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Finding a Wonderful Company

Understanding the Company's Ability to Compound Capital

This piece is a collection of several articles which help explain my thoughts on *Finding a Wonderful Company*.

A Wonderful Company is one where I can purchase at one moment in time and able to hold for years or decades and experience high returns. The act of buying is easy. The ability to find them and hold is the hard part.

Understanding the company's future return on invested capital (ROIC) is the most important metric I want to understand. Not that I try to figure out the exact number carried out to the fourth decimal, but I should have a high degree of confidence in what a reasonable ROIC should be for a business that I want to purchase. In simple terms, ROIC is the percentage return a company can expect to make per dollar of capital invested in the business.

For example, let's think of a farm. If I pay $100,000 for the land and equipment, and I expect to make $10,000 a year, my return on invested capital is 10%. The higher the ROIC the better.

I am more focused on future ROIC, not the past. Previous ROIC is supporting evidence of a companies' competitive advantage. However, if my view of investing is long-term and my favorite holding period is forever, then the future ROIC is more important than the past. The future ROIC is difficult because quantitative measurements carry less weight than qualitative measures do.

The Importance of a Moat to Sustain High ROIC

One must pause for a second when thinking about the possibility of a company having a high ROIC for a long time. Once the market realizes the high returns a business can have, that should introduce competition. When a business model shows proof of high returns then other investors who want high returns will deploy capital in that industry hoping to repeat the same high returns. Typically, when competition increases the ROIC decreases, and in general economic theory that makes sense. We know that is not always the case.

We can all name companies that had a high ROIC, regardless of competition, for decades. So how does a company sustain a high ROIC for a long time? I call this the sustainability of a company's competitive advantage, or a company's moat (coined by Warren Buffet). Companies with wide moats deserve a higher valuation as opposed to companies with no moats because there is a higher certainty for the ROIC to be attractive for a long time. A company's moat is what defends its high ROIC from being taken away. Real moats are structural and sustainable.

Structural Characteristics of a Moat

Structural in that certain characteristics allow a company to have high ROIC.

Economic characteristics that create a moat:
Network Effects
High Switching cost
Low Cost Provider
Economies of Scale
Intangible Assets (Brand, Patents, Licenses, etc.)

Characteristics mistaken as a moat:
High Market Share
High Market Cap
Technology
Hot Products (Fads)
Good Management

Network Effects

Almost everyone talks about network effects. In simple terms, a network effect is providing a product or service that increases in value as either side of the network increases. More consumers are willing to carry a Visa card if more businesses accept them. More businesses are willing to accept Visa cards if more consumers are willing to carry them. This can create a fly-wheel effect. Network effects can be created by subsidizing one side of the network (Uber subsidizing drivers to sign up) or by investing in user engagement (Facebook).

Network Effects can fail when one side of the network feels abused and separates from it or if user engagement degrades. Another network effect in the same industry can overtake a previous one.

High Switching Cost

Switching Costs exist when it's more expensive, too time-consuming, too high of a risk, or simply impossible for the user to switch. If a company wants to issue a bond they have to get a bond rating from Moody's or S&P. No one is willing to pay me for my rating of their bond issuance. If a company uses a particular accounting or CRM system that is critical to its everyday operations, it's too risky to try switching to something else because what the user has already works so well.

Switching costs normally only evaporates when an entirely new industry appears that is more valuable or cost-effective then what the user is currently using.

Low Cost Provider / Economies of Scale

This is the typical Walmart, Costco, or Amazon model people think about. A business can spread its fixed costs the larger its operations get. The more they can spread their fixed costs the lower they can decrease their prices (cutting the competition). Products get cheaper as the business gets bigger.

There is a second cost advantage that isn't related to how big the business gets. Some markets are so small to address big companies are not willing to enter because the cost would outweigh the benefit. Think about Service Titan. It's a software system for contractors. There are a lot of CRM and software systems that penetrate large markets, but some can focus on a particular industry that others are not willing to go compete in, so they can survive and raise prices comfortably without competition.

Intangible Assets

When a consumer goes to a store and wants to by a beverage, when they see Coke on the shelf they know exactly what it is. A consumer doesn't need anyone to explain it to them, and they are confident that the product is consistent in its quality. That's branding power. You can give someone $1T and they probably couldn't compete with Coke. Everyone has heard of Tide detergent, but a user might not know about the cheaper competitor displayed right next to it. The structure of a brand moat is more vulnerable as it continues to get cheaper to advertise products and services.

Some companies by default have monopolies in their industry. Pharmaceutical companies have a temporary monopoly on their drugs and Verisign has a monopoly over .com & .net website users. These monopolies can come from regulation or patents.

Characteristics Mistaken for a Moat

High market share is not a moat. Think of Motorola in the cell phone market. It rose to 21% of the market share after the Razr, and within 3 years plummeted to 6%. The Razr was a quick fad that captured the minds of consumers for a short amount of time. However, there was no Moat. There was nothing structural that made a consumer want a Razr or any Motorola device for their next phone.

High market capitalization is similar to market share. Companies can grow in size through mergers and acquisitions but be poor investments. Just because a company is large doesn't mean it's a better investment than smaller companies.

Technology is constantly changing and improving. Often a company's technology advantage is temporary and priced like a commodity until the next company creates a cheaper substitute or another company's technology advances further than the previous ones. GoPro came up with a great product and penetrated the market first, but it was too easy to create a similar substitute or a better camera. Without a real structural moat technology itself doesn't create one.

Hot products, like the Motorola Razr and GoPro cameras, created great returns for a short time. The investors who got the gains invested in the products before it became a hot product. Unless there is a structural moat that can create sustainable returns, a hot product doesn't generate high returns for those who invest after the "hot product" status.

Good management is important, but it doesn't create a moat for a business. Great management can maximize the value of a companies' moat and I want to only buy companies with a good management team. However, moats are structural to the business, not the quality of the manager. Some great managers run companies in a tough business that will not generate the same returns as an average manager in an exceptional business. Great management is most important when it comes to companies with a high amount of capital allocation decisions.

There are few exceptions to this. Berkshire Hathaway was extremely successful strictly because of the management of Warren and Charlie. They took a failing textile business and turned it into a half-trillion-dollar company by allocating money from failing businesses and into successful ones. These situations are rare. It's hard finding a wonderful company, but it's much harder finding a manager that will be successful under any business model.

Sustainability of a Moat

Sustainable meaning how long will those structural advantages last. Investors are buying the future results of a company. The longer the sustainability of a companies' structural advantage the wider the moat. I also believe a companies' sustainability (or moat) is never standing still, but either expanding or contracting. The speed at which a moat is expanding or contracting has a heavy influence on a companies' valuation. It also helps not just if the moat is expanding but also has a long runway for expansion. The longer the runway, the more time capital can be reinvested at high ROIC, which will translate into a higher intrinsic value growth.

Now that we have clarified what creates a moat and why sustainability matters, it's important to point out the kind of moat a company has. The three main categories are Legacy Moat, Reinvestment (Compounding) Moat, and Capital-Light Compounding Moat. I borrow these categories from Connor Leonard at Investors Management Corporation (IMC).

Legacy Moat

A legacy moat is when a business has the structural characteristics that created high returns on past ROIC and is enjoying the benefit of that but is no longer able to re-deploy capital into its current business and experience similar high ROIC in the future. Typically, this results in high cash-flow that needs to buy-back shares, pay dividends, mergers and acquisitions (M&A), or build its cash pile (which will later need to buy-back shares, pay dividends to shareholders, or M&A.) The businesses with a Legacy moat is where great management is needed most to capture the full value a legacy moat can offer.

1) *Returning Capital Legacy Moat Companies*

Returning capital to shareholders (cash-flow created from the success of high ROIC in the past) can be done by share buybacks or dividends. These are still great companies, but typically cannot be expected to experience high total returns over a long time. Outsized gains can usually only occur from temporary mispricing in the short to intermediate period. A well-known example of this is Coca-Cola paying most of its earnings out in dividends.

2) *"Outsider" Management Legacy Moat Companies*

There is a book called "The Outsiders" by William Thorndike, which is where the name of these kinds of companies come from and is a great read. This is where the difference between an average manager and a great manager is noticed. The management's number one priority is capital allocation outside of its current business to maximize shareholder value. Quarterly dividend programs are rarely involved because management can produce high ROIC from M&A that is higher than the cash dividend net of tax return the shareholder could experience if he or she received the dividend. The management team can recognize when a private or public company offers a high return on capital when purchased at an attractive price. It's rare to find management teams who can perform this activity consistently, but they are out there. Most notable is Warren Buffet at Berkshire Hathaway.

Aggressive share buybacks can also create high returns for shareholders. This isn't done without regard to stock price. Management maximizes shareholder value when this is done while the stock price is lower than the intrinsic value of a company's shares, not blindly. Think of you owning half a farm with another partner that you believe is worth $2M (each partner owns $1M). If your partner is willing to sell you his or her share of the farm for $800k wouldn't you buy it? In contrast, let's say he or she wants $1.2M for it. You wouldn't buy it. If one expects the intrinsic value of a company to grow at 8% per annum, buying back shares when prices are low increases the growth of its intrinsic value above 8% versus destroying value by buying back shares when prices are too high. Henry Singleton was successful in doing this at Teledyne.

Great "Outsider" management can execute thoughtful capital allocation when it delivers the highest value to shareholders.

Reinvestment (Compounding) Moat

A Reinvestment (Compounding) Moat is when a business has the structural characteristics that created the ability for a company to experience high ROIC and has the ability (long runway) to reinvest capital into its business. This creates a compounding effect for the business operations which will continue to grow intrinsic value at attractive returns. All management needs to do is focus on reinvesting into the moat of the business. Widening a moat is always easier than digging a new one. When companies like Walmart and Costco first IPO, their focus was to open more stores in advantageous locations. A company has those few variables like Walmart did decades ago, open another store that will continue to experience high ROIC. Walmart doesn't have that long runway anymore. That doesn't mean Walmart can't be a good investment, but they don't have a compounding moat anymore. A long runway of reinvestment opportunities at high ROIC maximizes the value of the company's competitive advantage and also lowers the risk of management performing value-destructive capital allocation.

An investor has to remember that often times internal investments are recorded on the income statement. Sometimes a company with little (sometimes negative) net income can be very valuable…. Wait, losing money can be valuable? No losing money is destructive, but sometimes companies can look like they are not making money by GAAP standards. In reality GAAP doesn't reflect accurately what the true earnings power (owners' earnings) of a company is. An investor must understand the economics of the business well enough to understand the future earnings power instead of only looking at the current GAAP net income figure.

Let's use Walmart and Amazon as examples. Walmart in 1972 showed a GAAP profit and showed a good profit for most of its reinvestment moat period. Remember, Walmart's reinvestment was in stores, which means physical buildings. GAAP allows for this type of investment to be capitalized, meaning that only a portion of the investment has to show on its current years' income statement. This means the expense category is less, and net income is higher. Walmart can stretch out the cost of a commercial building for 39 years. Amazon in 1997 showed a negative GAAP profit and often did so for many years. Even years when they experience positive net income, it was viewed as too low compared to their revenue or market cap. Amazon does have equipment and buildings it can capitalize on, but most of its investments were focused on other assets. Software, research and development, sales and marketing expense, high-level engineers, and other investments have to be recorded as an expense the year it occurred. If Amazon was able to record only 1/39th of those investments as an expense they would have looked more profitable over the years. Looking back, you can see they used very little debt to grow, shares have been issued to raise capital but not too dramatic, yet you can see business operations expanding at a high rate while cash has been building up nicely especially the last 10 years. This doesn't mean all companies selling at high multiples are good businesses. It just requires looking under the hood a little to fully understand the economics of business well enough to know what the true earnings power is, as opposed to setting a screen filter.

Although good management is valuable, having a reinvestment moat leaves less room for bad management to destroy value. For example, it's not hard for most managers to figure out "*more stores equal high return, let's open another store*." Management still needs to make sure they open the store in an advantageous area, but this is much easier than management making high-value capital-allocation decisions. Amazon's focus is on improving user experience. Facebook's focus is to create and drive user engagement. If a company can reinvest 80% of its cash flow back into the business that continues to compound at high ROIC, the remaining 20% can build up in cash. Even if management makes bad allocation decisions, it's not as destructive to shareholder value if the opposite was true. Let's say management can only invest 20% at high rates and has 80% of cash flow building up in cash. This cash pile that is growing quickly entices management to do something with it. Otherwise, they will hear from Wall Street analysts and activist shareholders how cash not being put to work is worthless. So, management decides to do M&A or share buyback programs to please them, only to destroy value with bad capital allocation. Management who does this with 80% of cash flow is immensely more destructive than management who can only destroy 20% of the value.

Capital-Light Compounding Moat

Capital-Light Compounding Moat is a business that has the structural characteristics in which the growth of its earnings power requires little to no capital investment. The future growth of its earnings power instead comes from what created the moat of the business in the first place. This is true for some, but not all, companies whose primary moat feature comes from network effects, subscription models, or some sort of intangible assets. Future growth is not contingent on capital expenditure.

Think of the network effect for Visa and MasterCard. Over the last 20 years, their operating leverage has grown substantially. The moat of their business grows each time a new user is added. The more people who use V or MA, the more merchants want to accept them. The more merchants who accept V & MA the more attractive it is for users to use them. V & MA growth of intrinsic value is directly tied to the network growth; each time someone uses their card they make money. The incremental cost of that next cardholder, actually the next swipe of a card, is nothing. 20 years ago, you could look at their operating margins maybe around 10-20%. Not great, but not bad. However, if you understood the economic moat of their business and think, "*How do they get paid, what is the cost of the next user (or swipe) growth*," you would probably conclude they really should experience nice operating leverage from their network effect.

Not all network effects are the same. The success of Facebook's network effect is user engagement. However, Facebook doesn't necessarily make more money if you use their product more, they make more money as businesses buy advertising because of the return per dollar spent on their platform. Granted the more people are on a FB product the more chances they have to advertise effectively, but FB has a reinvestment moat because they are investing in their product to keep user engagement and adding advertising features for others to purchase. As opposed to the next swipe on a V or MA card, which requires almost no capital investment.

Capital-Light Compounding Moats may have a similar problem that a Legacy Moat has when it comes to handling capital. Because the business doesn't have to reinvest in its business to grow, they keep their cash-flow (what a great problem to have). So what does management do with that excess cash flow? Management could look into M&A opportunity, but that could be risky because unlike a legacy moat the business is still compounding. V and MA can't invest in anything that can have as high ROIC as their core business model does. There may be some M&A opportunities that have good returns, but not as high as their original business. Just like a Legacy Moat business (and for that matter every business) management needs to be thoughtful about capital allocation. Buying back shares in a business that doesn't need much capital investment and is compounding at attractive rates can be a great strategy.

The Importance of High ROIC

Understanding the protection a moat gives a company to experience high ROIC is only important to those who have a long holding period. Most investors (probably most investment managers) hold a stock for less than a year on average. Multiple expansion and news sentiment are what drives returns for those who buy and sell securities in the short term. ROIC is for those who want to hold securities for the long term because time is on your side. The longer the holding period the more the operations of the business have to compound at a high rate.

> *If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different than a 6% return - even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result.* – Charlie Munger

Let's look at table 1 for an example. We are comparing two businesses starting at the same price. Company A (Stalwart) can re-invest all of its earnings at 5% and is selling at 10 times earnings, versus Company B (Compounder) can re-invest all of its earnings at 20% and is selling at 25 times earnings. Let's assume after the time of purchase the multiple of each company moves to 15 (great for Company A, bad for Company B.)

Table 1

Company A						
Year	**Earnings**	**Re-invest**	**ROIC**	**Multiple**	**Price**	**Return**
0	$ 1.00	100%	5%	10	$ 10.00	*0%*
1	$ 1.05			15	$ 15.75	*58%*
2	$ 1.10			15	$ 16.54	*29%*
3	$ 1.16			15	$ 17.36	*20%*
4	$ 1.22			15	$ 18.23	*16%*
5	$ 1.28			15	$ 19.14	*14%*
7	$ 1.41			15	$ 21.11	*11%*
10	$ 1.63			15	$ 24.43	*9%*
15	$ 2.08			15	$ 31.18	*8%*
20	$ 2.65			15	$ 39.80	*7%*

Company B						
Year	**Earnings**	**Re-Invest**	**ROIC**	**Multiple**	**Price**	**Return**
0	$ 0.40	100%	20%	25	$ 10.00	*0%*
1	$ 0.48			15	$ 7.20	*-28%*
2	$ 0.58			15	$ 8.64	*-7%*
3	$ 0.69			15	$ 10.37	*1%*
4	$ 0.83			15	$ 12.44	*6%*
5	$ 1.00			15	$ 14.93	*8%*
7	$ 1.43			15	$ 21.50	*12%*
10	$ 2.48			15	$ 37.15	*14%*
15	$ 6.16			15	$ 92.44	*16%*
20	$ 15.34			15	$ 230.03	*17%*

As you can see Company A was a much better investment in the short term, mainly due to the 50% increase in multiple versus Company B having a decrease of 40%. As time goes on Company B becomes a much better investment because of the ROIC.

Looking at year 1, the price of Company A goes up by $5.75 (58%). $5 (87%) of the increase came from multiple expansion. Only $0.75 of the price could be attributed to earnings growth.

Making the situation a little more realistic, when the market recognizes Company B is compounding earnings at 20% versus Company A' compounding at 5%, both of their multiples would not stay the same for a long time. In our next table, let's assume Company A increases it's multiple to 12 after purchase while Company B decreases it's multiple to 20.

Table 2

Company A						
Year	Earnings	Re-invest	ROIC	Multiple	Price	Return
0	$ 1.00	100%	5%	10	$ 10.00	*0%*
1	$ 1.05			12	$ 12.60	*26%*
2	$ 1.10			12	$ 13.23	*15%*
3	$ 1.16			12	$ 13.89	*12%*
4	$ 1.22			12	$ 14.59	*10%*
5	$ 1.28			12	$ 15.32	*9%*
10	$ 1.63			12	$ 19.55	*7%*
15	$ 2.08			12	$ 24.95	*6%*
20	$ 2.65			12	$ 31.84	*6%*

Company B						
Year	Earnings	Re-Invest	ROIC	Multiple	Price	Return
0	$ 0.40	100%	20%	25	$ 10.00	*0%*
1	$ 0.48			20	$ 9.60	*-4%*
2	$ 0.58			20	$ 11.52	*7%*
3	$ 0.69			20	$ 13.82	*11%*
4	$ 0.83			20	$ 16.59	*13%*
5	$ 1.00			20	$ 19.91	*15%*
10	$ 2.48			20	$ 49.53	*17%*
15	$ 6.16			20	$ 123.26	*18%*
20	$ 15.34			20	$ 306.70	*19%*

Now we see our "break-even" decrease from year 7 to year 3. Going a step further, after year 1 you don't want to hold Company A anymore. You are probably going to sell it and take the profits because you know you can't make much more than the ROIC for a long time without multiple expansion. Once multiple expansion is recognized an investor wants to sell and move on quickly.

There is one more risk to Company A, there is no guarantee the multiple will go up after purchase. It's possible after purchasing Company A the multiple gets suppressed to 8 or lower. We used a permanently suppressed multiple in both tables for Company B and witnessed that over time the return on your investment was still attractive. Buying companies with high ROIC decreases your risk even if multiples contract over time.

Just like our Charlie Munger quote, over time the result of your purchase will be similar to the ROIC the company will experience.

The Importance of Re-Investment

In our previous examples, both companies were able to invest ALL of their earnings. What if a company has high ROIC but can only invest a smaller portion of earnings to do so? In table 3 I adjusted Company A to have the same high ROIC but only able to re-invest 50% of earnings while maintaining 20 times multiple. Company B can re-invest 100% of earnings but stating at 30 times earnings and contracting to 20. We still see that over a long time Company B is a better investment.

Table 3

Company A						
Year	Earnings	Re-invest	ROIC	Multiple	Price	Return
0	$ 0.50	50%	20%	20	$ 10.00	*0%*
1	$ 0.55			20	$ 11.00	*10%*
2	$ 0.61			20	$ 12.10	*10%*
3	$ 0.67			20	$ 13.31	*10%*
4	$ 0.73			20	$ 14.64	*10%*
5	$ 0.81			20	$ 16.11	*10%*
10	$ 1.30			20	$ 25.94	*10%*
15	$ 2.09			20	$ 41.77	*10%*
20	$ 3.36			20	$ 67.27	*10%*

Company B						
Year	Earnings	Re-Invest	ROIC	Multiple	Price	Return
0	$ 0.33	100%	20%	30	$ 10.00	*0%*
1	$ 0.40			20	$ 8.00	*-20%*
2	$ 0.48			20	$ 9.60	*-2%*
3	$ 0.58			20	$ 11.52	*5%*
4	$ 0.69			20	$ 13.82	*8%*
5	$ 0.83			20	$ 16.59	*11%*
10	$ 2.06			20	$ 41.28	*15%*
15	$ 5.14			20	$ 102.71	*17%*
20	$ 12.78			20	$ 255.58	*18%*

The question that should come up is, "*What is Company A doing with the other 50% of earnings*?" That's a good question and is one an investor should understand. If Company A is building cash to strengthen its balance sheet that's great, but at some point, shareholders want their money returned. This is where management and capital allocation is so important.

Paying dividends is fine, but over time it's not as attractive because returns are net of taxes and are not compounding. Buying back shares is good only when the company is trading lower than intrinsic value. Buying back shares above intrinsic value is destructive. M&A can experience high ROIC, but as we discussed before this is rare. Most M&A activity is destructive and is normally management just making the company bigger versus more valuable to shareholders. Very few equity managers have attractive returns net of fees, and even fewer management teams can consistently execute M&A activity at attractive returns. This is why I want to hold for a long time a company with a long runway to invest the majority of earnings at attractive ROIC.

The exception to this is the Capital-Light Compounders. If management does nothing with the earnings while still growing at attractive rates, we get a good result. If management is active in deploying capital outside of its business, there is a chance it's destructive. Few management teams can consistently execute valuable allocation outside of its core business.

Focus on the Wonderful Companies

Those who have learned from Buffet and Munger think about them saying, "*buying a wonderful company at a fair price is better than buying a fair company at a wonderful price.*" Valuation multiples expand and contract and it's possible to lose money in the short term. As long as the intrinsic value can compound at a high rate, time becomes your friend. When you buy a fair company at a wonderful price, you plan to sell that company when it reaches its fair price. Then you have to look for another one with the proceeds of that investment. This doesn't mean buy a wonderful company regardless of price, but don't wait for that "wonderful price". This is where some of those who classify themselves as "value" investors can get in trouble. They screen away the companies selling at high multiples, hoping to find a company selling "cheap" compared to its current assets or income. This is not inherently a bad strategy and a lot of investors make good money doing this. Having said that, some try to look for wonderful companies they want to hold for the long term, but they first set statistical filters and look at only low multiple companies. It's hard to find a company with 25%+ ROIC that sells for less than the S&P500's P/E multiple. When you buy a wonderful company at a fair price you get to enjoy the ride of intrinsic value compounding at high rates. Finding temporarily mispriced securities is difficult in today's public equity markets. It's not the same as Warren reading through Moody's manual in the 1950s and finding a good insurance business trading at 2 times earnings. There are so many quantitative firms and other managers that are scraping the barrel for "cheap" companies that I don't have an edge. Instead, my edge is focusing on finding wonderful companies and holding for a long time.

I love this quote from Buffet.

"The best business is a royalty on the growth of others, requiring little capital itself." – Warren Buffet

In other words, the best business can offer a product or service that requires X amount of capital in year one, and in year 5 that business might earn 5 times as much as year 1, but it required not much more than X to do it. The growth of their business is off of the backs of economic trends (like moving to mobile payments) or from the investment of others. An example of that over the years is Microsoft. Think about the investment PC firms in the ’80s, ’90s, and even today commit to creating a better computer. Microsoft comes up with an operating system that PC firms use for their product and pays them a license fee per computer sold. On top of that, Microsoft comes up with other software products that work well with their operating system. Microsoft rode the wave of the home computer and benefited from the investments of PC companies making computers faster and more user friendly. All Microsoft had to do was invest in its product security, and come out with another operating system every 3, 5, 7 years? The reality is they can come out with a new system whenever they wanted, as long as that system showed improvement. As opposed to a PC firm investing heavily every quarter to make their product better because the competition is doing the same thing. In the past, Microsoft did commit capital investment but very little per dollar of revenue growth. Their ROIC was high for a long time.

This is why the idea of a circle of competence is so important. You have to understand the economics of a business model well when buying a stock. Remember, investing is a no called strike game. Unless you receive that fat pitch you like, don’t swing. Understanding the moat is important to understand the future ROIC a company will experience. I spend most of my time reading, studying, and trying to understand who the wonderful companies are. When I find a wonderful company within my circle I worry more about not paying too much versus making sure I buy it “cheap”. Most wonderful companies seem expensive (at first glance) for most of their life. If you sit on the sidelines because one is not “cheap” enough then you will miss out on most of the returns. Price is important, but it’s ok buying a wonderful company at a fair price. The most important thing I can do is focus on finding a wonderful company, not finding a wonderful price.
