Twitter Thread by Professor

Professor
@DillikiBiili

Starting the Beginner's Pathway thread for Fundamental Investing.

One Chadarmod on timeline posted that I'm giving gyan without having experience or expertise.

So I'll begin with paying my portfolio performance tribute to these charlies.

https://t.co/GNM5SsNFNo

> Sadda Haqq ! Aithe Rakhh......... pic.twitter.com/IH5q3v2gw9
>
> — Professor (@DillikiBiili) October 5, 2021

Fundamentals based investing can generate serious wealth as the most famous (rather infamous) Warren Buffett has shown.

In India also we have many success stories like @VijayKedia1 @Raamdeo R K Damani Rakesh Jhunjhunwala Late Chandrakant Sampat and many many more....

Though I can't stop mentioning that both Rakesh Jhunjhunwala and R K Damani were traders in their initial days.

Rakesh Jhunjhunwala still trades, he once said Traing is fun, its le fatafat, de fatafat

https://t.co/yVjWRaVDtC

A lot of people (specially the beginners) buy stocks based on some friend's recommendation : XYZ le le, pukka chalega, maine bhi le rakha hai.

Few might have made money this way, but most do not. Why ?

There has to be a process.

Fundamentals based investing need thorough analysis of the Business & Company.

Here is a preliminary checklist by the legendary investor Peter lynch

Criteria for initial consideration

Select from industries and companies with which you are familiar and have an understanding of the factors that will move the stock price. Make sure you can articulate a prospective stock's "story line"-the company's plans for increasing growth and any other series of events that will help the firm-and make sure you understand and balance them against any potential pitfalls. Categorizing the stocks among six major "story" lines is helpful when evaluating prospective stocks. Specific factors depend on the firm's "story," but these factors should be examined:

- Year-by-year earnings: Look for stability and consistency, and an upward trend.
- P/E relative to historical average: The price-earnings ratio should be in the lower range of its historical average.
- P/E relative to industry average: The price-earnings ratio should be below the industry average.
- P/E relative to earnings growth rate: A price-earnings ratio of half the level of historical earnings growth is attractive; relative ratios above 2.0 are unattractive. For dividend-paying stocks, use the price-earnings ratio divided by the sum of the earnings growth rate and dividend yield-ratios below 0.5 are attractive, ratios above 1.0 are poor.
- Debt-equity ratio: The company's balance sheet should be strong, with low levels of debt relative to equity financing, and be particularly wary of high levels of bank debt.
- Net cash per share: The net cash per share relative to share price should be high.
- Dividends and payout ratio: For investors seeking dividend-paying firms, look for a low payout ratio (earnings per share divided by dividends per share) and long records (20 to 30 years) of regularly raising dividends.
- Inventories: Particularly important for cyclicals, inventories that are piling up are a warning flag, particularly if growing faster than sales.

What Peter lynch advised to avoid:

Hot stocks in hot industries.
Small firms) with too big plans
Profitable companies engaged in diversifying acquisitions. Lynch terms these "diworseifications."
Companies in which one customer accounts for 25% to 50% of their sales.

After we identify industry and companies to analyze further, we need to do valuation which is very tough work.

Here is a very good example of how can we analyze a company.

https://t.co/i5QTUDUCyK