How to Pick Stocks:

The 5-Step Checklist

RULE

So, you're ready to invest?

If you've made it this far, you're off to a great start, but it takes a commitment to yourself, a little bit of time, and some research to take the next step and become a true Rule #1 Investor.

This is why I have put together this 5-step checklist, founded on the core principles of Rule #1 Investing, to help you learn how to pick the right stocks for you, so you can set yourself up for retirement, improve your financial future, and create generational wealth.

You'll gain the knowledge you need to:

- ***Identify wonderful businesses and know when to buy them***
- ***Generate consistent returns annually***
- ***Reduce your risk and get your money off the table sooner***

You can use these strategies both now and in the future to build a robust portfolio and experience great returns on your investments year over year.

Are you ready? *Let's get started!*

Step 1:
Make a Promise to Yourself

The first step makes all the difference in how likely you are to succeed. Make a promise to yourself that you won't just start investing, but you'll stick with it and commit to improving your financial future.

Many people break promises to themselves FIRST, but I want you to imagine you're making a promise to a friend and you're going to do everything you can to keep it. Promises you make to improve your life and achieve your own success are the most important kind.

Is your financial freedom important enough for you to promise yourself that you'll get there? If the answer is yes, here are a few tips to help you stay committed to your investment journey:

- **Write down actionable steps you can take each week and do them**
- **Enlist a friend or family member to go on this journey with you or keep you accountable**
- **Gain confidence with small investments that follow all the rules to start**

Remember

This is not a goal,
this is a promise.

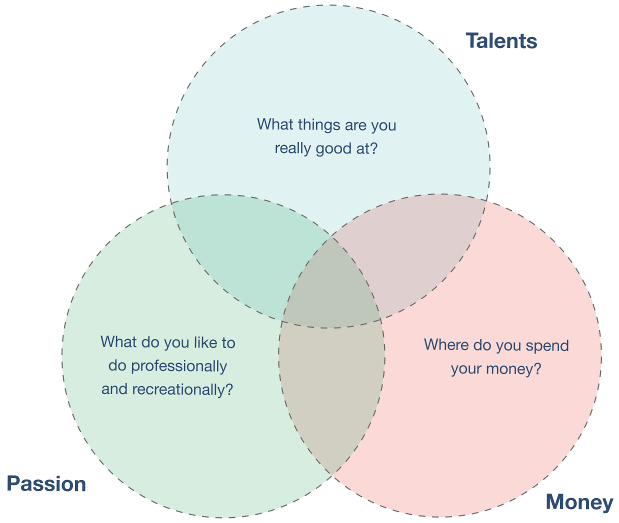
Once you've made a promise to yourself, *you're ready to move on to step two.*

Step 2:
Determine What You Know

Picking stocks is not like picking companies out of a hat.

It requires a bit of investigative work to understand the company's mission, management, earnings, direction, competition, and more.

That's why it's important to invest in businesses that you know quite a bit about. A great way to figure out where to start is by creating your **"Circle of Competence."**



WHAT IS A CIRCLE OF COMPETENCE?

It's the section between three circles where your passion (what you love to do), talents (what you're good at), and money (what you spend your money on) overlap.

You can create your own circle of competence by drawing a diagram, or simply thinking about the areas where your personal passions, talents, and money overlap. This circle reflects the industries and sectors you have the most knowledge of and where you should search for companies to invest in.

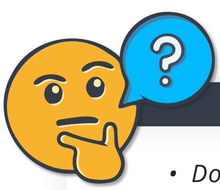
Step 3:
Research The Companies

Once you have established what sectors, industries, and companies fall into your circle of competence, you can begin to research those companies and determine whether or not they meet the Rule #1 criteria.

In order to be a good pick, a company must meet what I like to call the 4 Ms.

The 4 Ms of Rule #1 Investing

Meaning: The company should have meaning to you and you should believe in what they stand for. Try asking yourself these questions:



Questions

- *Do you know the company's values and do they align with your own?*
- *Do you use the product or service it provides and/or love what it stands for?*
- *Would you be proud to tell someone you have invested in this business?*

Moat: A moat is something that gives a company a leg up over the competition, thus protecting it. A moat can be a company's brand (think Coca-Cola) or its ability to beat prices (think Walmart). If a company has patented technology, control over the market, or a product or service customers would never switch from, it also has a moat. A good company will have something that prevents new businesses entering the same market from overtaking it.

Step 3:
Research The Companies *(cont.)*

Management: You wouldn't board a ship with a captain you don't trust. Similarly, you shouldn't invest in a company whose leadership you don't trust. **The business is only as good as the people at its helm, making the big decisions.** Perform a background check on the leadership, paying close attention to the integrity and success of their prior decisions. Listen to how the management talks about the successes of the business, and listen even more closely to how they talk about the failures. If they're taking responsibility and there's a clear, understandable plan in place, those are good signs. **Conversely, if they're shifting the blame and there's no plan to recover, that's a bad sign.**

Margin of Safety: When you buy a business, there is no guarantee that it will increase in value over time or that it won't experience problems along the way. But if you buy it at a low or undervalued price, you still give yourself room to experience gains even if problems arise. That room is the Margin of Safety. Can you buy this company with a margin of safety based on its value to you? Rule #1 investors use a 50% margin of safety - meaning that when a company seems intrinsically valuable, but is on sale for HALF of what we think it's worth, you can buy it with confidence that you're still likely to make more than you lose.

Remember

Go through the 4 Ms of each company you are considering
to get a better understanding of whether or not it seems like the value of the company will grow over time.

Step 4:
Analyze The Numbers

When investigating a company, the 4 Ms aren't all you need to look out for.

The Big 5 numbers are equally as important and will help you determine whether a business can provide at least a 15% return each year, making it a solid investment.

The Big 5 Numbers of Rule #1 Investing

1 ROIC: Return on Investment Capital

Why You Should Care

ROIC is a good measure of how effectively a company's management uses the money that it invests back into operations. If they do this well, it means they are invested in the owner's (your) interest.

2 Sales/Revenue Growth Rate

Why You Should Care

The Sales Growth Rate shows whether the total money a company earns is increasing or decreasing over time. When you look at 10 years of sales growth rates, you will have a good idea of whether that company is performing well and growing more each year.

3 EPS: Earnings Per Share Growth Rate

Why You Should Care

EPS Growth Rate shows the trend of how much money the business is making for its owners over a given period of time due to changes in profit and issuing new shares.

4 Equity Growth Rate

Why You Should Care

Standard equity will vary from industry to industry, but the equity growth rate will show you if a business can continue to generate ample funds to pay off debt and spend on increasing its market or developing new products.

5 Operating Cash Flow Growth Rate

Why You Should Care

The Operating Cash Flow Growth Rate shows if the company's real cash is growing along with its profits. Real cash is key to a company's ability to operate and its overall health.

These numbers are powerful indicators of a good investment. To make a good investment, ***all 5 numbers for a company should be equal to or greater than 10% per year, on average, for the last 10 years.***

Step 5:
Create a Watchlist

What Is A Watchlist?

A list of stocks "to watch" *until they go on sale and you can buy them.*

Now that you have researched and selected the wonderful businesses worthy of your investment, you may be ready to hit "buy," but, remember, you have to buy them at the right price.

Even though you know what to invest in, it may not be the right time to invest in it. Add the stocks to your watchlist until the time is right.

Be Patient.

Buying stocks at a "sale" price **reduces your risk significantly** and increases your chance of bigger returns.

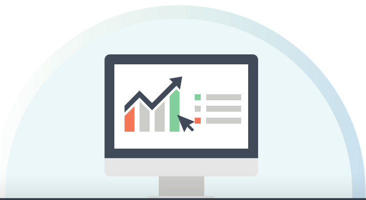
Eventually, the businesses on your watch list will go on sale for a price that allows you to buy them within your margin of safety.

> ***Picking stocks is not like picking companies out of a hat.*** *It requires a bit of investigative work to understand the company's mission, management, earnings, direction, competition, and more.*

Webinar

You've completed your crash course in investing!

If you follow these 5 simple steps, you'll be well on your way to picking stocks that will provide great returns for years to come. ***And like Warren Buffett said***, you should treat your investments like you have a punch card with 20 holes and you want to spend your entire life punching it off. You don't need to invest in a lot of different companies in order to be successful.



Free Webinar

For the next steps, join me for a free webinar on how to invest like the best investors in the world. I will provide you with important keys to understanding the stock market and investing so you can feel even more confident when picking stocks for your portfolio.

Claim your free spot here!

About **Phil**

Phil Town is an expert investor, 3x New York Times Best Selling Author, and founder of Rule #1 Investing, the largest value investing training company in the world.

Phil Town's Rule #1 strategy was ranked **#1 highest return** in the US in 2014 at 56.4% and the **#2 highest return** in 2019 at 62.6% by the American Association for Individual Investors.

For more than 15 years Phil has been teaching students how to invest with low-risk, high-yield strategies pioneered by Warren Buffett and Charlie Munger at his 3-day Transformational Investing Workshops. These workshops have been hosted for students in the U.S.A., Canada, Singapore and many other countries, as well as online during the COVID-19 pandemic. Town has spoken to over 2 million people and been on stage with Presidents Ford, Carter, Clinton, and Bush as well as many other notable names including Prime Ministers Margaret Thatcher and Benjamin Netanyahu and General Secretary Mikail Gorbachev.

Phil and his daughter, Danielle Town, co-host the podcast, InvestED, one of US News and World Report's "Top Nine Financial Podcasts", where listeners gain insights on investing as Phil teaches the secrets of Warren Buffett style investing. Phil Town has been featured on CNBC, FOX, MSNBC, Forbes, New York Times, and more and runs a successful YouTube channel with over 300,000 subscribers.

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