is tuition? How much additional income will this degree help me earn?"

When an entrepreneur starts a business, they ask themselves, "how much money does it cost to start the business? how much profit can I make from this business?"

You want to follow that same approach in the stock market. Ask yourself, "how much does it cost to invest in this company? How much profit will this business make?"

But people rarely make investment decisions like that in the stock market.

Do you?

Chances are you don't.

In the second section of this book ("At The Right Price"), we'll discuss how to know when it's the right time to buy a stock based on two variables: (1) how much it costs to invest in the company and (2) how much profit it earns.

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*Investing is about accumulating assets that  
produce cash flow*

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### 3. Maximizing Upside Potential

Back in the early 1900s, there was a retiree by the name of Mr. Garrett. He was perhaps someone who was considered unqualified to manage his own money. As the former VP of Public Relations at General Motors and a former editor for the *New York Post*, he didn't come from a background related to finance or investments.

But he had a unique strategy.

Unlike the typical individual who aimed to outperform the market by 1-2% per year, he aimed to crush the overall market and build massive wealth in it. In the following years, he found two companies he believed had the potential to deliver massive returns: Haloid and Teleprompter. He bought 133,000 shares of Haloid at \$1 per share and 50,800 shares of Teleprompter at \$0.75 per share.

Both investments turned out very well. Teleprompter went on to grow over 30 times, and Haloid eventually became a company called Xerox. The success of both investments (and others as well) pushed his net worth to just over \$63 million in today's money.

You can become really rich in the stock market.

Like, you can become a multi-millionaire if you have particularly good stock picks.

Not many people realize that.

People think that the best they can achieve is outperforming the market by 1-2%.

But the truth is that you can become a multi-millionaire if you play your cards right.

Warren Buffett was once a regular person like yourself, but he became a billionaire by investing in stocks.

Bill Ackman was once a regular person like yourself, but he became a billionaire by investing in stocks.

Charlie Munger was once a regular person like yourself, but he became a billionaire by investing in stocks.

Why can't you get rich as well? **Don't make it your goal to outperform the market by 1-2%. Make it your goal to build a seven-, eight-, or nine-figure net worth through the stock market.**

In the third section of this book ("Maximize Upside Potential"), we'll discuss how to find a stock with lots of upside potential to get ultra-wealthy in the markets.

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*Warren Buffett became a billionaire through the stock market. Why can't you?*

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#### 4. Manage Risk

There are two ways to make money in the stock market:

1. Pick winning companies.
2. Avoid loser companies.

You would expect each of those to be equally important. But that isn't the case. To beat the market, it's more important to avoid losers than to pick winners . . .

In the mid-1980s, Howard Marks joined TCW Group. He was in charge of running the firm's distressed debt fund. It was one of the first distressed debt funds from any major financial institution at the time.

Just one issue.

It's hard to pick which distressed companies to invest in. After all, it's not easy to predict the near-bankrupt ones that will recover.

But Marks had an interesting strategy: don't try to predict which distressed companies will succeed—just avoid investing in

## The Roadmap To Stock Market Millionaire Strategy

the ones that will fail. In other words, prioritize avoiding losers over picking winners.

His strategy performed so well that the firm promoted him to Chief Investment Officer. He later went on to become one of the best distressed debt investors in the world.

All that success came from avoiding losers, rather than trying to predict winners.

Have you ever heard of the concepts known as “a winner’s game” and “a loser’s game”?

A winner’s game is when someone wins from “hitting winners.” For example, in a tennis match between two expert tennis players, the player who places the best shots that the opponent can’t return will win.

A loser’s game is when someone wins by avoiding losers. A tennis match between two amateurs is an example. The amateur who wins isn’t the one who places the best shots. It’s the one who avoids screwing up and just gets the ball back over the net.

It turns out that the investing is actually a loser’s game rather than a winner’s game. **The way you make money isn’t by finding the next hot stock. It’s by avoiding the duds.**

In the fourth section of this book (“While Managing Risk”), we’ll discuss how you can manage risk by avoiding losers.

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***You don’t make money by hitting winners.  
You do so by avoiding losers.***

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There you have it: the basics of the Roadmap To Stock Market Millionaire strategy.

If you buy the right company . . . at the right price . . . maximize upside potential . . . and manage risk, you’ll get rich in the stock market.

## The Little Guide To Investing

Let's start unpacking each step in real depth. In other words, let's take the first step toward learning to use the stock market to build real wealth.

I want you to be ready when the next company knocks at your door.

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### The Roadmap To Stock Market Millionaire Strategy

*If you buy the right company . . . at the right price . . . maximize your upside . . . and manage risk, you'll get rich in the stock market.*

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<b>Mindset shift #</b>	<b>Old Worldview</b>
1.	Stocks are things you trade to make extra money
2.	Most stocks go up
3.	Invest in good companies
4.	Buy stocks because the price will go up
5.	Aim to outperform the market
6.	Pick winning stocks

<b>Mindset shift #</b>	<b>New Worldview</b>
1.	Stocks are businesses—just little pieces of them
2.	A handful of stocks drive most of the market's returns
3.	Invest in the top 2% of companies
4.	Buy stocks for cash flow
5.	Aim to build generational wealth
6.	Avoid picking losers



**IF YOU BUY THE RIGHT  
COMPANY . . .**



## Principle #1

# Buy Companies That Thrive No Matter What

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*It's hard to lose money in a  
company that no one can compete  
against.*

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## How to Find the Perfect Stock in 15 Minutes

In 2001, Warren Buffett was researching Larson-Jhul, a custom picture frame company. He had never heard of the company before. But within 15 minutes, he'd decided to invest in it. That's right. He spent only 15 minutes researching the company before deciding to invest in it.

You might be wondering, "how can it only take 15 minutes of research for Warren Buffett to make an investment decision?"

Well, he follows one fast and simple strategy described in this chapter: invest in companies so good that no one else can compete against them.

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In the early 2000s, Warren Buffett didn't want to invest in a single tech stock. He didn't invest in Yahoo. He didn't invest in Pets.com. He didn't invest in ebay.com. And he ignored many other tech companies as well. He just said that he "didn't understand" those kinds of businesses.

To a certain extent, that decision made sense.

At the time, tech stocks were going bankrupt left and right. Myspace lost to Facebook. Yahoo lost to Google. Nokia lost to Apple. When researching the next technology company, Buffett wondered, "what if [insert tech company name] becomes the

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next Yahoo? What if a new company enters the industry and overthrows it?”

This was the heyday of the dotcom bubble. So it was probably a good thing he steered clear of tech. That simple decision—saying no to every single tech stock he saw—saved him billions of dollars and made him look like a genius on Wall Street.

But then something surprising happened.

In 2016, Warren Buffett started building a \$30 billion position in Apple.

Everyone was shocked.

“Why invest in a technology company?” they asked. Thousands of articles were published with titles along the lines of “Warren Buffett Used to Avoid Tech Stocks. Now He Loves Them. What’s changed?”

In a CNBC interview, Buffett provided answers to the public. Apple, he said, was different than other tech companies. Its customers were “very, very, very locked in, at least psychologically and mentally” to the “product ecosystem,” Buffett said. Put another way, no one could compete against it.

That was a characteristic that other tech companies didn’t have.

Not Yahoo.

Not Nokia.

Not Pets.com.

Apple’s ecosystem was so good that no one could really compete against it.

In the end, Buffett’s investment in Apple soared more than 500%, making it one of the “best investment decisions he ever made,” according to the *Wall Street Journal*.

Warren Buffett didn’t feel comfortable owning any technology because they were easy to compete against. But as soon as he found one technology company that couldn’t be competed with—Apple—he pulled the trigger. The lesson? **The best investors like Warren Buffett only invest in companies that are so good that the competition can’t displace them.**

### Why Big Companies Aren't Safe Companies

In 1994, Jim Collins wrote a book called *Built to Last*. It had a list of 18 companies that he believed would stand the test of time.

Those 18 companies were the Amazons and Apples of the 1990s. They were the best of the best companies within the major index funds. Everyone expected these companies to perform well.

But here's the interesting thing.

Half of his 18 companies performed terribly:

1. 3M – Has lagged the S&P 500 by more than 600% between the time Collin's book was published and now.
2. Citicorp – Has been the second-worst performing stock in the S&P 500 Index over the past 25 years as of April [2023],” according to Investopedia.
3. Ford – Hasn't gone up one penny in the 30 years since *Built To Last* came out.
4. General Electric – Produced virtually no share gains between 1994 and 2018 due to internal company struggles.
5. Hewlett-Packard – Has underperformed the S&P 500 by about 400% from 1994 to 2024 .
6. IBM – Has underperformed the S&P 500 by about 600% from 1990 to 2024.
7. Motorola – Was *down* 20 years after *Built To Last* was published, where the market was *up* several hundred percent.
8. Nordstrom – Fell 70% over the past 9 years.
9. Sony – Has earned only 4% returns since 1994, massively underperforming the broader market.

These were the “Amazons and Apples of the 90s.” But none of these companies are successful today.

This illustrates an important truth about the business world.

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Even the very best fall. If history repeats itself, many companies that are market leaders today won't be market leaders tomorrow. That could include companies like Amazon and Google.

Have you ever thought about that?

Most people think that big companies are safe companies.

They assume that Apple is a safe company because it's a leading phone company.

They assume that Walgreens is a safe company because it's a pharmacy chain.

They assume that Netflix is a safe company because it's a streaming service.

But the truth is that history tells us that big companies aren't safe investments.

Let me share two personal examples.

Back in 2016, General Electric was known as one of America's great companies. Run for many years by the legendary Jack Welch, it was one of the leading manufacturers across the United States.

I didn't think anything could go wrong with the company. Every house I went in to was filled with their appliances. It felt like they'd practically *invented* electricity. "It's General Electric!" I thought. "What the heck could possibly go wrong with General Electric?"

Fast forward a few years. The company is struggling with a restructuring effort, and its stock price is down more than 70%. Even worse, it was dropped out the S&P 500 due to the decline in its market capitalization.

It seemed like a perfect investment. It was "the Amazon of the manufacturing" industry.

But it turned out to be a horrible investment opportunity.

During the bottom of the Covid-19 pandemic, Walgreens seemed like a good investment opportunity. Its stock was at a five-year low price, making it seem like a cheap opportunity. In

## How To Find The Perfect Stock In 15 Minutes

addition, it was a market leader in the pharmacy industry. If anything, it was the “Coca-Cola of the pharmacy industry.”

“What could go wrong?” I again thought.

Fast forward to today. The stock has fallen more than 75% from its Covid-19 lows as the company faces internal restructuring challenges. Apparently, things can get worse *after* a pandemic.

Both General Electric and Walgreens appeared like perfectly good companies. Most people would have considered these as some of the best companies in the world. Yet, they’ve turned out to be sour investments.

You shouldn’t assume Walmart is a safe investment even though it’s one of the best companies in America.

You shouldn’t assume Netflix is a safe investment even though it’s one of the best companies in America.

You shouldn’t assume Walgreens is a safe investment even though it’s one of the leading pharmacy chains in America.

Jeff Bezos once said that “If you look at large companies, their life spans tend to be 30-plus years, not a hundred-plus years.” Generally speaking, that’s true. The life span of large companies tends to be pretty short in the grand scheme of things. Statistically speaking, most of the leading companies today won’t remain market leaders tomorrow.

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***Walmart is at risk of bankruptcy. Actually, almost every company in the S&P 500 is because most big companies don’t last very long.***

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But there are some exceptions. Some companies tend to survive for as long as one hundred years.

Coca-Cola has survived more than 130 years.

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McDonald's has survived more than 80 years.

Wells Fargo has survived more than 170 years.

What do all these businesses have in common? What do these businesses do differently? What does it really take to get close to 100, or even older?

### **Who Cares What The Competition Does!**

One day, a college student made an interesting observation about Advanced Micro Devices' (AMD) CPUs. He concluded that AMD's CPUs were so good that no competitor could really compete against them:

AMD chips had better graphics.

AMD chips had more cache.

AMD chips had more cores.

As the college student put it, "from a price to performance standpoint, AMD beat Intel at every price point. Intel had brand name recognition and that was it."

The college student purchased 100 shares of AMD at an average cost of \$14 per share. As I'm writing this, those shares are now worth more \$167, which is more than a 1,000% return on investment. "My only regret," he said, "is that as a broke college kid I didn't have more to invest. I am still holding those shares and continue to build PCs with AMD CPUs."

All that success came from buying a company that no one could compete against!

Earlier, I mentioned three companies that have stood the test of time: Coca-Cola, McDonald's, and Wells Fargo.

The reason Coca-Cola, McDonald's, and Wells Fargo have survived so long is that they are so good that no one else can compete against them.

Despite facing Pepsi spending billions of dollars on advertising, launching a better tasting product according to blind taste tests, and popularizing the infamous "Pepsi Challenge"

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marketing campaign, Coca-Cola is still the market leader because its brand is so strong.

Despite facing dozens of tough competitors like Burger King, Taco Bell, and KFC, McDonald's has been able to last for more than 80 years because no one has been able to build a more addicting fast-food product.

Despite facing a financial crisis that collapsed banks like Silicon Valley Bank and Lehman Brothers and dealing with the Savings & Loan crisis of the 1990s, Wells Fargo remains a leader in the banking industry due to its extraordinarily conservative lending practices.

**They are so good that no one can compete against them.**

Those are the types of companies you want to invest in. Not big companies—but ones that are so good that no one can compete against.

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*The ultimate investing criteria—buy companies so good that no one else can compete against*

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The mistake that people make is that they assume that market leaders are so good that no one else can compete against them.

In the 1960s, Warren Buffett researched a department store called Hochschild-Kohn, which was one of the four major department stores in Baltimore at the time.

But it wasn't so good that no one could compete against it. As Alice Schroeder wrote in the *Snowball Effect*:

Signs of trouble arrived in the form of numbers coming from Baltimore, revealing that every time one of the four department stores downtown put in an elevator, the other three had to do the same. Every time one store upgraded its window

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displays or bought new cash-register systems; the others had to follow suit.

The result? Buffett was forced to cut his losses before the company went bankrupt.

Was Hochschild-Kohn a market leader?

Technically. It was one of the four leading department stores.

But was it so good that no one could compete against it?

Not really.

Never assume a company can't be displaced merely because it's a market leader. Many market leaders aren't so good that no one else can compete against them.

Hold your stocks to a higher standard.

Don't invest in Walmart because it's a leading retailer. Only invest in it if you are certain that it will succeed no matter what Amazon, Costco, or Target does.

Don't invest in ExxonMobil merely because it's a leading oil company. Only invest in it if you are certain that it will succeed no matter what British Petroleum, Chevron, or Occidental Petroleum does.

Don't invest in Walgreens merely because it's a leading pharmacy. Only invest in it if you are certain that it will succeed no matter what Amazon, CVS, or Walmart's pharmacy does. (This is a lesson I perhaps learned the hard way).

Here are four ways to find companies that are "so good that no one can compete against." If you use the following four tools, it will be easy to spot a winning company:

1. Find companies that do something valuable, rare, and difficult to imitate
2. Ask yourself, "If I had a billion dollars, could I knock them off?"
3. Spend only 15 minutes researching a company
4. Invest in companies that innovate faster than the competition

## **1. Find Companies That Do Something Valuable, Rare, and Difficult to Imitate**

Jay Barney was a business professor at the University of Utah. No one really knew who he was except for his students.

But one day things changed.

He published a research paper called “Firm Resources and Sustained Competitive Advantage.” The paper explained how someone could identify if a company had a sustainable competitive advantage by asking themselves three simple questions<sup>1</sup>:

- Does the company do something valuable for consumers?
- Is it rare to find a business that can provide value in this way for consumers?
- And is it difficult for a competitor to imitate its business model?

The business world fell all over those three questions. Barney went on to become the most-cited professor at his university, and he even became one of “the most-cited strategic management scholars in the world,” according to the Landon Entrepreneurship Institute. Today, his three questions are taught at every business school (Harvard, Yale, and Wharton) to students who want to know how to identify a company with a competitive advantage.

Let’s walk through each of Barney’s prongs.

First, a company has to do something that’s valuable. The company has to create a product or service that’s valuable to the marketplace. In other words, do customers find its products and services valuable?”

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<sup>1</sup> Technically, his paper had 4 prongs. But one prong is intentionally omitted from this book.

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Second, it has do something that is rare. There can't be many other companies offering the product or service at the same level of quality and price.

Third, it has do something that is difficult to imitate. The competition shouldn't be able to copy what the company's ability to deliver a superior product or service.

Amazon is an example of a company that does something valuable, rare, and difficult to imitate.

First, Amazon does something more valuable than the competition. It offers free 2-day shipping, low prices, and a vast selection of consumer products. Those are all things that the customer finds valuable.

Second, Amazon does something that's rare. It's not common to find a company that can offer the same level of customer experience as Amazon. If anything, there isn't a single company that offers as wide of a selection, as low prices, and as fast shipping as Amazon, not to mention the user-friendliness of its return policies.

Third, Amazon does something that's difficult to imitate. It's almost impossible for a competitor to replicate Amazon's customer experience. It's almost impossible for anyone to offer free 2-day shipping at prices as cheap on as wide of a selection of products as Amazon does. So, it's difficult to imitate its value proposition.

An example of a company that *doesn't* have a true competitive advantage is perhaps ExxonMobil.

ExxonMobil passes the first prong of the "valuable, rare, and difficult to imitate" test. In other words, it does do something valuable. It extracts and sells oil at a low price to consumers.

However, ExxonMobil doesn't pass the second and third prongs of the test.

First, it doesn't do something that's rare. There are lots companies that can extract oil in the same way that ExxonMobil does. Just to name a few: Chevron, ConocoPhillips, and Royal Dutch Shell.

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Secondly, it doesn't do something that's difficult to imitate. Anyone can extract oil the way ExxonMobil does.

Since ExxonMobil didn't pass all three prongs, we can't say it's too good to compete with.

Investors would be wise to approach with caution. It might be a great company. But does it really have an edge over its competition that can't be surmounted?

### **2. "If I Had A Billion Dollars, Could I Knock Them Off?"**

In 2008, Warren Buffett had an opportunity to purchase Mars, the candy company that sells Twix, Skittles, and M&Ms. It was a rare opportunity to buy one of the leading candy companies in the world.

To decide if the company would thrive no matter what, Buffett put himself in the shoes of the competition and asked himself one question: "If I had a billion dollars, could I knock off Snickers as the leading chocolate brand?"

The answer to that question was a clear "no." Even if he was a competitor with more than a billion dollars in funding, he didn't think he would be able to overthrow Snickers.

He went onto buy the candy company for \$6.5 billion, and he later told media outlets that his Mars investment was very profitable.

One way to conclude if a company is *really* good enough is by putting yourself in the shoes of the competition and asking yourself, "could I knock off this business as the market leader if I had a billion dollars?"

If you're researching Google, ask yourself, "if I were running a competing search engine and had \$1 billion, could I find a way to overthrow Google?"

If you're researching Netflix, ask yourself, "if I were running a competing streaming service and had \$1 billion, could I find a way to overthrow Netflix?"

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If you're researching Apple, ask yourself, "if I were running a competing phone company and had \$1 billion, could I find a way to overthrow Apple?"

If you aren't confident that a company can withstand the competition, you shouldn't invest in it.

Several years ago, Bill Ackman heard about my books. He learned a little bit about my background and his interest was immediately piqued. He'd never met a college student who'd written best-selling books on investing. He requested me to send him a copy of my books. (Howard Marks later did the same). If Ackman and Marks take stock in my books, you should as well.

### 3. Spend Only 15 Minutes Researching a Company

Remember where we opened the chapter? Let's go back to 2001, when Warren Buffett was researching Larson-Jhul, that custom picture frame company he was trying to decide whether to purchase.

You would have expected Buffett to spend hours researching the company. He'd never even heard of Larson-Jhul before, so it would have required more time to do it. His calendar was empty, so he had all the time in the world to research the company. And it's important to conduct thorough due diligence, right?

Important to conduct thorough due diligence?

It took Buffett 15 minutes from first hearing about the company to decide he was going to purchase it.

"What prompted him to buy the company so quickly?" you may ask.

**Well, the truth is that it doesn't take long to figure out if a company is a good company.** As Buffett says, "If we can't make a decision in five minutes, we can't make it in five months."

***Warren Buffett makes better investment decisions than 99% of investors with only 15 minutes of research.***

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Take a look at these companies: Starbucks, Amazon, and Apple.

Their huge competitive advantages are almost immediately apparent.

It doesn't take an hour to figure out that Starbucks has a strong brand. It doesn't take a day to figure out that Amazon has excellent customer experience. It doesn't take a week to figure out that Apple has a world-class product and an ecosystem that's hard for users to ever leave.

Only a few minutes.

Here's the other side of the time equation: if it's taking *anything longer* than a few minutes for you to figure out whether a company has a competitive advantage, well, it probably doesn't.

I was once researching Nomad Foods, a British frozen foods company. I needed to figure out if the company was so good that no one could compete against it.

I spent hours and hours researching. I read all of its most recent annual reports. I spent a lot of time searching different opinions of different investors. I even gave myself a whole week to think about the investment decision.

But then it hit me.

I didn't have an answer yet, which meant I had my answer.

I passed, which was the right choice . . . and one I could have made in 15 minutes.

Stop researching a company once you spend 15 minutes thinking about it. Anything more than 15 minutes is a waste of time.

#### 4. Invest in Companies That Innovate Faster Than The Competition

Here's a story about perhaps one of the weirdest earnings calls.

A Wall Street analyst asked Elon Musk a question about the capital requirements to build Tesla's electric vehicle infrastructure. He said, "And so where specifically will you be in terms of capital requirements?"

For whatever reason, Elon Musk thought the question was dumb. "Excuse me," he responded. "Next [question]. Boring bonehead questions are not cool. Next?"

An analyst from RBC Capital Markets asked the next question. Specifically, he asked, "I was just wondering if you gave us a gauge as maybe some of the impact that the [recent] news has had [on Model 3 reservations]."

For whatever reason, Elon Musk also hated that question. "We're going to go to YouTube," he said. "Sorry. These questions are so dry. They're killing me."

Finally, an analyst asked Musk a third question. This time, the question was about Tesla's competitive position: "I'm just wondering why isn't that [the charge infrastructure] a moat, because as a long-term investor, I feel like the charging infrastructure you guys have built would take years and millions of dollars for another brand to replicate?"

Elon Musk snapped.

He went on a rant about how he thought the idea of having a competitive advantage is "lame:"

First of all, I think [competitive advantages] are lame. It's nice sort of quaint in a vestigial way. If your only defense against invading armies is a moat, you will not last long. What matters is the pace of innovation. [It was] obvious that this

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would occur with Amazon and Walmart because Walmart's rate of innovation was negligible, and Amazon's was very high. The outcome was obvious a long time ago.

Elon Musk makes a good point.

The pace of innovation matters more to a company's success than its competitive edge.

In high school, we all studied this math equation:  $Y = mx + b$ . B was the y-value when x was zero. m represented the slope of the line. As x heads to infinity, the equation with the highest slope value will be the highest y value.

Say equation #1 is:  $y = 1x + 1,000,000$

And equation #2 is:  $y = 10x + 0$

At x equals zero, equation one will obviously have a higher value (one million for equation #1 vs zero for equation #2). But eventually, equation #2 will be greater than equation #1 because its y-value is rising faster due to having a higher slope. (Specifically, this happens when x equal 111,112).

Equation #2 starts off behind.

But it eventually catches up because its moving up faster.

And the same idea holds true for companies: a company can be behind today, but it will eventually catch up if it's moving faster than the competition.

That's what happened with Walmart and Amazon. Amazon was behind Walmart for a long time. But it eventually was able to catch up because it was maintaining a higher pace of innovation.

**To a certain extent, it doesn't matter how competitive a business is. What matters more is how fast it innovates.** As Jack Welch says, "the only sustainable competitive advantage is to learn faster than your competition and to be able to act on what you have learned."

*The only competitive advantage is learning faster than the competition and acting on what you learned faster than them.*

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An easy way to figure out if a company innovates faster than the competition is to gauge how the company has dealt with competitive pressures throughout history.

Research years in the company's history when a competitor disrupted the industry with a new innovation. For example, say you are considering an investment in Walmart. Identify the years when Amazon began to pose a threat to Walmart. Then ask yourself, "how did Walmart respond? Did Walmart develop a new innovation itself? Or did Walmart fail to keep up with the competition?"

Many value investors aren't comfortable owning Meta. They say that it's too difficult to predict if Meta will remain the dominant social media platform over the very long term because the technology space tends to change every few years.

But the truth is that I've always been comfortable holding Meta within my portfolio because it's been able to innovate faster than the competition thus far. So, it's unlikely (though not impossible) that it will lose to the competition.

The Roadmap To Stock Market Millionaire strategy has four distinct steps: If you buy the right company . . . at the right price . . . maximize your upside . . . and manage risk, you'll get rich in the stock market. In this chapter, we covered one way to find the right company. In the next chapter, we'll cover another way to find the right company.

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*Invest in companies that no one else can compete against.*

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<b>Mindset shift #</b>	<b>Old Worldview</b>
1.	Big companies are safe companies
2.	Invest in good companies
3.	Conduct thorough research and due diligence on every investment decision
4.	Invest in companies with a competitive edge

<b>Mindset shift #</b>	<b>New Worldview</b>
1.	Big companies are risky companies
2.	Invest in companies <i>so good</i> that no one can compete against them
3.	Make investment decisions within 15 minutes
4.	Invest in companies that innovate in addition to having an obvious competitive edge