

Investment Styles

Investment Styles

- Growth
- Value
- Momentum Investing



Peter Lynch

Quote: "Go for a business that any idiot can run - because sooner or later, any idiot probably is going to run it."

Growth Investing

- Peter Lynch believes that an investor can identify great stocks long before the market does, by using his intuition, intelligence, reflection and perseverance.

Growth Investing

- Peter Lynch advocates the "schoolboy approach" of stock picking. That is, investing in stocks one is familiar with. In his best selling book, 'Beating the Street', Lynch in ten pithy sentences laid a road map for the investor.

Growth Investing

- The stockmarket isn't really a gamble, as long as you pick good companies that you think will do well and not just because of their stock price.
- You can make a lot of money from the stock market but you can lose a lot of money as well.

Growth Investing

- You can lose money in a very short time but it takes a long time to make money.
- You have to research a company before you put your money on it.
- When you invest in the stock market you need to diversify.
- Never fall in love with a stock, always have an open mind.
- Buying stocks in utility companies is good, as it gives you a higher dividend.

Growth Investing

- Just because a stock has gone down, it does not mean it can't go any lower.
- You should not buy a stock just because it is cheap.
- Over the long run, it's better to buy stocks of smaller companies.

Growth Investing

- Attractive industry fundamentals
- High rate of earnings and sales growth
- Reasonable price earnings ratio
- Even a high price earnings ratio is okay
- Strong management

Growth Investing

- If the president of the company has a headache, the portfolio manager may check him into the hospital



Warren Buffett

- **Quote:** "If past history was all there was to the game, the richest people would be librarians."

Value Investing

- The originator of this conservative approach was Benjamin Graham. His pupil Warren Buffett described Graham's methods as the used-cigar-butts approach-"Well smoked, down-to-the-nub cigars but they are free- you pick them up and get free puffs out of them."

Value Investing

- Once you identify one of those forgotten heroines, it is tough to figure out when her fortunes are going to turn around
- Essence is timing

Value Investing

- His underlying philosophy is that a value investor buys a business rather than a stock. This means that one should invest in businesses, which are easy to comprehend, and where future cash flows are predictable with 'clock like certainty'.

Business Tenets

- Is the business simple and understandable?
- Does it have a consistent operating history?
- Does it have favorable long-term prospects?

Management Tenets

- Is the management rational?
- Is the management candid with its shareholders?
- In Buffett-speak, " With few exceptions when a manager with a reputation for brilliance tackles a business with a reputation for bad fundamentals, it is the reputation of the business that remains intact."

Financial Tenets

- Focus on return on equity, not earnings/share.
- Look for companies with high profit margins
- For every dollar earned, make sure the company added \$1 of market value.
- In Buffett's opinions, these are the significant financial parameters. Growth in revenues, without a rise in profits and market value does not mean anything.

Market Tenets

- What is the value of the business?
- Can it be bought at a discount to its value?
- Buffett believes that fixing an inherent or fundamental value to a stock is possible. That can be compared with the market price. If the market price is at a discount, then the stock is a "buy".



Richard Driehaus

- Quote: I would much rather be invested in a stock that is increasing in price and take the risk that it may begin to decline than invest in a stock that is already in a decline and try to guess when it will turn around.

Momentum Investing

- Known as 'Gunslinger' strategy
- Avid proponents of Newton's first law of motion – objects in motion tend to stay in motion until another force intervenes
- Interested in stocks with strong upward price momentum

Which style of investing is
best?

Value versus Growth

- Growth stocks will outperform value stocks for a time and then the opposite occurs
- Over time value stocks have offered somewhat higher returns than growth stocks

Key Characteristics of Investment Geniuses

- Discipline
- Focus
- Intelligence
- Hard Work
- Greatest Intangible