Twitter Thread by Investment Books (Dhaval)

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If you're trying to analyze a company without using an adequate checklist, you may make a very bad investment" - Charlie Munger

Small Thread of Investment Checklist from Masters

1. Charlie Munger's Investment Checklist

An Investing Principles Checklist

from *Poor Charlie's Almanack*

Risk – All investment evaluations should begin by measuring risk, especially reputational

- Incorporate an appropriate margin of safety
- Avoid dealing with people of questionable character
- Insist upon proper compensation for risk assumed
- Always beware of inflation and interest rate exposures
- Avoid big mistakes; shun permanent capital loss

Independence – "Only in fairy tales are emperors told they are naked"

- Objectivity and rationality require independence of thought
- Remember that just because other people agree or disagree with you doesn't make you right or wrong – the only thing that matters is the correctness of your analysis and judgment
- Mimicking the herd invites regression to the mean (merely average performance)

Preparation – "The only way to win is to work, work, work, work, and hope to have a few insights"

- Develop into a lifelong self-learner through voracious reading; cultivate curiosity and strive to become a little wiser every day
- More important than the will to win is the will to prepare
- Develop fluency in mental models from the major academic disciplines
- If you want to get smart, the question you have to keep asking is "why, why, why?"

Intellectual humility – Acknowledging what you don't know is the dawning of wisdom

- Stay within a well-defined circle of competence
- Identify and reconcile disconfirming evidence
- Resist the craving for false precision, false certainties, etc.
- Above all, never fool yourself, and remember that you are the easiest person to fool

"Understanding both the power of compound interest and the difficulty of getting it is the heart and soul of understanding a lot of things."

Analytic rigor – Use of the scientific method and effective checklists minimizes errors and omissions

- Determine value apart from price; progress apart from activity; wealth apart from size
- It is better to remember the obvious than to grasp the esoteric
- Be a business analyst, not a market, macroeconomic, or security analyst
- Consider totality of risk and effect; look always at potential second order and higher level impacts
- Think forwards and backwards – Invert, always invert

Allocation – Proper allocation of capital is an investor's number one job

- Remember that highest and best use is always measured by the next best use (opportunity cost)
- Good ideas are rare – when the odds are greatly in your favor, bet (allocate) heavily
- Don't "fall in love" with an investment – be situation-dependent and opportunity-driven

Patience – Resist the natural human bias to act

- "Compound interest is the eighth wonder of the world" (Einstein); never interrupt it unnecessarily
- Avoid unnecessary transactional taxes and frictional costs; never take action for its own sake
- Be alert for the arrival of luck
- Enjoy the process along with the proceeds, because the process is where you live

Decisiveness – When proper circumstances present themselves, act with decisiveness and conviction

- Be fearful when others are greedy, and greedy when others are fearful
- Opportunity doesn't come often, so seize it when it comes
- Opportunity meeting the prepared mind; that's the game

Change – Live with change and accept unremovable complexity

- Recognize and adapt to the true nature of the world around you; don't expect it to adapt to you
- Continually challenge and willingly amend your "best-loved ideas"
- Recognize reality even when you don't like it – especially when you don't like it

Focus – Keep things simple and remember what you set out to do

- Remember that reputation and integrity are your most valuable assets – and can be lost in a heartbeat
- Guard against the effects of hubris (arrogance) and boredom
- Don't overlook the obvious by drowning in minutiae (the small details)
- Be careful to exclude unneeded information or slop: "A small leak can sink a great ship"
- Face your big troubles; don't sweep them under the rug

In the end, it comes down to Charlie's most basic guiding principles, his fundamental philosophy of life: ***Preparation. Discipline. Patience. Decisiveness.***

2. Warren Buffett's Investment Checklist

A Warren Buffet styled "Investment checklist"	Is it covered?
Business tenets	
1. Is the business understandable?	❑ Yes ❑ No
2. Do you know how the money is made?	❑ Yes ❑ No
3. Does the business have a consistent operating history?	❑ Yes ❑ No
4. Does the company have favourable long term prospects?	❑ Yes ❑ No
5. Is there a big moat around the business (a high threshold of entry) ?	❑ Yes ❑ No
6. Is it a business that even a dummy could make money in?	❑ Yes ❑ No
7. Can current operations be maintained without too much needing to be spent?	❑ Yes ❑ No
8. Is the company free to adjust prices to inflation?	❑ Yes ❑ No
9. Have you read the annual reports of the main competitors?	❑ Yes ❑ No

3. Philip Fisher's 15 points Businesses Analysis Checklist

WHAT TO BUY: FISHER'S 15 CRITERIA

Fisher believed that investors should focus on 15 criteria when deciding where to place their money. The more criteria a given company can meet, the better. 'A company could well be an investment bonanza if it failed fully to qualify on a very few of them. [But] I do not think it could come up to my definition of a worthwhile investment if it failed to qualify on many.'

1. Does the company produce goods or services whose sales are likely to increase substantially for at least the next several years? Fisher was interested not in 'one-off' growth, nor necessarily in steady, year-after-year increases in growth, but rather in 'greater-than-normal growth not only for the next several-year period, but for a considerable time beyond that.' Fisher does not just extrapolate past sales growth: he seeks to understand how, and therefore to confirm that, past growth can continue into the future.

2. Is management determined to develop new goods or services? According to Fisher, 'companies which have a significant growth prospect for the next few years because of new demand for existing lines, but which have neither policies nor plans to provide for further developments beyond this, may provide a vehicle for a nice one-time profit. [But] they are not apt to provide the means for the consistent gains over 10 or 25 years that are the surest route to financial success.'

3. How effective is a company's research and development? 'If quantitative measurements—such as the annual expenditures on research or the number of employees holding scientific degrees—are only a rough guide and not the final answer to whether a company has an outstanding research organisation, how does the careful investor obtain this information? Once again it is surprising what the "scuttlebutt"method will produce.'

4. Does the company have an above-average sales organisation? The sale of goods and services is the most basic activity that a business undertakes; yet the effectiveness of a company's sales, advertising and distribution receives far less attention from investors than it should. Here, too, Fisher relies heavily upon scuttlebutt: 'of all the phases of a company's activity, none is easier to learn about … Both competitors and customers know the answers. Equally important, they are seldom hesitant to express their views. The time spent by the careful investor in inquiring into this subject is usually richly rewarded.'

5. Does the company have a worthwhile profit margin? Although they need not necessarily rise over time, Fisher seeks companies with the largest possible operating margins. Accordingly, whether the company is large or small, new or well established, 'investors desiring maximum gains over the years had best stay away from low profit-margin or marginal companies.'

6. What is the company doing to maintain or even improve its profit margin? Simplified drastically, companies can either raise their prices or reduce their costs. Fisher is somewhat sceptical of the company that maintains or improves its margins exclusively by increasing its prices, and looks for those that also maintain a keen eye towards production, marketing and other cost efficiencies, capital improvements and other innovations.

7. Does the company boast outstanding labour and personnel relations? Fisher's interest in technological excellence and innovation led him towards companies whose employees tended not to be members of a trade union. Further, 'the company that makes above-average profits while paying above-average wages for the area in which it is located is likely to have good labour relations. The investor who buys into a situation in which a significant part of earnings comes from paying below-average wages for the area involved may in time have serious trouble on his hands.'

8. Does the company have outstanding executive relations? 'The company offering [the] greatest investment opportunities will be one in which there is a good executive climate.' By this Fisher meant (among other things) that executives have confidence in their president and CEO, and that salary and promotion are based upon ability and results. 'The further a corporation departs from these standards, the less likely it is to be a really outstanding investment.'

9. Does the company have more than a handful of talented managers? The less an organisation's survival and success depends on one or a small number of personalities, and the less one executive interferes with the job of another, the better. 'The organisations where top brass personally interfere with and try to handle routine day-to-day operating matters seldom turn out to be the most attractive type of investments. Cutting across the lines of authority which they themselves have set up frequently results in well-meaning executives significantly detracting from the investment calibre of the companies they run.'

10. How good are the company's methods of cost analysis and accounting? No company will create outstanding success or continue it for any period of time if it does not know its costs in such detail that it is able to distinguish its most profitable activities (which it should continue and possibly expand) from its least profitable and unprofitable activities (which it should either improve or discontinue).

11. Are there other aspects of the business, somewhat peculiar to the industry involved, which will give the investor important clues about how outstanding the company may be compared with its competitors? In retailing, for example, the way a company handles matters such as the location and duration of leases is very important. In the 'tech' field, it is not just the innovations themselves but also their degree of patent and other protection 'which is a major factor in appraising the attractiveness of a desirable investment.'

12. Does the company have a short- or a long-range outlook? Some companies conduct their affairs to gain the greatest possible profit today. Others deliberately don't take jam today so that they can enjoy more jam tomorrow. Fisher seeks the latter and avoids the former type of company. If executives focus too much on the hereand-now, for example in their treatment of customers and vendors, they might make poor long-term decisions.

13. Will the company's growth require so much equity finance that the much larger number of shares outstanding will largely cancel the benefit from this anticipated growth? Fisher seeks companies whose growth relies mostly upon their own existing resources (shareholders' funds and retained earnings) and only incidentally upon external resources. In other words, he rejects companies that borrow heavily or issue large amounts of equity to finance their operations. 14. Does the management talk freely to investors about its affairs when things are going well but become mute when troubles occur? 'The investor will do well to exclude from investment any company that withholds or tries to hide bad news.'

15. Does the company have a management of unquestionable integrity? Fisher noted that a company's executives will almost always be much more familiar with a company's affairs than its shareholders are. For this reason, managers can benefit themselves at the expense of shareholders in many ways. Decades before most others, Fisher recognised that 'probably most costly of all to the investor is the abuse by insiders of their power of issuing common stock options.' Fisher's response? 'There is only one real protection against abuses like these. This is to confine investments to companies [whose] managements have a highly developed sense of trusteeship and moral responsibility to their stockholders. This is a point concerning which the "scuttlebutt"method can be very helpful'.

Fisher was the first investor to publish a coherent and justifiable method of judging whether a given company was a 'growth company.' He believed that:

- outstanding businesses are characterised by their ability over the years to maintain and extend a significant competitive advantage
- technological and marketing expertise underlies such an advantage
- this advantage enables these businesses to increase their sales and earnings spectacularly
- the advantage cannot be meaningfully gauged with numbers and mathematical formulas.

4. Peter Lynch's Investment Checklist

⭐⭐ The Final Checklist ⭐⭐

⭐ Snippets by Peter Lynch ⭐

⭐ Stocks in General:

👉 The p/e ratio. Is it high or low for this particular company & for similar companies in the same industry.

👉 The percentage of Institutional ownership.The lower the better.

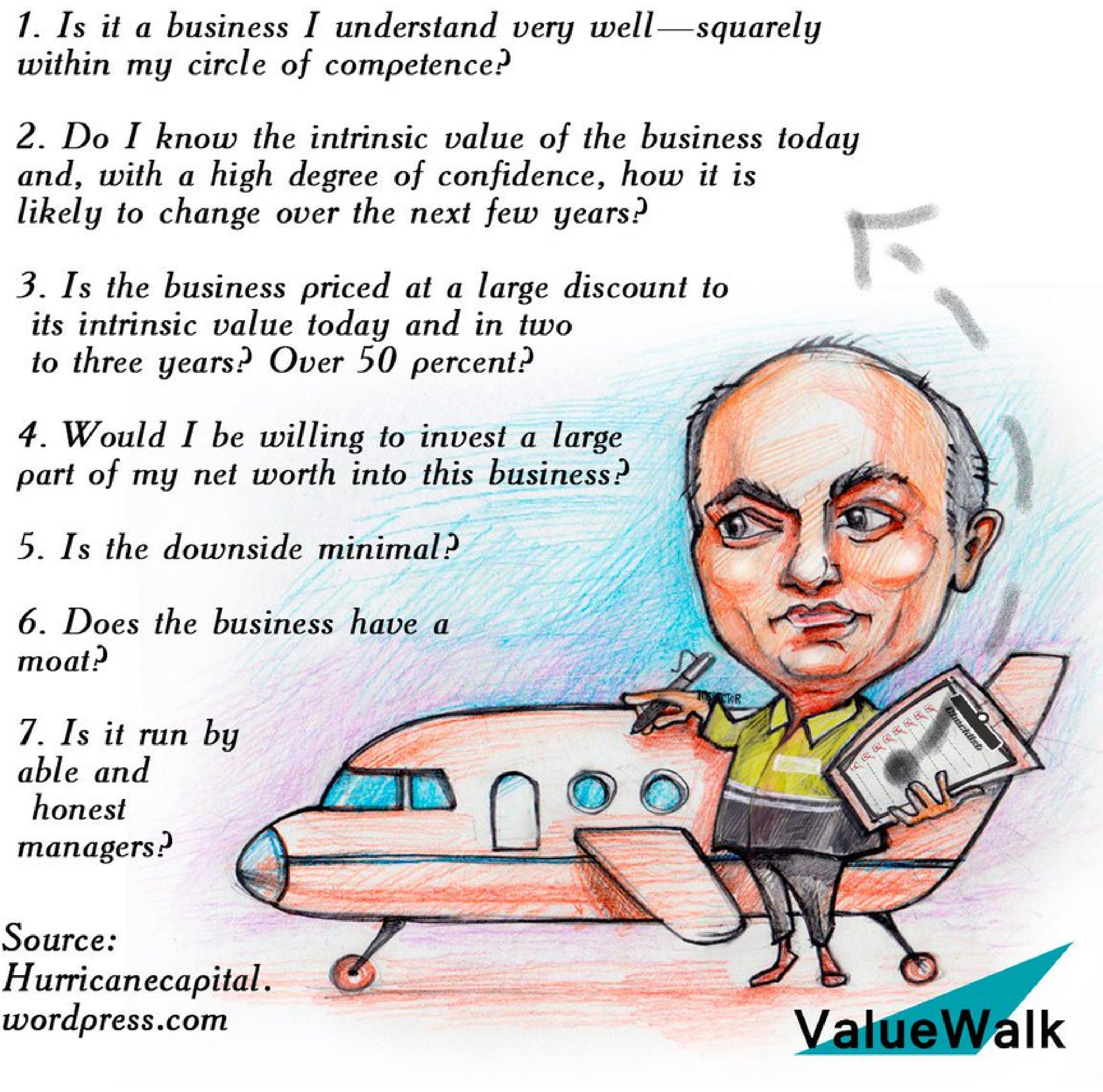
👉 Insiders buying & buy-back.
Both are positive signs.

👉 The record of earnings growth to date & whether the earnings are sporadic or consistent. (The only category where earnings may not be important is in the asset play.)

👉 Strong balance sheet or weak balance sheet (debt-to-equity-ratio) & how it's rated for Financial Strength.

👉 The cash position. Net cash provides floor on the stock.

5. Mohnish Pabrai's Investment Checklist



Master Accounting Quality Checklist

Source: https://t.co/rjNqzkTRwd

accounting malpractices.

Exhibit 11: Some common tricks employed by companies to mispresent financial statements

Trait	Description
P&L reflects a different, and more often glossier, story than the balance sheet & cash flow statements	▪ The most common tool used to misrepresent financial statements, as it is relatively easy to manipulate income statement items like revenues, operating profits, etc. ▪ Also, the obsession of research analysts and investors with earnings, rather than the quality of earnings reflected in cash conversion, RoCE, etc., makes the P&L statement a common tool for misrepresentation of accounts
Promoters' interests outside of the listed entity	▪ Group companies involved in similar business as the listed company ▪ Extensive related-party transactions between the listed company and promoter-owned entities ▪ Listed entity used to support/finance promoter ventures ▪ Significant amounts of promoter holdings in the listed company are pledged, indicating stress in group companies ▪ Consistent reduction in promoters' shareholding in the company

7. Michael Shearn's Investment Checklist

Source: https://t.co/aADVMA4fNu

Your Investment Checklist

Understanding the Business—The Basics

- ❒ Do I want to spend a lot of time learning about this business?
- ❒ How would you evaluate this business if you were to become its CEO?
- ❒ Can you describe how the business operates, in your own words?
- ❒ How does the business make money?
- ❒ How has the business evolved over time?
- ❒ In what foreign markets does the business operate, and what are the risks of operating in these countries?

Understanding the Business—from the Customer Perspective

- ❒ Who is the core customer of the business?
- ❒ Is the customer base concentrated or diversified?
- ❒ Is it easy or difficult to convince customers to buy the products or services?
- ❒ What is the customer retention rate for the business?
- ❒ What are the signs a business is customer oriented?
- ❒ What pain does the business alleviate for the customer?
- ❒ To what degree is the customer dependent on the products or services from the business?
- ❒ If the business disappeared tomorrow, what impact would this have on the customer base?

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336 The Investment Checklist

Evaluating the Strengths and Weaknesses of a Business and Industry

- ❒ Does the business have a *sustainable* competitive advantage and what is its source?
- ❒ Does the business possess the ability to raise prices without losing customers?
- ❒ Does the business operate in a good or bad industry?
- ❒ How has the industry evolved over time?
- ❒ What is the competitive landscape, and how intense is the competition?
- ❒ What type of relationship does the business have with its suppliers?

Measuring the Operating and Financial Health of the Business

- ❒ What are the fundamentals of the business?
- ❒ What are the operating metrics of the business that you need to monitor?
- ❒ What are the key risks the business faces?
- ❒ How does inflation affect the business?
- ❒ Is the business's balance sheet strong or weak?
- ❒ What is the return on invested capital for the business?

Evaluating the Distribution of Earnings (Cash Flows)

- ❒ Are the accounting standards that management uses conservative or liberal?
- ❒ Does the business generate revenues that are recurring or from one-off transactions?
- ❒ To what degree is the business cyclical, countercyclical, or recession-resistant?
- ❒ To what degree does operating leverage impact the earnings of the business?
- ❒ How does working capital impact the cash flows of the business?
- ❒ Does the business have high or low capital-expenditure requirements?

Assessing the Quality of Management—Background and Classification: Who Are They?

- ❒ What type of manager is leading the company?

8. Li-Lu's Investment Checklist

Li Lu's Investing Checklist:

1. Is that fairly priced?
2. Is it a good business?
2. Who is running it?
3. What did I miss?

9. The QGLP Checklist from Raamdeo Agrawal

The QGLP Checklist

BUSINESS CHECKLIST

Q#1 What is the history of the company and management?

Q#2 Is the company's business model understandable? How does it make money?

Q#3 Is the company profitable? If not, is it expected to emerge?

Q#4 Are the company's terms of trade favorable? Is Cash flow healthy?

Q#5 What is the company's cost and margin structure? How has it changed in the past?

Q#6 How's the Du Pont Analysis for the company?

Q#7 What is the competitive landscape? What is the role of regulation in the business?

Q#8 Does the company enjoy an Economic Moat? What are its sources?

GROWTH CHECKLIST

Q#9 What is the addressable market opportunity and its key drivers?

Q#10 What is the company's growth plan? How sustainable is the growth?

MANAGEMENT CHECKLIST

Q#11 Is the management high on Integrity & transparency?

Q#12 Is the management competent?

Q#13 Does the management have passion / growth mindset?

Q#14 Does the company have a rational capital allocation policy?

Q#15 Does the company have a suitable organization structure and depth of management?

Q#16 What is the organization culture?

Q#17 Does the company have a sound succession plan?

Q#18 Do the owners have enough skin in the game?

Q#19 Have the promoters pledged a large portion of their holding?

PRICE CHECKLIST

Q#20 Has the financial modeling been done with earnings estimates for at least 3 years?

Q#21 Is it a QGL stock?

Q#22 Is valuation reasonable?

Q#23 Is there enough Margin of Safety?

Q#24 Is the stock reasonably liquid?

RISK CHECKLIST

Q#25 What can go wrong with the company narrative & numbers?

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https://t.co/lhGDWMHKYF

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> Small Thread of Investment Checklist from Masters
>
> 1. Charlie Munger's Investment Checklist pic.twitter.com/d4KXnp1861
>
> — Investment Books (Dhaval) (@InvestmentBook1) November 23, 2022

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https://t.co/6Y6z9FvYme

WB's Checklist in 1 Page

A Warren Buffet styled "Investment checklist"	Is it covered?
Business tenets	
1. Is the business understandable?	❑ Yes ❑ No
2. Do you know how the money is made?	❑ Yes ❑ No
3. Does the business have a consistent operating history?	❑ Yes ❑ No
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5. Is there a big moat around the business (a high threshold of entry) ?	❑ Yes ❑ No
~~6. Is it a business that even a dummy could make money in?~~	~~❑ Yes ❑ No~~
7. Can current operations be maintained without too much needing to be spent?	❑ Yes ❑ No
8. Is the company free to adjust prices to inflation?	❑ Yes ❑ No
9. Have you read the annual reports of the main competitors?	❑ Yes ❑ No

Financial tenets	
20.Is the return on equity adequate?	❑ Yes ❑ No
21.Is the company conservatively financed?	❑ Yes ❑ No
22.Has the company had a track record of earnings growth in most years above the stock market average?	❑ Yes ❑ No
23.Are the profit margins attractive (better than industry)?	❑ Yes ❑ No
24.Has the company created at least one dollar of market value for every dollar of earnings retained?	❑ Yes ❑ No

Management tenets	
10.Has the management demonstrated a high degree of integrity (honesty)?	❑ Yes ❑ No
11.Has the management demonstrated a high degree of intelligence?	❑ Yes ❑ No
12.Has the management demonstrated a high degree of energy?	❑ Yes ❑ No
13.Is management rational?	❑ Yes ❑ No
14.Is management candid with shareholders (evidence in the past of open disclosure to the shareholders when there have been problems)?	❑ Yes ❑ No
15.Has management resisted the temptation to grow quickly by merger?	❑ Yes ❑ No
16.Has management the strength not to follow the institutional imperatives (avoid following current business and sector fads)?	❑ Yes ❑ No
17.Has the business been free of a major merger in the last 3 years (many merger failures come out of the woodwork within this period) ?	❑ Yes ❑ No
18.Are stock options tied to SMT performance rather organisation's performance (if your team wins you do not pay a .35 hitter the same as a .15 hitter.) ?	❑ Yes ❑ No
19.Are stock options treated as an expense?	❑ Yes ❑ No

Value tenets	
25.Is the value of discounted earnings greater than the current market value?	❑ Yes ❑ No
26.Have you discounted at a rate equal or greater than the 10 year bond rate (risk free rate) ?	❑ Yes ❑ No
27.Have cash flows been based on net income, plus depreciation, depletion, and amortization, less capital expenditure and additional working capital requirements?	❑ Yes ❑ No
28.Has the company been temporarily punished for a specific risk that is not a long term risk (the market tends to over punish the share price)?	❑ Yes ❑ No