

15 Points in a Common Stock Checklist

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Previously I had written about [a list of Don'ts](#) that was listed in [Common Stocks and Uncommon Profits](#). I said that I would do a book review, but because there is a **ton** of timeless quotes and information, I will leave it up to you to read it on your own to appreciate its full goodness.

Timeless Advice by Phil Fisher

Throughout this blog, I've stated numerous times that great management **must be** a part of your company. I would go as far as to say that generally, the importance of stock price is 35% and management 65%.

what really counts is a management having both a determination to attain further growth and an ability to bring its plans to completion. – Fisher

Scuttlebutt

Scuttlebutt, a **verb** created by Fisher where the investor scrabbles information from all sources to obtain a complete view of the company business, prospects, management and competitors.

I am aware that most investors are not in a position to do for themselves much of what is needed to get the most from their investment funds. – Fisher

Investing is by no means simple. In order to become better, time has to be invested. Not all people find the time to research companies, but there are many shortcuts and methods of finding information. Some of those methods are towards the end.

For now, I will now go through the 15 point checklist that Phil Fisher highly adhered to throughout his investing career.

15 Points in a Common Stock Checklist

1. Does the company have the products or services with sufficient market potential to make possible a sizable increase in sales for at least several years?

Don't invest in a company like Heely's or Crocs which are temporary one hit wonder fads. Find a company with a competitive edge offering products and services that help businesses make money. If a business is able to help other businesses make money, there is something good going on.

2. Does the management have a determination to continue to develop products or processes that will still further increase total sales potentials when the growth potentials of currently attractive product lines have largely been exploited?

Is management exploring ways to create further business opportunities? Or is it like Motorola where they

took the Razr phenomenon and milked every single drop? I must admit, in this point, Apple did an excellent job from being a second rate PC company to a consumer electronics dynamite. We'll see what they can do now that the iPod market has saturated.

3. How effective are the company's research and development efforts in relation to its size?

Pretty simple as it is. Is the company overspending or underspending?

4. Does the company have an above average sales organization?

No matter how good a product is, it is useless if it can't be sold. Many investors don't pay as much attention to the efficiency of a company's sales, advertising, and distribution.

*It is the making of repeat sales to satisfied customers that is the first benchmark of success
– Fisher*

Go to Google and search "Anti (company name)" and you will get a whole list of hate sites. Here you will get a good idea of why customers are not satisfied. People outside the company are seldom hesitant in expressing their views.

5. Does the company have a worthwhile profit margin?

During a good year, even bad company's will increase their profit margin by a considerable amount. Why? Percentage wise, if a company has small margins to begin with, any additional increase is a large increase in percentage.

Conversely, a company with broad margins may not have a great percentage increase as the marginal companies, but in bad times, their margins do not drop significantly as well.

So don't be fooled by Wall Streets claims of "huge % increase". Look at the real numbers to see how they will fair.

6. What is the company doing to maintain or improve profit margins?

The success of a stock purchase does not depend on what is generally known about a company at the time the purchase is made. Rather, it depends upon what gets to be known about it after the stock has been bought – Fisher

7. Does the company have outstanding labor and personnel relations?

By labor relations, Fisher refers to employees and also union workers.

Why do workers feel unusually loyal to one employer and resentful of another? – Fisher

Companies with good labor relations usually are the ones making every effort to settle grievances quickly... The investor who buys into a situation in which a significant part of earnings comes from paying below standard wages for the area involved may in time have serious trouble on his hands – Fisher

8. Does the company have outstanding executive relations?

9. Does the company have depth to its management?

the investor should have some idea of what can be done to prevent corporate disaster if the key man should no longer be available. – Fisher

I wonder how Apple will fair should Steve Jobs suddenly quit..

10. How good are the company's cost analysis and accounting controls?

Are accounting practices better or on par with Enron or Worldcom?

11. Are there other aspects of the business, somewhat peculiar to the industry involved, which will give the investor important clues as to how outstanding the company may be in relation to its competition?

in most important operations involving retailing, the degree of skill a company has in handling real estate matters – the quality of its leases, for instance – is of great significance. – Fisher

12. Does the company have a short range or long range outlook in regards to profits?

Any company that is prepared to sacrifice short term profits in order to produce maximum long term growth and profit is an admirable company and one worthy of investigating.

13. In the foreseeable future, will the growth of the company require sufficient equity financing so that the larger number of shares then outstanding will largely cancel the existing stockholders' benefit from this anticipated growth?

what really matters is whether the company's cash plus further borrowing ability is sufficient to take care of the capital needed to exploit the prospects of the next several years. – Fisher

14. Does the management talk freely to investors about its affairs when things are going well but “clam up” when troubles and disappointments occur?

A great inverse example is K-Swiss. Great management who are open and transparent about their business and operations. You can listen to the conference call at earnings.com.

15. Does the company have a management of unquestionable integrity?

Do you want to invest in Enron, Lucent, Worldcom, [South Sea Bubble](#) or [England's Enron](#)?

Nothing is Easy

If it was... you, me and everyone else would be a billionaire.

Trying to find an answer to all those questions is a time staking daunting task. Without answering at least some of these questions you shouldn't be buying the company anyways.

This checklist also provides some time to think rather than acting on emotion and buying just because you got a whiff of some hot inside information.

Where Do I Look

I understand many don't have the time or interest to perform the research themselves, but to those who are, here are some points that I follow.

- Read the documents on the [SEC](#) website. It is a mountain of priceless filing information for every publicly traded company.
- Listen to conference earnings calls from [earnings.com](#). The Q&A section is the juicy part.
- Read a few years worth of annual reports.
- Read the competitors annual reports.
- Don't buy because you think you will miss out if you don't buy at the current price. 50% price drops can happen in a day, but sudden 50% rises rarely occur. Don't let your anxiety of missing out tempt you into making bad decisions.