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## Michael Burry's investment strategy

### Strategy

My strategy isn't very complex. I try to buy shares of unpopular companies when they look like road kill, and sell them when they've been polished up a bit. Management of my portfolio as a whole is just as important to me as stock picking, and if I can do both well, I know I'll be successful.

Weapon of choice: research

My weapon of choice as a stock picker is research; it's critical for me to understand a company's value before laying down a dime. I really had no choice in this matter, for when I first happened upon the writings of Benjamin Graham, I felt as if I was born to play the role of value investor. All my stock picking is 100% based on the concept of a margin of safety, as introduced to the world in the book "Security Analysis," which Graham co-authored with David Dodd. By now I have my own version of their techniques, but the net is that I want to protect my downside to prevent permanent loss of capital. Specific, known catalysts are not necessary. Sheer, outrageous value is enough.

I care little about the level of the general market and put few restrictions on potential investments. They can be large-cap stocks, small cap, mid cap, micro cap, tech or non-tech. It doesn't matter. If I can find value in it, it becomes a candidate for the portfolio. It strikes me as ridiculous to put limits on my possibilities. I have found, however, that in general the market delights in throwing babies out with the bathwater. So I find out-of-favor industries a particularly fertile ground for best-of-breed shares at steep discounts. MSN MoneyCentral's [Stock Screener](#) is a great tool for uncovering such bargains.

How do I determine the discount? I usually focus on free cash flow and enterprise value (market capitalization less cash plus debt). I will screen through large numbers of companies by looking at the enterprise value/EBITDA ratio, though the ratio I am willing to accept tends to vary with the industry and its position in the economic cycle. If a stock passes this loose screen, I'll then look harder to determine a more specific price and value for the company. When I do this I take into account off-balance sheet items and true free cash flow. I tend to ignore price-earnings ratios. Return on equity is deceptive and dangerous. I prefer minimal debt, and am careful to adjust book value to a realistic number.

I also invest in rare birds -- asset plays and, to a lesser extent, arbitrage opportunities and companies selling at less than two-thirds of net value (net working capital less liabilities). I'll happily mix in the types of companies favored by Warren Buffett -- those with a sustainable competitive advantage, as demonstrated by longstanding and stable high returns on invested capital -- if they become available at good prices. These can include technology companies, if I can understand them. But again, all of these sorts of investments are rare birds. When found, they are deserving of longer holding periods.