

Investing- My
vehicle to
financial
freedom?

About Me

I'm a student of the sciences in my early twenties. There are a lot of aspects of life about which I'm clueless. But, I've been making efforts to absorb knowledge and then decide which school of thought I identify with. I do realize it'll be an arduous task. But, I believe it'll be worth the while. But, one activity that has always piqued my interest is stock market investing. It's truly amazing, surreal to see people feel otherwise for the same stock with the same information available at their disposal. This along with various other characteristics of stock markets charmed me. I began investing in stocks because I thoroughly enjoyed the process of assessing companies. I'm strictly ordinary at assessing financials of companies but the aspect of sourcing information from non financial point of view is cherished by me- Scuttlebutt. Indulging in this activity has rescued me from many a dark phase. It means a lot to me.

Selection of companies for investing

Before I present my content I'd like to make it amply clear that the below content is posted by Hitesh Mehta Sir and Donald Francis Sir. I reiterate the content isn't my work. Credit is due to them for their benevolence at knowledge sharing.

The investment thesis is based on 4 pillars-

- 1) Business quality
- 2) Management quality
- 3) Fundamentals
- 4) Industry position and Track record

Classification of businesses

Classification of a business is no mean feat. To ease our troubles some pointers have been shared with us by Hitesh Mehta Sir.

I've tried to present it verbatim. Please excuse errors.

1) Nature of Business: Commodity, Commodity processor, high technology, price setter, monopoly/oligopoly, fiercely competitive.

2) Moat: Brand plays, economies of scale, long time customers, complex approval processes, patents, research and development, product innovation.

3) Sector liking/ attractiveness: Defensives, glamorous sectors, dull and boring sectors, high growth, cyclical.

4) Raw material dependence

Business Quality

More often than not it's asking the right questions that'll lead us to answers.
Evaluation of business quality can be improved by asking the following questions

- 1) Is the business suitable for long term investing?
- 2) Is there enough scope for the company to expand business at a healthy pace over the next 3-5 years?
- 3) Does it require excessive capital expenditure?
- 4) Is there a possibility for government interference to adversely impact the business prospects?
- 5) Is there sensitivity to raw material price sensitivity? Can price hike be transferred to consumers?
- 6) Is it a sunrise, steady or a neglected sector?

Management Quality

- 1) How much is the promoter holding? Is there any excessive pledging?
- 2) How has the company's growth been handled? Any excessive risks/debts?
- 3) Is there a desire to grow?
- 4) Have shareholders been rewarded? A high dividend payout is a joyous sign as its indicative of real profit generation.
- 5) Any suspicious acts by management?
- 6) Is the management well remunerated?

Fundamentals

- 1) Is there growth? If so, categorize it in fast, medium or slow.
- 2) Assess metrics like
 - a) Return on Capital Employed
 - b) Return on Equity
 - c) Debt
 - d) Dividend payout

Industry Position

- 1) If possible avoid sector leaders.
- 2) Smaller players have an increased potential for growth.

Opportunity Size

Ability to scale up

- 1) Industry growth- Current size, Annual growth rate, projected CAGR
- 2) Company growth- Organic, inorganic, sales growth, earnings growth
- 3) Ability to fund growth- Existing debt to equity ratio, industry debt to equity ratio, industry confidence.
- 4) Barriers to entry.

I'd like to reiterate that I do use the mentioned pointers to assess the investment worthiness of a company.

But, the author of these pointers is Hitesh Mehta Sir.

My intention wasn't to plagiarize content but to ease the access to it.

If summarization and online posting isn't acceptable per the guidelines please guide me and I'll delete my presentation.

Investing in stocks selected randomly

I've been intrigued by several experiments performed in which stocks selected randomly produced satisfactory results. I've always wanted to perform such a study myself. I'm inclined to allocate a very small portion of my portfolio to such an evaluation. I'd like to believe it'll widen my horizon as an investor, a learning experience and a revelation. If someone could guide me if there's a process for random stock selection it'll be much helpful.

If the experiment fails it'll teach me something. Failure, after all, teaches us the paths that don't lead to success

Many thanks.