Learnings from One Up on Wall Street – Peter Lynch.

- Page 14: Picks & Shovel Strategy:-

If a Fad business company / Sector is overpriced, rather than following the herd, find sectors / businesses which are indirect beneficiaries of the same.

- Page 30:

To all the dozens of lessons we're supposed to have learned from October, I can add three:

1. Don't let nuisances ruin a good portfolio.
2. Don't let nuisances ruin a good vacation.
3. Never travel abroad when you are light on cash.

- Page 48:

Small Investors tend to be pessimistic & optimistic at precisely the wrong times.

- Page 60 & 61:

Fund Managers work in collaboration "Inspected by 4" Strategy - Acceptable mediocrity is far more comfortable than diverse performance. So stock selection happens from pool of stocks acceptable to more Fund Managers than on merit.

- Page 75:

Six out of 10 Stocks is all it takes to produce an enviable record on wall street.

- Page 76:

The greatest advantage of investing in stocks to one who accepts the uncertainties is extraordinary reward for being right.

- Page 82:

The share selling at $50 is likely to hit $60 and /or fall to $40 some time in next 12 months. The high of a year is ($60) is 50% higher than the low ($40) of that year.

- Page 108:

If you are considering a stock on strength of some specific product the company makes, the first thing to find out is : What effect will the success of a product have on company's bottom line?

- Page 110:

Six categories classification: Slow Growers, Stalwarts, Fast Growers, Cyclicals, Asset Play & Turnarounds.

- Page 112:

Slow Growers: - Growth just above GDP / NGP Growth.

- Companies pay rich dividend when they can't dream up of new ways to use money to expand business.

Stalwarts: - Giant companies that grow faster than Slow growers.

- Here it is important on what price & period you own them.
- In Stalwarts you should take profits consistently, if its 50% up in a year its time to book out may be.

Fast Growers: - Small, Aggressive New Enterprises, 20~25% growth / year.

- If you choose wisely this is where you get 10 to 40 to 200 baggers.
- A long as fast growing companies are growing they are big winners in stock market, the key is to finding out when they will stop growing and how much to pay for growth.

Cyclicals: - All big cyclicals are lumped together with Stalwarts, so in general investor thinks that a Blue chip cyclic company in Auto so it should behave similar to a Blue chip in consumption, but it doesn't.

- Timing is everything in Cyclicals.

Turnarounds: - Poorly managed cyclicals is a potential candidate for this kind of trouble.

- Best thing to invest in a Turnaround is that of all categories of stocks, there up and downs are least related to general market.

The Asset Plays: - These are companies holding assets not proportionately valued by the market.

- Page 129:
- Putting Stocks in categories is first step in developing a story, now you know what kind of story it is supposed to be.
- Basing the strategy on general maxims, such as "Sell when you double your money", "sell after two years", "Cut your losses by selling when the price falls 10 percent" is absolute folly. It's simply impossible to find a generic formula.
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- Page 130:

  13 Attributes of a Perfect Stock:

1. Sounds Dull or Ridiculous: Dull name but profitable business.
2. It does something dull: A company that does boring things is as good as the company with boring name and both together are terrific.
3. It does some thing disagreeable: boring job at good profits / EPS.
4. It's a Spin Off: Spinoffs are part of companies into sperate free hold generally with good balance sheet.
5. Institutes do not own it and analysts do not follow:
6. The rumors abound,……Its involved with Toxic Waste / Mafia.
7. There is something depressing about it. – Business sector / profile is not very exciting to attract attention.
8. It's a no growth Industry: less competition and reliable business. E.g. Cigarettes. Volume degrowth Profit Grow.
9. It's got a Niche.
10. People have to keep buying it – the products the company makes.
11. It's a user of Technology: Technology should reduce the costs in this business.
12. Insiders are buyers. Mainly the working staff.
13. Company is buying back share. Reduces Float, Increases EPS, reflects confidence in their own Business.

- Page 149:

If I could avoid a single stock, that would be the hottest stock in the hottest Industry.

- Page 151:

If you have a cant fail idea, but no way of protecting it with a patent / niche, the moment you succeed you will be warding off the imitators.

- Page 152:

Another stock to avoid is the stock in a company that is touted to be the next IBM, next INTEL, Next Mc Donald.

- Page 158:

Whisper stocks have a hypnotic effect, and usually the stories have emotional appeal. This is where the sizzle is so delectable that you forget to notice there is no steak .

- Page 159:

When in doubt, tune in later.

- Page 163:

On chart after chart the two lines will move in tandem, or if stock prices move away from earnings line, sooner or later it will come back to the earnings.

- Page 164:

Quick way to tell if a stock is over priced is to compare price line to earnings line.

- Page 173:

There are 5 basic ways a company can increase earnings: reduce cost, raise prices, expand into new markets, sell more of its products in old markets, revitalize, close or otherwise dispose off loosing operations.

- Page 189:

When looking at the same sky, people in mature industries see cloud where people from immature industries see pie.

- Page 198:

% of Sales: If a stock idea is dependent on product, this % of sales becomes important as a new star product if does not add considerably to the bottom line is of no use.

- Page 199:

P/E Ratio: of any company fairly priced will equal its growth rate of earnings, but if P/E ratio is lesser that the earnings growth we have a bargain.

- Page 207:

Book Value: Stated book value often bears little relationship to the actual worth of the company.

- Page 208:

Closer you get to the Finished Product – less predictable the real value. E.g. easy to value Steel than a Needle / Ball.

- Page 209:

Just as often as book value overstates true worth, it understates true worth. That's where you get the greatest asset plays.

- Page 211:

Goodwill, Brand value, R&D, Patent etc. are written off against earnings. E.g: Earnings is $10 & $2 is reduced for mentioned expenses, reported earnings $8, but when some day the expenses end earnings can shoot up.

- Page 214: CASH FLOW:

If a company has to spend cash to make cash, you are not going to go too far.

Lots of people use cash flow no's to evaluate stocks, a $20 Stock with a $2 per share cashflow has a 10 to 1 ratio which is standard, 10% cash corresponds nicely with 10% growth expectation.

- Page 215:

With manufacturers or retailers inventory build up is a bad sign. If inventory grows faster than sales it's a red flag.

- Page 218: GROWTH RATE

Synonymous to earnings growth, if you get a business that can keep on raising prices without loosing customers (an addictive product like cigarettes, fills & Bills) you have got a terrific investment.

All else being equal a 20% grower selling at 20 PE is better than 10% grower selling at 10 PE.

- Page 222: Every few months its worthwhile to check the company story.

DESIGNING THE PORTFOLIO:

No fixed formula for no of stocks to own.

Distribute stocks in categories – assign a % of investment to the categories. Eg.: 30~40% in GROWTH, 10~20% in STALWARTS etc. and you can keep on rotating the funds in categories as the time be.

- Page 242:

The key is knowledgeable buying, you would not want to buy a overvalued Stalwart & add to the very Risk you are trying to moderate.

- Page 245:

The best time to buy stock is always the day you have convinced yourself of finding a solid merchandise at good price – similar to a department store.

- Page 248:

One of the biggest struggles of the market advice is – good or bad it sticks to your brain. You can't get it out of there and some day some time you only find yourself reacting to it.

- Page 251:

As it turns out if you why you bought the stock in first place, you will automatically have a better idea of when to say good bye.

WHEN TO SELL:

SLOW GROWERS: debt increasing, company loosing Mkt Share, Diworsefication , failing acquisitions. STALWARTS: Overpriced compared to peers / industry, New products failed, growth slowing down, etc. CYCLICAL: Inventories building up, commodity pricing softening, future prices of the commodities less than spot prices. FAST GROWERS: the trick is not to lose a Ten-bagger. TURAROUND: If turnaround is successful it's time to recategorize the stock. ASSEST PLAY: Issual of more shares, selling division at lower than estimated costs, rise in institutional share holdings substantially.

All qualities of stocks you'd avoid are same for stock you'd want to sell. Wide analyst coverage, across the board recommendations, etc.

- Page 258:

12 SILIEST THINGS PEOPLE SAY ABOUT STOCKS:

1. If its gone down this much already, it can't go much lower.
2. You can always tell when a stock hits bottom
3. If it gone this high already, how can it go any higher?
4. Its only $3 a share what can I lose?
5. Eventually they always come back.
6. It's always darkest before the Dawn
7. When it rebounds to $10, I will sell.
8. What me worry/ conservative stocks don't fluctuate much.
9. It's taking too long for anything to ever happen.
10. Look at all the money I have lost. I didn't buy it.
11. I missed that one. I will catch the next one.
12. Stocks gone up so I must be right / stocks gone down so I must be wrong.

- Page 277:

Market like individual stocks can move in opposite direction of the fundamentals over the short term.

- Page 281:

Small investors can calmly walk into the entrance when there is crowd at the exit & exit when there is crowd at the entrance.

- Page 284:

If you believe the old investment adage that the stock market climbs the "wall of worry", take note that the worry wall is fairly spread now and growing every day.

- Page 288:

You have to keep your priorities straight, if you plan to do well in stocks.