



Investing 201

Investing process

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Industry Analysis

Investment
Vehicle

Risk Management

Regulatory
Environment

Asset Allocation

Stock Picking



Popular Investing Strategies

**Growth at a reasonable
price (GARP)**

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Overview

- **GARP investing is a hybrid strategy that combines elements of both growth investing and value investing**
- **The aim is to find companies that are growing earnings at a reasonable price, avoiding overpriced stocks while still capturing growth potential**

Key Principles

- **Moderate Growth Rates:** Target companies with steady and sustainable growth rates, typically in the range of 10–20% annually
- **Reasonable Valuations:** Use valuation metrics like the PE, PEG, and PB ratios
- **Quality Earnings:** Focus on companies with consistent earnings growth, strong return on equity (ROE), and solid cash flow

Application

- **Screening Stocks:** Look for companies with moderate P/E ratios relative to their growth rates.
- **Diversification:** Invest across various sectors to mitigate risk.
- **Long-Term Horizon:** GARP is suitable for investors with a medium to long-term investment horizon.

Value

Value

Overview

- Popularized by Benjamin Graham and Warren Buffett, value investing involves identifying undervalued companies trading below their intrinsic value
- The idea is to buy these stocks and hold them until the market corrects the undervaluation

Key Principles

- **Intrinsic Value:** Determine the true worth of a company using fundamental analysis
- **Margin of Safety:** Invest only when the stock price is significantly below intrinsic value to minimize downside risk
- **Financial Health:** Focus on companies with strong balance sheets, low debt, and positive cash flow

Application

- **Fundamental Analysis:** Examine financial statements to assess a company's intrinsic value
- **Patience:** Be prepared to hold investments long-term, as value may not be recognized immediately
- **Contrarian Approach:** Often involves investing in out-of-favor sectors or companies

Income + Growth

Income + Growth

Overview

- This strategy focuses on companies that not only pay dividends but consistently increase their dividend payouts over time
- It's ideal for investors seeking regular income and potential capital appreciation.

Key Principles

- **Dividend History:** Invest in companies with a track record of increasing dividends annually.
- **Payout Ratio:** A moderate payout ratio (dividends paid as a percentage of net income) indicates sustainability.
- **Financial Stability:** Companies should have strong earnings growth to support future dividend increases.

Application

- **Income Generation:** Suitable for investors seeking steady income streams.
- **Reinvestment:** Reinvesting dividends can compound returns over time.
- **Defensive Stocks:** Often involves investing in stable sectors like utilities or consumer staples.

Quality

Quality

Overview

- Quality investing emphasizes companies with strong financials, robust corporate governance, and sustainable competitive advantages
- The focus is on the long-term durability of the business.

Key Principles

- **High ROE/ROA:** Indicates efficient use of capital and assets.
- **Low Debt Levels:** Financially stable companies with manageable debt.
- **Consistent Earnings:** Steady earnings growth and cash flow generation.
- **Competitive Moat:** Unique advantages that protect the company from competitors.

Application

- **Long-Term Holding:** Ideal for investors with a long-term perspective.
- **Thorough Analysis:** in-depth assessment of qualitative and quantitative factors.
- **Risk Mitigation:** High-quality companies are often more resilient during economic downturns.

Magic Formula

Magic Formula

Overview

- Developed by Joel Greenblatt, the Magic Formula is a rules-based, disciplined approach that focuses on buying good companies at bargain prices

Key Principles

- **Return on Capital (ROC):** Measures how efficiently a company generates profits from its capital.
- **Earnings Yield:** Inverse of the P/E ratio, indicating how much earnings a company generates per share relative to its price.
- **Ranking System:** Stocks are ranked based on ROC and earnings yield, and those with the best combined rankings are selected.

Application

- **Quantitative Approach:** Removes emotional decision-making by following a strict formula
- **Portfolio Construction:** Typically involves holding a diversified portfolio of 20–30 stocks
- **Annual Rebalancing:** Portfolio is rebalanced yearly to adjust rankings

Index

Index

Overview

- Investing in index funds or ETFs that replicate market indices like the Nifty 50 or Sensex

Key Principles

- Provides broad market exposure, low costs, and diversification

Application

- Suitable for passive investors aiming to match market returns

**Implementing These
Strategies in Your Portfolio**

Piotroski Score (Value Investing)

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- The Piotroski score helps determine good value stocks by assessing the overall financial strength of a company
- Piotroski F-score is a number between 0 and 9 which is used to assess strength of company's financial position
- Higher the score better the value of the company's stock. F-score of 8–9 is considered to be strong. Alternatively, firms achieving the F-score of 0–2 are considered to be weak

**Coffee Can (Growth +
Quality Investing)**

Coffee Can (Growth + Quality Investing)

- A coffee can portfolio typically consists of 10-15 stocks from different sectors and industries
- These stocks should be high-quality companies with a track record of consistent growth and profitability
- When selecting stocks for your coffee can portfolio, look for companies with a solid competitive advantage, and a sustainable business model
- Along with this, look for a proven track record of generating consistent profits and revenue growth

**Retiree (Income/Dividend
Investing)**

Retiree (Income/Dividend Investing)

- Look for companies with consistent and high dividend payout
- Companies should be high quality with decent growth (similar to country's GDP growth)
- Company should have a history of increasing dividends over the years
- Low volatility, large cap stocks are the best pick

**Buy and Hold (Passive
Investing)**

Buy and Hold (Passive Investing)

- Index investing strategy of buy, hold, and forget
- Investing in the broader market index (Sensex, NIFTY50, NIFTY100)
- Low cost, long term, patient portfolio
- Best for amateurs, beginners, and learners