A Warren Buffet styled "Investment checklist"

(extract from "Conquest Management - a guide to the top". Whitepaper available from *www.davidparmenter.com*

By David Parmenter

Warren Buffet, called by many as the "greatest investor alive today" has always been vey open about the way Berkshire Hathaway invests. The annual reports are said by many to be compulsory reading to anybody who wants to improve their investment 'success rate'.

Many books have been written outlining Warren Buffet's approach. I originally developed this checklist to help me gain an insight into Warren Buffet's approach. I hope it clarifies the approach to you as the checklist has done for me. Whilst this checklist needs fine tuning I am confident that it represents an 80/20 fit to the great man's philosophy.

This checklist is designed for:

- Individuals who are investing part of their savings in the stock market
- Fund managers, who know they 'do not know all the answers'
- Companies who are contemplating an 'investment takeover'

I need to clarify what I mean by a 'investment takeover'. I believe there are two basic types of takeover and merger. One is where you buy an organisation and leave it alone (an investment takeover) and the other is where you buy it on the assumption that a merged entity will produce synergies (a synergy merger).

For companies contemplating a synergy merger, please read my article 'Why TOMs (takeovers or mergers) go bad'.

A Warren Buffet styled "Investment checklist"	Is it covered?
Business tenets	
1. Is the business understandable?	❏ Yes ❏ No
2. Do you know how the money is made?	❏ Yes ❏ No
3. Does the business have a consistent operating history?	❏ Yes ❏ No
4. Does the company have favourable long term prospects?	❏ Yes ❏ No
5. Is there a big moat around the business (a high threshold of entry) ?	❏ Yes ❏ No
6. Is it a business that even a dummy could make money in?	❏ Yes ❏ No
7. Can current operations be maintained without too much needing to be spent?	❏ Yes ❏ No
8. Is the company free to adjust prices to inflation?	❏ Yes ❏ No
9. Have you read the annual reports of the main competitors?	❏ Yes ❏ No

Management tenets	
10. Has the management demonstrated a high degree of integrity (honesty)?	❑ Yes ❑ No
11. Has the management demonstrated a high degree of intelligence?	❑ Yes ❑ No
12. Has the management demonstrated a high degree of energy?	❑ Yes ❑ No
13. Is management rational?	❑ Yes ❑ No
14. Is management candid with shareholders (evidence in the past of open disclosure to the shareholders when there have been problems)?	❑ Yes ❑ No
15. Has management resisted the temptation to grow quickly by merger?	❑ Yes ❑ No
16. Has management the strength not to follow the institutional imperatives (avoid following current business and sector fads)?	❑ Yes ❑ No
17. Has the business been free of a major merger in the last 3 years (many merger failures come out of the woodwork within this period) ?	❑ Yes ❑ No
18. Are stock options tied to SMT performance rather organisation's performance (if your team wins you do not pay a .35 hitter the same as a .15 hitter.) ?	❑ Yes ❑ No
19. Are stock options treated as an expense?	❑ Yes ❑ No
Financial tenets	
20. Is the return on equity adequate?	❑ Yes ❑ No
21. Is the company conservatively financed?	❑ Yes ❑ No
22. Has the company had a track record of earnings growth in most years above the stock market average?	❑ Yes ❑ No
23. Are the profit margins attractive (better than industry)?	❑ Yes ❑ No
24. Has the company created at least one dollar of market value for every dollar of earnings retained?	❑ Yes ❑ No
Value tenets	
25. Is the value of discounted earnings greater than the current market value?	❑ Yes ❑ No
26. Have you discounted at a rate equal or greater than the 10 year bond rate (risk free rate) ?	❑ Yes ❑ No
27. Have cash flows been based on net income, plus	❑ Yes ❑ No

depreciation, depletion, and amortization, less capital expenditure and additional working capital requirements?	
28. Has the company been temporarily punished for a specific risk that is not a long term risk (the market tends to over punish the share price)?	❑ Yes ❑ No

Commonly Referred To Sayings of Warren Buffett

The critical investment factor is determining the intrinsic value of a business and paying a fair or bargain price.

Never invest in a business you cannot understand.

Risk can be greatly reduced by concentrating on only a few holdings.

Stop trying to predict the direction of the stock market, the economy, interest rates, or elections.

You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right.

Be fearful when others are greedy and greedy only when others are fearful.

Unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market.

It is optimism that is the enemy of the rational buyer.

As far as you are concerned, the stock market does not exist. Ignore it.

It is more important to say "no" to an opportunity, than to say "yes".

Much success can be attributed to inactivity. Most investors cannot resist the temptation to constantly buy and sell.

Lethargy, bordering on sloth should remain the cornerstone of an investment style.

An investor should act as though he had a lifetime decision card with just twenty punches on it.

Wild swings in share prices have more to do with the "lemming- like" behaviour of institutional investors than with the aggregate returns of the company they own.

"Turnarounds" seldom turn.

Do not take yearly results too seriously. Instead, focus on four or five-year averages.

The advice "you never go broke taking a profit" is foolish.

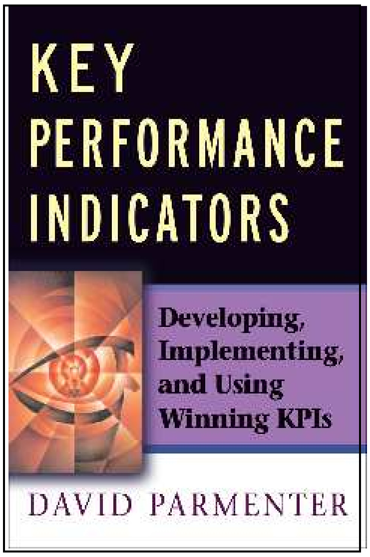
Always invest for the long term.

Remember that the stock market is manic-depressive.

Buy a business, don't rent stocks. Wide diversification is only required when investors do not understand what they are doing.

An investor should ordinarily hold a small piece of an outstanding business with the same tenacity that an owner would exhibit if he owned all of that business.

Writer's biography



David Parmenter is the CEO of waymark solutions. Besides helping organisations implement their winning KPIs David also helps organisations to: streamline their month-end reporting and annual planning processes, implement quarterly rolling forecasts, adopt the principles of beyond budgeting, and develop decision based reports. His speaking engagements included Scotland, Ireland, England, South Africa, Iran, Czech Republic, Malaysia, Singapore, Johannesburg, Australia and New Zealand.
John Wiley & Sons Inc. published two of his books in 2007: *Key Performance Indicators – developing, implementing and using winning KPIs* and *Pareto's 80/20 Rule for the Corporate Accountant – better practices from winning finance teams*. He has written over 30 articles for the accounting and management Journals in Australia, Malaysia, Ireland, England and New Zealand. His articles published include: "quarterly rolling planning - removing the barriers to success", "Throw away the annual budget", "Maybe its time to look at your KPIs", "seven time wasters", and "quick month end reporting", "Beware corporate mergers", "Implementing a Balanced Scorecard in 16 weeks not 16 months", "Convert your monthly reporting to a management tool", "Smash through the performance barrier", "Is your board reporting process out of control?"

David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants in England and Wales. He can be contacted at parmenter@waymark.co.nz or telephone +64 4 499 0007 He has recently completed a series of white papers which can be purchased from his website http://www.waymark.co.nz.His recent thinking is accessible from www.DavidParmenter.Com