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Excellent summary of Philip Fisher's book "Conservative Investors Sleep Well".

Plenty of great points on identifying the growth potential, managerial capability and defensiveness of a Company.

cc: @dmuthuk

Characteristics of high quality companies with good long term prospects

✔■Lowest-cost
✔■Customer focused
✔■Effective research
✔■Strong marketing
✔■Good accounting

People factors

✔■Determination, competence and teamwork
✔■Internal development and promotion
✔■Entrepreneurial and disciplined
✔■Genuine and conscious culture

Business characteristics to grow and defend

✔■Profit margins
✔■Barriers to entry
✔■First mover advantage (& extending that Leadership)
✔■Competition and substitution
✔■Economic moats

Few of my fav pts from the article. Not every Company will have all these traits, but the more the better.

✔■A low break-even mark will allow the company to navigate depressed markets and improve its market share and price position when weaker competitors fall out. An above average profit margin allows the company to sustain growth at lower dilution risk to existing shareholders.

✔■The customer focused firm is able to recognize and react to changes in customer needs. This should lead to new products that can offset maturing or obsolete lines.

✔■Even nontechnical firms should have effective research capability to develop new products, improve existing products, and help services be performed in more effective and efficient ways.

✔■Effective marketing should understand what customers want and help them to understand the company's products, all while being cost-effective in implementation. Effective marketing, gleaned from consumer research, will serve as an input into product development and research.

✔■Finance should provide early warnings to management about potential threats to profit and enable them to navigate risks and implement remedial plans as soon as possible.

✔■Look for evidence of managerial competence, teamwork, internal development, entrepreneurial spirit, investment discipline and a genuine and conscious culture.

✔■High margins tend to attract competition. The Co should endeavor to operate so efficiently, whether by scale or some supply adv, to eliminate any incentive for newcomers to enter. Co.'s with leading market share & fantastic mgmt is an attractive but rare competitive advantage.

✔■Being first, particularly in a new product market, is often just the first of many steps towards a dominant leadership position. Not many firms have the right mix of management and product to succeed with their first mover advantage.

✔■There are many layers of indirect competition such as a consumer's budget constraint. As in any Economics 101 class will tell us, demand for most products will change when its price or relative price of direct and indirect substitutes change.

✔■It is not always easy to understand the source of a company's competitive advantage, whether it is durable or whether it even exists at all. Nevertheless, great companies will need some edge to defend itself against competition over the long run.

Philip Fisher was way ahead of his time in analyzing Companies from the lenses of growth, R&D, efficiency of Sales/Marketing Teams, People factors...

There's plenty that modern investors can learn form him.■

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