Common Stocks and Uncommon Profits and Other Writings

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Author: Philip Fisher

Book Summary

Popular for his buy-and-hold approach to investing, Philip Fisher is credited with influencing legends like Warren Buffet. A renowned investment strategist, Fisher's technique involved identifying long-term growth stocks and understanding their underlying value through fundamental analysis. While his treatise Common Stocks and Uncommon Profits was written decades ago in 1958, it continues to be a strategic bible for savvy investors. The book was written and published amid great prosperity and the bull market phase post-World War II but it focuses on sustainable long-term growth, instead of short-term profit booking, making it an excellent guide for investors keen on building their wealth over a period of time.
From tips on choosing the best stocks based on fundamental analysis to advising investors to look for businesses that play a leading role in their segments, Fisher's book is a compilation of his strategies and tactics. His fifteen-point strategy, espoused in Common Stocks and Uncommon Profits, is considered an optimal way of approaching long-term investments. In addition to this book, Fisher has also authored popular books titled Paths to Wealth Through Common Stocks and Conservative Investors Sleep Well. He managed Fisher & Co. until 1999, when he retired from his post.

Key Takeaways

- Look for companies exhibiting long-term growth potential.
- Identify fundamentally strong companies with a focus on research and development and quality leadership.
- Consider every potential angle of research possible before investing in a company to avoid the scope of failure.
- Once you know the company you want to invest in, wait for dips in the price to enter at a lower rate. This will help you maximise potential profits.
- Avoid the herd mentality and be sure of the choices you make.
- If you are a risk-averse investor, consider companies with strong organisational structures and robust growth potential.

Investment is a complicated game if you give in to the chatter surrounding the strategies at play. However, if you have your tactics in place and a clear understanding of what to look for when considering a stock for investment, you will end up reaping large rewards. This is especially true if you consider investing for the long-term. With Common Stocks and Uncommon Profits, you will get a strong understanding of the questions you must ask and the aspects you should consider, before taking the plunge and building your portfolio. The treatise will help pave your way to success by enabling you to optimally understand the market, analyse stocks, take wise money decisions, and make smart calls on investment. The biggest lesson, however, remains the need for patience and a long-term outlook.

Know how to analyze a company's potential

Picking a strong stock is easy, as long as you ask pertinent questions such as:

- Does the company have significant sales growth potential for at least the next several years?
- Does the company's management show the determination to continue developing its products and processes with the aim of enhancing total sales after the existing growth potential is exhausted?
- Does the company exhibit a long-term view on profitability and have robust profit margins?
- What differentiates the company from its industry peers?
- Is the company known for its relations with its staff and customers?

These questions, in addition to an understanding of the underlying equity financing structure and the company's policy on honesty and integrity, will help you conduct a comprehensive market research and identify companies which depict robust potential for long-term and sustainable growth. Once you zero in on potential investment choices, go through their activity profile and analyse their industry, competitors, main clients, and money management strategies. This will help you develop a more holistic understanding of the investment scope. While it is challenging to figure out these aspects, you can use the highly effective scuttlebutt method for better outcomes.

Try the Scuttlebutt Method

If you wish to know the important aspects about the company you want to invest in, it is imperative that you contact the shareholders directly and access first-hand information. This is known as the scuttlebutt approach as, once you get the details directly from the shareholders, you will be in a much better position to take well-informed decisions. Also consider their reputation with regards to employee and customer satisfaction to get a fuller picture of the company's growth prospects. It is true that this method will be very time-consuming but today, with social media and a wide degree of information sharing across platforms, you are in a better position to know all the details. Still, to minimise the time spent on accumulating information, pick only the best and most impressive stocks to work with. This will help you optimise your research and offer you the best possible outcomes. Once you find companies which align with your requirements, you can go ahead and consider them as attractive investment options.

Enter at the right time

Every company goes through good and bad times. While robust companies manage to emerge unscathed even after economic downturns, poorly managed companies succumb to the pressure. Once you know the companies you want to invest in, and are sure of their growth potential, wait for the right time to enter the market. Undertake a calculation of the company's price-earnings ratio to determine the real price of the stock and ensure that you don't pay any higher. When you follow this strategy, there is a great likelihood of strong profits in the future, allowing you to exit your positions with a neat sum of money in hand. Instead, if you give in to the herd mentality and buy a stock when it is at a considerable upside, your potential for making a profit drops considerably. Remember, the time to start buying comes when the price of a strong stock begins to drop.

Avoid panic and emotional bias

If you look at the market crashes on a historic basis, most of the damage occurs when people give in to their emotional biases like fear or greed. If a stock is seeing a bad patch, or the market is in a downturn, you might fear losing your money and begin to sell off your positions. This leads to an incremental plunge and erases a lot of the underlying value. However, time has shown that fundamentally strong stocks always manage to recover from their lows so, even if your portfolio is in the red, do not give in to panic. Stay confident in your choices and hold your stocks till the market starts to, inexorably, rise up again. This will help you avoid premature losses and ensure that your nominal losses do not transform into real ones.

Mature companies for conservative investors

If you are an investor who prefers to avoid risk at all costs, people may tell you that the stock market is not the place for you. That is not true! You can look for companies with a strong track-record of growth and stable profits to invest in and participate in the growth of the markets while earning robust returns. Look for mature companies with a steady focus on R&D, excellent leadership, and strong foundation in the sector. Such companies may not offer high returns but you can rest assured that your investment will not post sustained losses. Stick with such companies which exhibit a long-term duration and remain invested for the longer period to realize optimal returns.

Should you go the dividend way?

Many investors are keen on picking stocks which offer high dividend payments but it is not, necessarily, a good option. What matters is whether the company is using the underlying capital to offer you the highest possible value. This means that companies which avoids dividend payments to reinvest the capital in building new plants or product development are better poised to offer you strong returns in the future. Understand whether the company is offering you a small payout instead of building future potential before you purchase a stock and remember that a focus on futuristic growth is always better than small dividends. However, also note that the dividend could be a source of regular income for some investors. In such a scenario, if you actually depend on the dividend for your expenses, pick companies which have regular dividend payouts but still maintain a

focus on building capacity for the future.

Things you must avoid

As an investor, there are some things you must, absolutely avoid doing if you wish to build a sound portfolio. These include aspects such as avoiding investments in promotional companies with little or no turnover, taking investment decisions based on just the positive elements showcased in companies' annual reports, and waiting for the stock price to drop to the exact price you wish to pay. If a strong stock is indicating reasonable pricing, chances are that its prices will only go up from there so don't wait for it to drop to the level you have in mind. Also avoid going over the top with diversification as this will lead to lower potential returns and dilution. Look for strong companies that have lived up to your fundamental analysis requirements and diversify astutely for best returns.

If you read through Fisher's book, you will learn two fundamental things. One is how to pick up great stocks and two is how difficult it is to adopt a DIY approach to stock investing. Which is why, if you really want to create a robust equity portfolio, then you should consider investing in mutual funds. It is well-known that mutual funds are investment vehicles that give you an opportunity to build a diversified portfolio spread across multiple investment types like equity, debt, and commodity. However, even within a particular asset class, like equities, mutual funds offer multiple different investment options. For example, as mentioned in the book, if you are an investor who does not have a large appetite for risk then instead of completely avoiding the equity markets you can consider investing in mature companies. With a mutual fund, you can easily get this exposure by investing in large-cap equity funds. This way, you can meet multiple investment requirements and follow the approach that best suits you, with a single investment vehicle.

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