Business Perspective Investing

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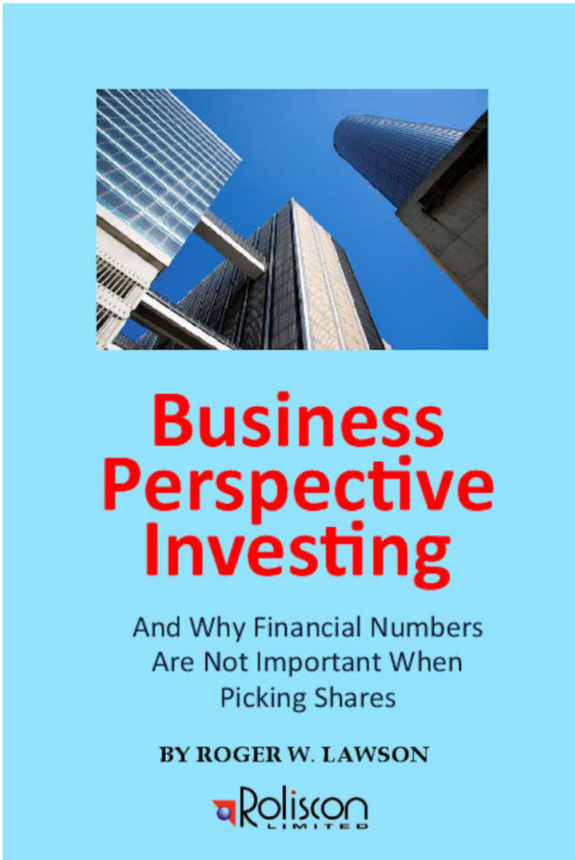
Rolisson LIMITED

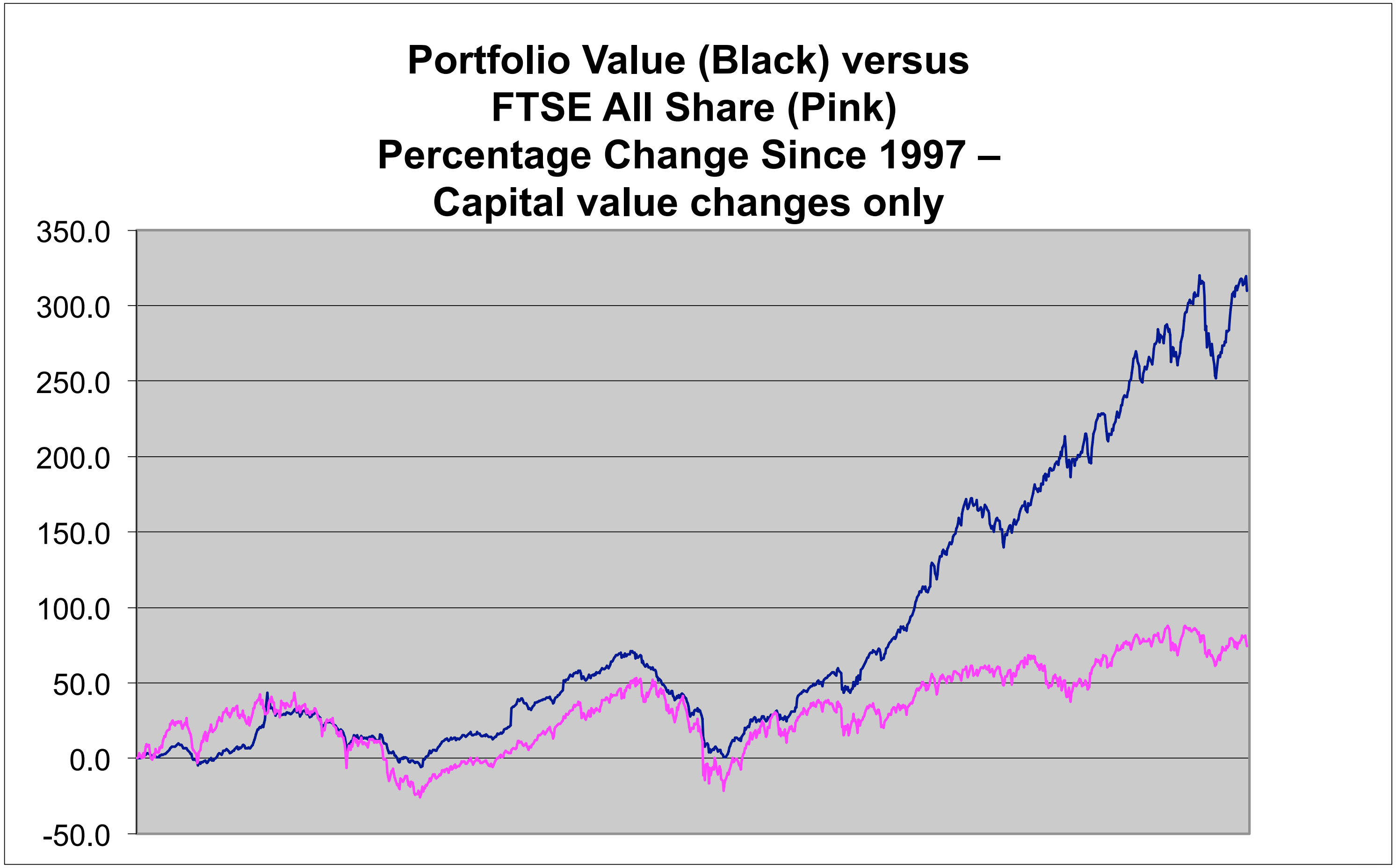
Book Summary



Business
Perspective
Investing
and Why Financial
Numbers Are Not
Important When
Picking Shares

Author Background

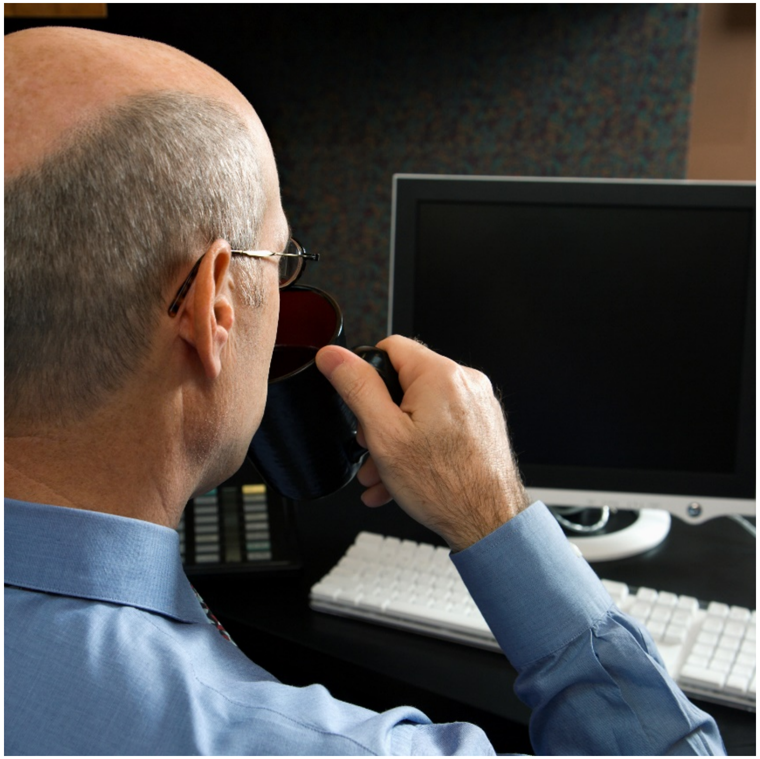
Why should anyone pay attention?



Financial Ratios?

Investors start by looking at financial ratios to pick out good companies to invest in, but that is a mistake.

Heresy you may say, but I'll convince you otherwise.



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Common approaches

- Low p/e ratios.
- High dividends.
- Magic formulas.

- Return on capital?

Dubious Accounts Proliferate

These are just some of the companies where the accounts were misleading, imprudent or downright fraudulent:

Burford Capital, Connaught, NCC Group, Autonomy, Cedar Group, iSoft, Utilitywise, Quindell, Mitie, Conviviality, Amey, Capita, Carillion, Cattles, Healthcare Locums, Erinaceous, Findel, Northern Rock, HBOS, Royal Bank of Scotland (RBS), Torex Retail, Silverdell, Globo, Patisserie, Polly Peck, Maxwell Communications, Enron, Worldcom, …………

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Key Factors

Financial accounts don’t matter for several reasons:

- They cannot be relied upon.
- They only represent a snapshot of the business at one point in time.
- They may tell you little about the future.
- They don’t tell you whether the management are competent and trustworthy.

There are better measures of the quality of a business. The book tells you what to look at.

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Chapter Headings

1. Why Accounts Don’t Matter
2. Business Models & Competitive Strategy
3. Market Position, Branding & Marketing
4. Controlling Risk
5. Rational Pricing and Good Margins
6. Company Culture, Structure & Pay
7. Company Regulation And Governance
8. Presentation of Accounts
9. Systems and Operations
10. Financial Analysis
11. Trusts and Funds
12. Key Lessons & Conclusions

Simple Checklists

Chapter 2 Checklist (Business Models & Strategy)

Chapter 2 – Positive Qualities	Tick Here
High barriers to entry?	
Economies of scale?	
Differentiated product/service?	
Low capital required?	
Hard switching costs?	
Proprietary technology and IP?	
Smaller transactions?	
Repeat business?	
Short term contracts?	
Diverse clients?	
Diverse suppliers?	
Network effect benefits?	
Regulations creating barriers to entry?	
Business model simple & understood?	
Competitive threats understood?	
Established market?	
Sector I like?	

Simple Checklists- 2

Chapter 4 Checklist (Controlling Risk)

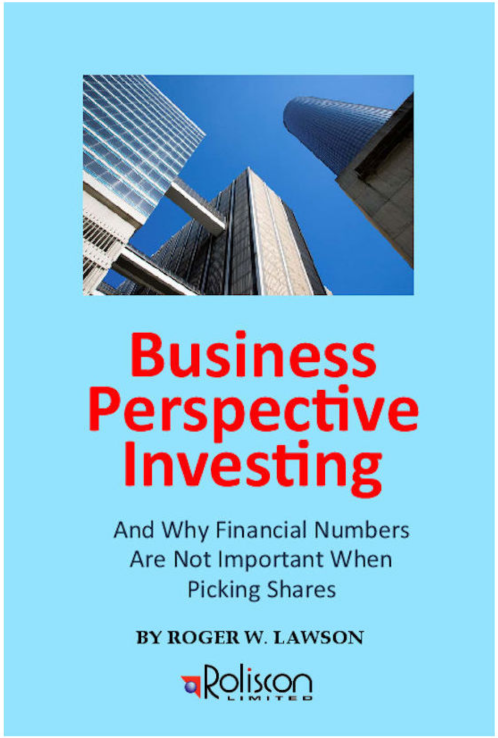
Chapter 4 – Positive Qualities	**Tick Here**
No major business risks obvious?	
No new competitors apparent?	
Low risk of technological obsolescence?	
Markets not subject to change?	
No risk of Government regulation?	
No risk of product development failure?	
Little risk of process failure?	
Low risk of reputation/brand damage?	
Management judged competent?	
Low risk of fraud/false accounting?	
Low debt?	
Low exposure to exchange rate risk?	
Few business acquisitions?	
No foreign adventures?	
Are the management risk averse?	

Burford Example

Where Burford fails the checklists:

- High barriers to entry? (Chap.2)
- Economies of scale? (Chap.2)
- Low capital required? (Chap.2)
- Proprietary tech & IP? (Chap.2)
- Smaller transactions? (Chap.2)
- Repeat business? (Chap.2)
- Short term contracts? (Chap.2)
- Business model simple? (Chap.2)
- No risk of government regulation? (Chap.4)
- UK or US Domicile? (Chap.7)
- Adhere to corporate governance code? (Chap.7)
- No big legal disputes? (Chap. 7)
- Accounts easy to understand? (Chap.8)
- Accounts prudent and consistent? (Chap.8)
- Do profits turn into cash? (Chap. 10)…… etc

Pricing and Availability



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Questions?