As a sell side analyst, sometimes it can be difficult to maintain a disciplined investment style or philosophy because you have to service so many different constituencies and investors, each with their own style and strategy and time frame. Still, I have found that I maintained one primary investment style/philosophy that has guided me over my entire career thus far:

- **Contrarian value style**
- “**Flexibly Disciplined**” (Or “**Disciplined Flexibility**”) Valuation
- **Anticipate Inflection/Deflection points and invest toward them**
- **Skeptical (if not cynical)**
- **Be early: in and out!**

These analytics and investment principles truly transcend individual stocks, companies, and industries; analytical skills and insights ARE transferable.

  e.g.: Tobacco/beverage...to....specialty chemicals....to....food/consumer stocks....to....healthcare and financial services sectors...to...

### 1. Experience and History are Crucial:
- If you don’t have it, seek it out and create it
- 20 years of annuals; pick apart the historical financials and benchmark how management did relative to their stated goals
- What has been the REAL historical organic growth rate
- What have been the REAL drivers of that growth
- Back test your assumptions
- Always diagnose what went right and what went wrong with your decisions, and learn from it. If necessary: keep a diary and refer to it.

### 2. Oldies But Goodies Apply: Key Basic Economic Principles Work Across Industries and Companies:
13. Supply/Demand and Capacity Utilization
14. Barriers to Entry and Basic Laws of Competition
15. Over or Undercapitalizing a Business
16. But don’t rely on old slogans and truisms: (e.g. kitchen sinking, cockroach theory, the better mousetrap, best-in-class, visibility, don’t fight the tape?)

### 3. Let the Numbers Lead:
- Models are EVERYTHING: build them and control them and be intimate with them
- Know the basis for all your assumptions, projections and estimates
- Strive for as much granularity as possible: it will help you put future surprise events in context
- Long term detailed forecasts are a must!
- Income statement AND balance sheet AND cash flow models...be consistent across all three and understand how they intertwine
- Solve for Cash: then think about what they will do with it and what they will get for it
- Forecasting: bottoms up, avoid the straightlining, heuristics, orthodoxies and the assumption that the past continues uninterrupted into the future.
- Don’t ignore trends
- Above all: explain the historical drivers and REALLY understand the true historical and future earnings power of a company: on both the quarterly and sustainable basis
- Beware the constant restatements (segments)
- Beware the non cash charge
4. Keep Your Emotions on a Short Leash: ALWAYS Have a Valuation Discipline:
   - Know what factors really cause stocks to be revalued (e.g.: long-term growth rates, changes in ROIC, business mix shifts, cash generative capacity) and what factors do not (e.g. short term visibility changes, short term EPS fluctuations)
   - Do not “double count”
   - Diagnose what is and is not already discounted in the current stock price
   - Triangulate multiple methodologies: understand and reconcile the differences
   - Have “intrinsic value” methods
   - Understand the absolute and the relative picture
   - Don’t arbitrarily pick and choose your time periods
   - Beware the DCF and its “tweakability”
   - Know what is an override and what is a true reassessment
   - Try hard to avoid knee-jerk reactions

5. Fully Vet and Quantify the Risks:
   - Name them all...and then some
   - Quantify the potential financial implications
   - What are the probabilities
   - Put risks in perspective so you are not paralyzed by them: factor in an expected value basis to earnings or valuation, but not necessarily both

6. Think of An Investment Thesis Like a Road Trip:
   - Before you leave, map out the landmarks and milestones (e.g.: event catalysts, financial metrics) you expect to see and when you expect to see them
   - If you don’t see them, are they just further off than you thought, or are you lost
   - Don’t ignore other signposts along the way
   - It’s ok to pull over to the side of the road and ask for directions
   - Are you driving a sports car or a station wagon?
   - Don’t turn around and go home too early!

7. Role Play the Counter Argument:
   - Do you believe your own “BS”?
   - Is it conviction...or spin?

8. Develop and Use Sources, but Beware the Many Traps:
   - They have agendas and biases
   - Don’t extrapolate too far from “one offs” but dig deeper
   - Too anecdotal?
   - Too early?
   - Unscientific surveys

9. Management: Trust No One:
   - Managements and IR will do everything they can to mislead you or throw you off the scent
   - Develop ways to test veracity over time
   - Keep them off balance about where you stand
   - Don’t get too cozy
   - Don’t make it personal
   - Listen to your instinct
   - Don’t fall in Love and don’t fall in Hate
   - Separate the Management...From the Company...From the Stock
• Like in the Godfather: “It’s Strictly Business” and “Keep you friends close and your enemies closer…”

10. Don’t Get Co-Opted and Beware the Freeze Out:
• When you are positive on the stock, don’t allow them to be too nice to you
• Look for managements who are fair and balanced to you even when you are not recommending their stocks.

11. Don’t Try to Run the Company --ANTICIPATE how THEY Will Run It:
• Don’t preach to management
• Anticipate how they will Act and React; get to know how they really think and what motivates them
• Look at prior decisions, track records for clues
• Test hypotheticals and scenarios
• Ask the right questions of the right people
• Assess if management has a REALISTIC view of its sustainable growth prospects and if they are capitalizing the company appropriately for that potential.
• Know their personal management style: Beware the constant pacesetters, hierarchs and authoritarians
• How will CEO/CFO react if someone comes to them with bad news?
• Do they have real time understanding of their business: proper internal controls?

12. Beware of Companies Too Leveraged to Their Stock Prices:
• OK: judicious use of capital, management accountability
• NOT OK: betting on their own stock price; over-ownership, re-pricing options

13. Just Because you Don’t Think Something Should Happen, Doesn’t Mean it Won’t:
• Uneconomic decisions are made often: e.g. M&A: urge to merge is almost primal
• If you knew what was discussed inside a company, you’d be shocked
• You can’t ignore the short term metrics, but companies are strategic entities, and managements can think VERY long term
• Never say never

14. Few Companies Stay Good or Bad Forever:
• If management is failing and financials/stock underperforming, change can come external as well as internal.
• Don’t expect shareholder activism to be easy
• Separate company-specific from industry specific problems or momentum
• Companies can optimize/create value, even in bad industries.

15. Investing is Best Done as a Team Sport:
• Don’t make investment decisions in a vacuum
• Really know the industry and global context
• Find and use sounding boards
• Don’t be defensive
• Be accountable: don’t blame it on “management credibility” ..you “own” the investment decision.