

The Twelve Keys to Investing

A proven strategy

MITZPAHOR

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Foreword

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The information contained in this book is provided for purely educational and informational purposes. It reflects the personal opinions of the author at the time of writing and in no way constitutes personalised investment, financial, tax, legal or professional advice.

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This book is neither an offer to sell nor a solicitation to buy securities.

WHY INVEST

Everything we own is in fact invested.

When you own something, whether a pair of shoes or cash in your bank account, that thing corresponds to a value that fluctuates with the market's appraisal.

The price of a pair of shoes, say 150 euros, is the sum you have to pay in the shop to buy it.

But if you decide to resell it, its market price will probably have changed by the time you walk out of the shop: it will likely be lower if potential buyers place value on the experience of buying in a shop, on the pleasure of being the first owner, or on the guarantee an established retailer provides, against counterfeiting for example.

Conversely, the price of your shoes could be higher as you leave the shop if they are a limited edition, much sought after, reserved for a short list of privileged customers.

As for the money you hold in your bank account, in which currency is it denominated? Its value in dollars or in gold has already changed in the time it took to read this sentence.

In reality, every good you own is an investment whose market price is constantly changing.

Value differs from price

Value differs from price. This idea goes back to Antiquity, notably to the *Nicomachean Ethics* of the philosopher Aristotle.

The value of a good or a service varies with each individual's own appraisal. The difference between the market price and the value you assign to it is what allows you, as a buyer, to make a profit.

Imagine that you like a pair of shoes. You spotted it somewhere and it appeals to you so much that you would be willing to spend up to 200 euros to own it. This means that at 200 euros, you are indifferent between keeping your money and buying those shoes. Above that amount, you do not buy them; below it, you make a gain. For 150 euros, you enjoy a pleasure or a usefulness that you value at 200 euros. Your gain is therefore 50 euros.

The price is set according to the value that certain people assign to the good. Price setting is not a democratic referendum: a small number of people is sometimes enough to determine it. For example, a painting by the artist Rothko can change hands for several million dollars,

while most people in the world have never heard of this artist and would not even be willing to pay ten dollars to own one of his canvases.

Keep these two examples in mind, the pair of shoes and the Rothko painting, because the stock market works in a similar way.

Fertile and non-fertile assets

A master painting, a gold coin and a classic car have points in common:

- Their owners derive a sensory pleasure from them (sight, touch);
- Their value may potentially rise over time, which allows these objects to be classed as assets;
- These assets do not reproduce and generate no income, just like currencies or commodities.

Their only potential gain lies in the possibility of reselling them for more than their purchase price: a capital gain, not an income (unless you rent out your classic car).

Yet some goods, or assets, are fertile. This is where the notion of compounding comes in.

These are precisely the assets we want to own. We value them all the more when they produce many other goods, and do so regularly.

When you buy a share of the company LVMH, you become the owner of vineyards, machines and leather-stitching machines. These assets in turn produce other goods: champagne and handbags, which LVMH exchanges with its customers for euros or dollars.

Once costs, charges and taxes have been deducted, a profit remains. It allows the company to invest in new means of production, and possibly to reward its shareholders in the form of dividends, which you can use to buy more LVMH shares.

By contrast, if you decide not to invest and to keep your euros or your Swiss francs in your bank account, all you own is a piece of information written on a hard drive.

Since they are no longer backed by gold, that is, by the guarantee of being exchanged for gold by the bank that issues them, modern currencies derive their value exclusively from collective trust: we accept a banknote or a bank deposit in exchange for an effort because we are convinced that another person will accept our currency in exchange for a good or a service.

Currencies produce nothing; they are sterile and lose value over the long term.

Just as energy naturally degrades over time and is hard to store without losses, the value created by human work and effort (in the form of goods, services or savings) tends to deteriorate or to lose purchasing power when one tries to keep it over the long term; this is the phenomenon that shows up notably as inflation, where money gradually loses its value, making accumulated savings less effective at buying the same things in the future.

A machine that makes handbags, on the other hand, is fertile.

A gold mine is fertile; a gold bar is sterile.

In investing, what we look for above all is fertility.

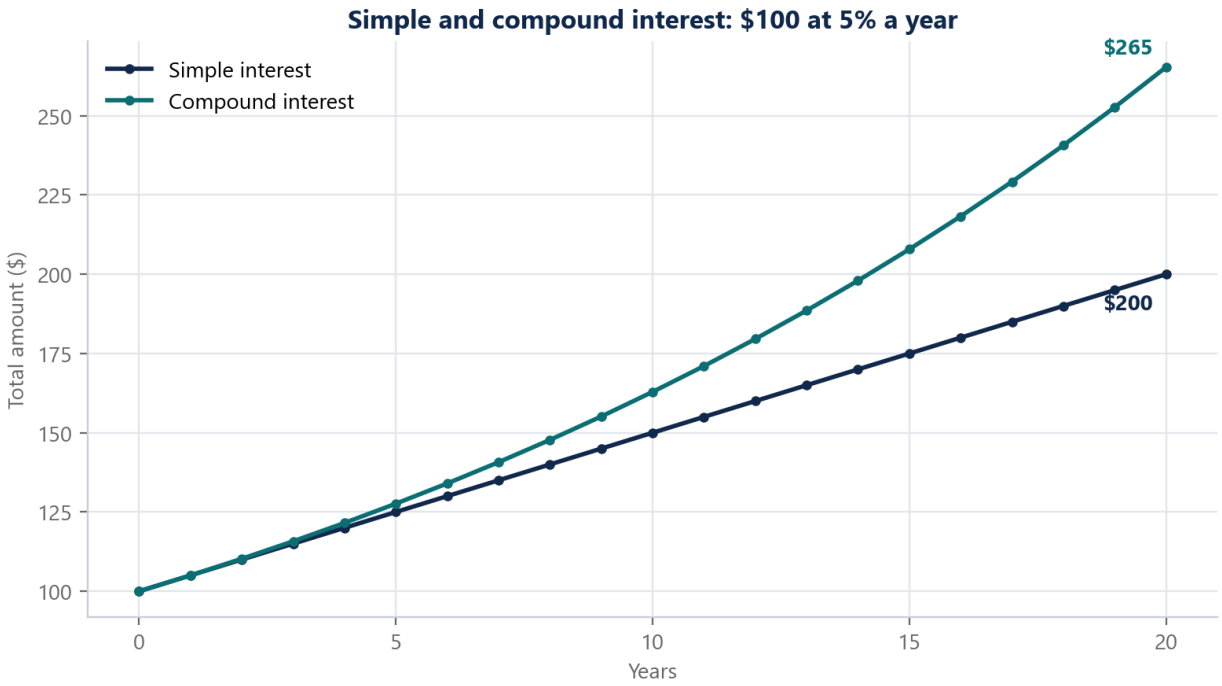
Money must have offspring.

Compounding

“Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn’t, pays it.” This quotation is often attributed to A. Einstein.

What is capitalism? It is nothing more than restraining oneself in order to save, buying a means of production that generates a return, and reinvesting that return indefinitely. When you buy a share, you are the co-owner of a means of production.

Reinvesting gains is essential, because it allows exponential growth. For example, 100 dollars invested at 5% earn 5 dollars a year. Without reinvestment, after 20 years, you will have 200 dollars. But if you reinvest those 5 dollars each year, at the same rate, you will reach about 265 dollars after 20 years.



How does the reinvestment of gains work in the case of a company?

Reinvestment is the source of the compounding effect. It is like a snowball you set rolling: it grows with every turn. The slope is the same, but because the ball is bigger, it picks up more and more snow.

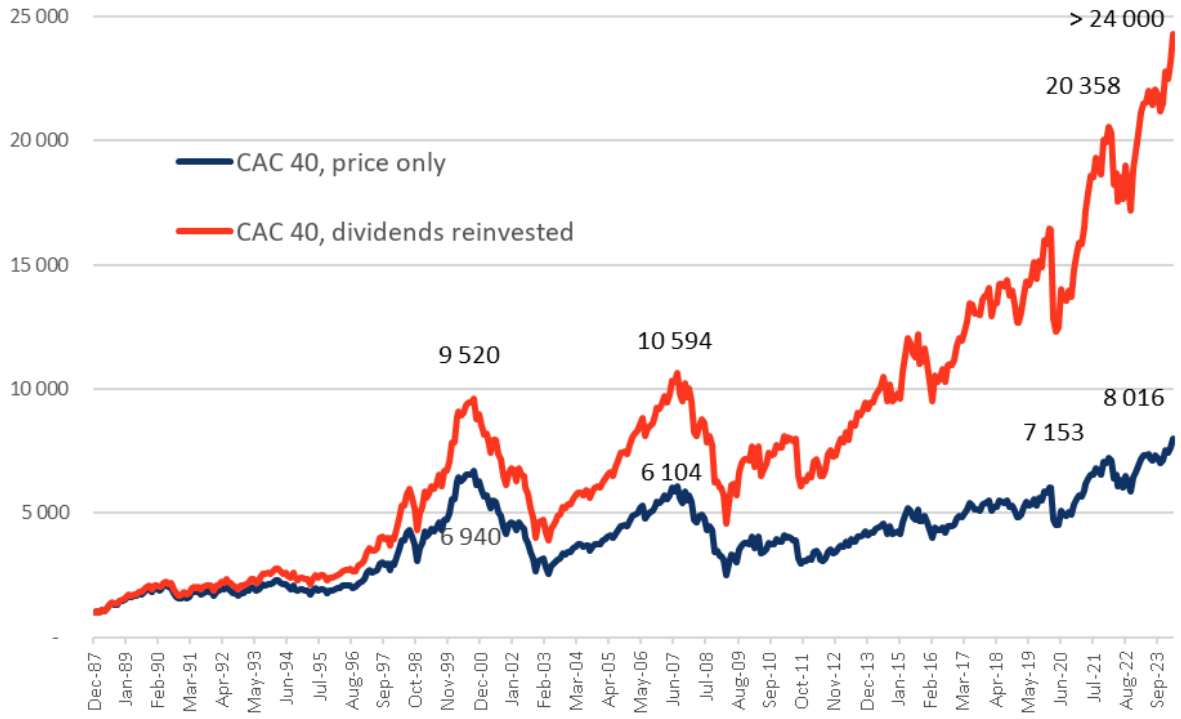
Compounding at the level of a company

Net profit (or net income) can be reinvested in two distinct ways.

- **First, through the dividend.** Part of the profit can be distributed to shareholders in the form of dividends. The shareholder is then free to use it as they wish. If they use the dividends to buy more shares of the same company, then compounding takes place at the level of the investor.
- **Second, through reinvestment by the company.** The share of profit that is not distributed is retained and reinvested directly by the company in its business. If these investments are effective, they increase the value of the company, which translates into a rise in the share price and a potential capital gain for the shareholder.

A company that pays no dividends is therefore not necessarily less attractive: it may be favouring long-term value creation over immediate income.

In the chart below, the French stock market index, the CAC 40, is shown with and without reinvestment of dividends. You can see the multiplier effect of reinvesting dividends.



CAC 40 "price only" and CAC 40 "dividends reinvested"

At what level of wealth can we start spending our gains?

If possible, never. If you spend your gains, you kill a hen that could have laid eggs for a long time.

To understand this logic of saving, it is worth observing how it developed from the sixteenth century in Protestant societies. Their religious logic is defined by a personal restraint on spending, a voluntary renunciation of comfort, pleasure and display, coupled with a will to be useful to one's community. **Restraint leads to saving, and the will to serve leads to investing in tools of production.** When you combine these two notions, you accumulate wealth. Here is what Max Weber observes in *The Protestant Ethic and the Spirit of Capitalism*:

> *When such a brake on consumption is combined with such an unbridled pursuit of gain, the practical result is obvious: capital is formed through ascetic compulsory saving. It is clear that the obstacles standing in the way of consuming what had been acquired favoured its productive use as capital to be invested. Need one add that the strength of such a fact escapes any exact measurement? In New England the connection is so plain that it did not escape the eye of a historian as discerning as Doyle. But in Holland, a country which was nevertheless subject to strict Calvinism for only seven years, the absolute plainness of life of the most strictly religious circles, which went hand in hand with the possession of enormous wealth, carried the taste for capitalist accumulation to excess.*

The book quotes Benjamin Franklin:

> *Remember, that money is of the prolific, generating nature. Money can beget money, and its offspring can beget more, and so on. Five shillings turned is six, turned again it is seven and threepence, and so on, till it becomes a hundred pounds. The more there is of it, the more it produces every turning, so that the profits rise quicker and quicker. He that murders a crown, destroys all that it might have produced, even scores of pounds.*

It is in fact not unusual, in societies influenced by this Protestant ethic (notably the United States), for these same savers, once they have reached comfort or fortune, to become active philanthropists: after a life spent methodically accumulating capital, they often seek to redistribute its fruits to support education, research, culture or social causes.

Buying a fertile asset at a price below its value

Recall the example of Rothko's paintings, whose price is determined by a small number of buyers and sellers. The same goes for shares on the stock market: only a tiny fraction of a company's total market value changes hands each day, often less than 1%.

And what if their price setting were not right?

While the value of an asset that produces no income, such as a painting or a pair of shoes, remains highly subjective, because supply and demand often depend on emotional factors or passing fashions, for an asset that generates cash an arsenal of objective valuation tools is at our disposal. Among the main ones:

- Discounted future cash flows
- Discounted future dividends

- Discounted future residual income
- Comparison of multiples: Price/Earnings, Price/Book Value, EV/EBITDA, etc.

By comparing our estimate of a company's real value with its market price, we can determine whether we are buying it at a reasonable price. Certain periods, notably financial crises, offer exceptional opportunities: fear and irrationality take over, prices abruptly disconnect from economic reality, and the best companies find themselves temporarily marked down. At such moments, the investor Warren Buffett said he felt "like an oversexed guy in a whorehouse" (Forbes, 1974), so attractive are these opportunities.

In short, the aim is to buy fertile assets, that is, assets capable of producing cash in the future, at a fair price, or ideally at a very attractive price when the opportunity arises, while reinvesting the dividends to maximise the multiplier effect.

As we have stressed, what matters to us is "future" results. We look for companies that deliver a high return from the moment we become their owners, that is, in the future.

HOW TO INVEST: OUR STRATEGY

The twelve keys to investing

1. PREDICTING THE FUTURE WITH PROBABILITIES

We project a range of different scenarios, each with its own probability of occurring.

To estimate future results, we rely on the stability of past results.

This is a mechanism we often apply without being aware of it. Two examples illustrate it:

1) Empirically, and without knowing anything about astronomy, we instinctively calculate the probability that the sun will “rise” each morning, for the plain reason that since our birth it has always done so, without fail. The probability that the sun will rise again is therefore high, we instinctively think.

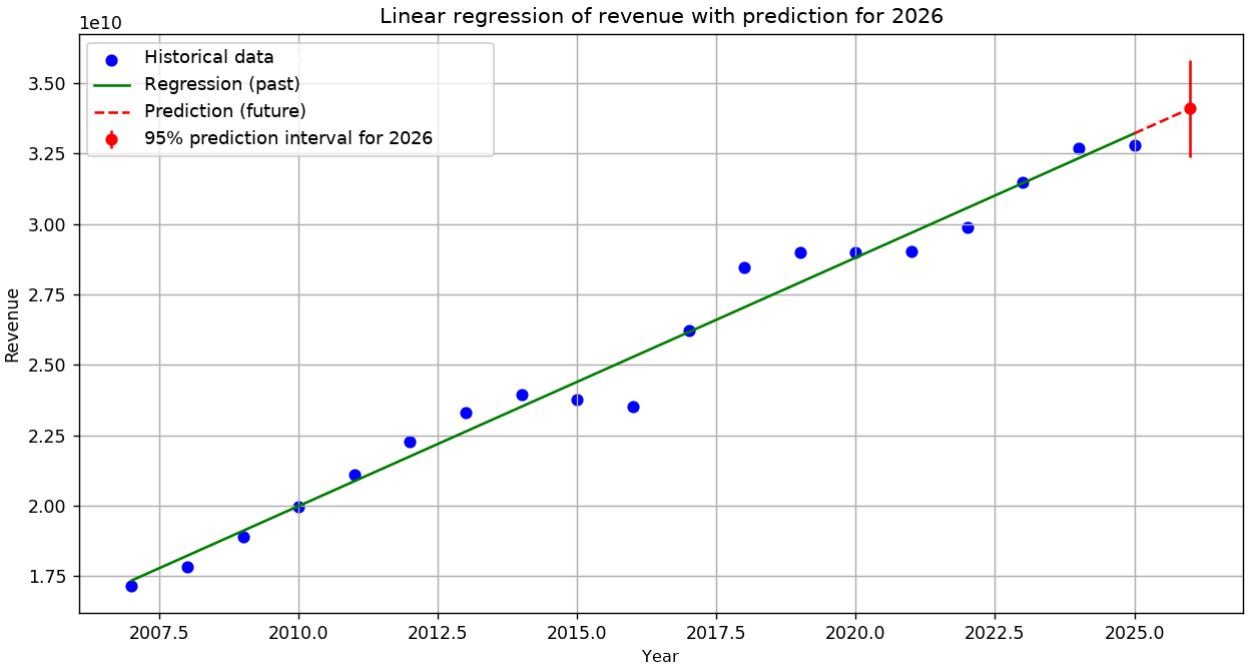
2) “Trust takes years to build, seconds to break, and forever to repair.” If a friend has never betrayed you despite situations in which they could have, you naturally trust them for the future. If you had to entrust your life to someone, would you choose a stranger or that loyal friend?

For stock selection, the principle is the same: we look for the most profitable company, taking into account the stability of its past results.

Of course, nothing is guaranteed: a loyal friend may end up betraying you, and a company that has been profitable for a century may post a loss.

Mathematically, this is called linear regression.

Below is an example: linear regression applied to the sales of the company Sainsbury’s, with a projection for the following year, based on past data, with a 95% confidence interval.



Here there is a slight positive autocorrelation of the residuals (Durbin-Watson = 1.183), which may slightly underestimate the standard error, making the prediction interval artificially narrower and therefore perhaps slightly overconfident.

> *"If a business is complex or subject to constant change, we're not smart enough to predict future cash flows."*
>
> Warren Buffett, annual letter to shareholders, 1992

Stability reduces the probability of results very different from those observed in the past.

Some caveats, however

Overconfidence bias. The tendency of investors to overestimate the precision of their forecasts and their analytical ability, leading them to take excessive risks.

Even with sophisticated calculations, we do not claim to know the future with certainty, only a higher or lower probability that different scenarios will occur.

Survivorship bias. A stock market index such as the CAC 40 or the S&P 500 is periodically recomposed: companies that no longer meet the market capitalisation or liquidity criteria are removed and replaced. Analysing the companies present in an index today therefore means working on a sample from which the losers have already been removed.

We cannot select companies merely because they show a regular curve of results. Some companies displayed a perfectly regular curve of results for years before going bankrupt.

Selection must start from fundamental criteria defined beforehand: strength of the business model, quality of financial performance, competence of management, and not from the historical result observed. The track record serves to confirm these criteria, not to justify the selection. These criteria are detailed in chapters 3 (The Moat), 4 (Financial Performance) and 5 (Quality Management).

2. LONG TERM OR SHORT TERM

The short-term trap: why most investors get lost in it

The law of large numbers is a key principle in investing: over a single day, even a monkey could make money by luck. It is over the long term, and above all over a large number of observations, that the true performance of a strategy is measured. For example, out of 10,000 trades made in a year, very few people would come out ahead. The main reasons? Underestimated transaction costs, psychological biases, and above all the absence of a real statistical edge.

The rare successes of short-term investing

There are very few emblematic examples of lasting success in short-term investing. These rare winners rely on methods inaccessible to the general public, such as the automation of confidential algorithms or mosaic theory. Among them:

- **Larry Williams**: a pioneer of technical indicators for capturing rapid moves in the commodities markets.
- **Jim Simons**, founder of Renaissance Technologies: a master of quantitative trading based on advanced mathematical models.
- **Steven Cohen** (Point72 Asset Management, formerly SAC Capital): an expert in high-risk active trading, based on intensive fundamental research and rapid portfolio turnover.

These trading figures illustrate the difficulty: their success rests on sophisticated tools and ruthless discipline, far from reproducible for the average investor.

The triumph of the long term: countless winners

By contrast, long-term investing (buy-and-hold, with positions kept for years or decades) produces so many successes that they are legion.

If you look at the list of the world's largest fortunes, you will find that most hold shares they keep for a very long time, even their whole lives, most often in the company they founded themselves or inherited, which they know perfectly and in which they concentrate most of their investments.

They are also millions of investors, through index funds* or plain strategies, building lasting wealth thanks to compounding.

* An index fund is a type of investment that automatically replicates the performance of a stock market index (such as the CAC 40 or the S&P 500) by buying exactly the same shares in the same proportions. A stock market index is a statistical indicator that measures the average performance of several selected shares.

Here, patience and plainness often beat speculative complexity. To date, none of the short-term traders mentioned above has accumulated a fortune comparable to Warren Buffett's.

Our main inspiration: Warren Buffett and Charlie Munger

Among these long-term investors, we have chosen Warren Buffett and Charlie Munger, the emblematic duo at the head of Berkshire Hathaway (the holding company they turned into an empire), as our preferred sources of inspiration, adapting their approach to the technological era. Here is why:

- **They have proved themselves**: strong and stable results which show that they are not due to chance.
- **From ordinary investors to billionaires**: both became billionaires thanks to their judicious investment choices, by buying sound companies at reasonable prices and keeping them for a long time.
- **An impact on their followers**: many of those who followed their advice or invested alongside them also amassed fortunes. Among them:
  - Stewart Horejsi: invested early in Berkshire and managed a dedicated fund, reaching a fortune of several billion.
  - David Gottesman: a member of Berkshire's board of directors, who died in 2022 with a fortune estimated at 3 billion dollars.
  - Li Lu: nicknamed the "Chinese Warren Buffett", he managed funds for Munger and excels in investing through Himalaya Capital.
- **A technique open to all**: unlike complex algorithms, their method is reproducible.

Beyond a mere technique, Buffett and Munger forged a philosophy of investing: a holistic vision that values patience, humility, continuous learning and resilience in the face of market fluctuations.

3. THE MOAT



Photo: Simon Ledingham, CC BY-SA 2.0

According to Warren Buffett, the economic "moat" is a durable competitive advantage that protects a company from its rivals, like a deep ditch surrounding a medieval castle, guarded by sharks to repel attackers. This moat may come from a strong brand (like Coca-Cola), from a high switching cost for customers (like Apple), or from economies of scale that a small company cannot overcome, allowing superior and lasting returns on invested capital.

> *"People have to buy auto insurance so everybody's going to have one auto insurance policy per car basically, or per driver. And I can't sell them twenty, but they have to buy one. What are they going to buy it on? They're going to buy it based on service and cost. Most people will assume the service is fairly identical among companies or close enough. So they're going to do it on cost. So I gotta be the low cost producer. That's my moat. To the extent that my costs get further lower than the other guy, I've thrown a couple of sharks into the moat."*
>
> Warren Buffett, on GEICO, talk at the University of Florida, 2007

The moat makes exceptional financial performance possible; without it, competition would end up reducing financial performance and return ratios.

Exceptional return ratios that last over the long term are often the sign of a solid and durable moat, which brings us to the fourth chapter.

4. FINANCIAL PERFORMANCE

Financial performance is the core of the reactor in our company selection process. It requires both the use of data management tools to filter companies and a careful study of their annual reports.

A large part of the selection work requires an in-depth analysis of the company's financial statements (balance sheet, income statement, etc.) and of the accompanying notes.

Here are the measures we use. As every accounting item can be biased or manipulated, even legally and under the control of the external auditor, the analysis requires some knowledge of accounting.

- **High return on equity (ROE)**: calculated as (Net profit / Shareholders' equity) x 100, it must be high and constant over 5 to 10 years, or growing steadily, indicating efficient use of shareholders' funds, without excessive recourse to debt. DuPont analysis makes it possible to determine where profitability comes from: it is preferable for it to come from the profit margin rather than from debt.
- **High and rising profit margins**: margins (Net profit / Net sales) must be on an upward trend, or stable. The profit margin must be large compared with other companies in the sector, and if possible above 15%.
- **Low level of debt**: assets are financed by liabilities. Liabilities are made up of debt and equity. The debt/equity ratio should preferably be low, to avoid financial risks. Profits must come largely from equity, not from borrowing, which can be determined by DuPont analysis.
- **High return on invested capital (ROIC)**: the company must generate good returns on the net tangible capital required for its operations. If possible above 10%.
- **Strong cash flows and high "owner earnings"**: this is a very important metric developed by Warren Buffett in his 1986 letter to shareholders, which we have slightly modified to adapt it to technology companies. The analysis focuses on the profits actually available to shareholders, that is, the cash generated by the business after financing all the expenses and investments essential to using and maintaining the tools of production. Unlike net income, the owner earnings formula we have developed does not deduct from revenue the expenses and investments intended to finance the company's future growth, such as R&D spending and growth CAPEX. We thus distinguish maintenance R&D, which serves to maintain existing assets or to preserve a competitive advantage through continuous innovation, from growth R&D, directed towards developing future products

or capacities. This measure is less subject to accounting manipulation than net income, because it directly reflects the real cash flows of the business. Unlike the other metrics, it makes it possible to identify excellent companies whose profitability ratios look mediocre because of continuous reinvestment, which is nevertheless the engine of strong growth.

- **Stability of results** (and not of the share price), or of the growth of results, notably through crises, in order to know how well returns hold up in difficult times. For better stability of results, avoid companies too dependent on commodities.

A company's management can use several perfectly legal accounting methods to inflate net income artificially. Yet if net income rises, the ROE, ROIC and profit margin ratios rise mechanically, and we could be attracted to a company that does not deserve it.

For example, it would be enough to adopt straight-line depreciation of the tools of production rather than accelerated depreciation. Net income would then be higher, even though the economic wealth created would not have changed: it is a purely accounting improvement.

The motivations can be many:

- Financial optimisation (reaching thresholds that trigger bonuses, or complying with bank covenants);
- Stock market valuation (attracting investors by "embellishing" the ratios);
- Tax management (if a tax rise is expected, it may be advantageous to bring profits forward immediately), etc.

On the other hand, it is much harder to manipulate the accounts over time. In the long run, straight-line depreciation reduces net income compared with accelerated depreciation, making accounting artifices progressively ineffective.

This is one more reason to analyse a company's accounts over the long term and not only over the last financial year.

5. QUALITY MANAGEMENT

Bet first on a good business with a good moat rather than on an exceptional manager running a mediocre company. As Warren Buffett put it in his 1991 annual letter to shareholders, “franchises can tolerate mis-management”.

Integrity and alignment. Check the risk of moral hazard among the executives: ideally they should have a significant share of their wealth invested in the company.

Their pay must remain reasonable; high salaries are tolerable if they are justified, but suspect in case of abuse.

Annual reports must be transparent, without specious excuses for failures. In this respect, Warren Buffett, as head of Berkshire Hathaway, readily acknowledged his mistakes.

Executives must put the company’s reputation first, because tarnishing it is more serious than suffering losses in a given year.

Capital allocation. Check that, over a period of at least 5 years, each dollar of profit retained and reinvested by the company has created at least one dollar of value for shareholders. Also assess the executives’ discipline in acquisitions, dividends and share buybacks, avoiding over-indebtedness and excessive risk-taking.

Qualities. Traits such as intelligence, ambition, honesty. The indispensable quality is honesty; otherwise intelligence and ambition will turn against the shareholders.

Attend annual meetings to observe the attitude of the executives towards shareholders: confidence, candour, and absence of arrogance.

Here is what Buffett wrote in his 2024 letter to the shareholders of the financial company he runs, Berkshire Hathaway:

> *“During the 2019-23 period, I have used the words “mistake” or “error” 16 times in my letters to you. Many other huge companies have never used either word over that span. Amazon, I should acknowledge, made some brutally candid observations in its 2021 letter. Elsewhere, it has generally been happy talk and pictures.”*

6. WHEN TO BUY

We buy when the company meets the criteria defined in this document and the price is reasonable.

We buy heavily when the price of a superb company is very undervalued, during a crisis for example, but undervaluation is a secondary criterion: it is far better to buy a wonderful company at a fair price than a fair company at a wonderful price.

We sometimes give up buying a share that met our criteria, even if it is undervalued, where the long-term fundamental economic characteristics change (for example, a loss of competitive advantage), making the company less predictable or less attractive.

Macroeconomics

Macroeconomics studies the overall functioning of the economy (growth, inflation, interest rates), while microeconomics analyses the behaviour of individual economic agents, such as households and companies (prices, costs, production, profits).

Macroeconomic predictions are not a buying trigger for Buffett and Munger, who rely mainly on microeconomic analysis to make their investment decisions.

> *"In the 54 years we have worked together, we have never forgone an attractive purchase because of the macro or political environment, or the views of other people. In fact, these subjects never come up when we make decisions."*
>
> Warren Buffett, letter to shareholders, 2013

> *"There's too much emphasis on macroeconomics and not enough on microeconomics. I think this is wrong. It's like trying to master medicine without knowing anatomy and chemistry. Also, the discipline of microeconomics is a lot of fun. It helps you correctly understand macroeconomics. And it's a perfect circus to do. In contrast, I don't think macroeconomics people have all that much fun. For one thing they are often wrong because of extreme complexity in the system they wish to understand."*
>
> Charlie Munger, 2003

As for us, we regard microeconomic analysis as paramount, but we consider that macroeconomic analysis can also be taken into account to confirm a purchase, without ever being the main criterion for acquiring a share.

While Munger and Buffett do not try to predict macroeconomic events, they nevertheless make great use of the analysis of the interest rates on US government bonds (the interest rates at which a state borrows money), also called “risk-free rates”, to compare and assess a company’s return opportunity, as we will see in more detail in chapter 12, “Valuing a company”.

7. UNDERSTANDING THE BUSINESS MODEL

Buffett invests only in companies he understands, avoiding sectors that are complex or outside his expertise (such as technology at the start of his career). This includes a clear understanding of revenues, expenses, cash flows, labour relations, pricing flexibility and capital needs.

> *"You don't have to be an expert on every company, or even many. You only have to be able to evaluate companies within your circle of competence."*
>
> Warren Buffett, letter to the shareholders of Berkshire Hathaway, 1996

As regards the semiconductor sector, if you do not know who the buyers are, why they buy, or how the technology works, it is better to stay away from companies in this sector, even when their prices soar. Without understanding the real drivers of growth, it is impossible to anticipate a possible major correction, for want of having correctly assessed the intrinsic value of the sector.

By investing only in businesses one understands and which have proved themselves, one inevitably misses opportunities in fashionable sectors.

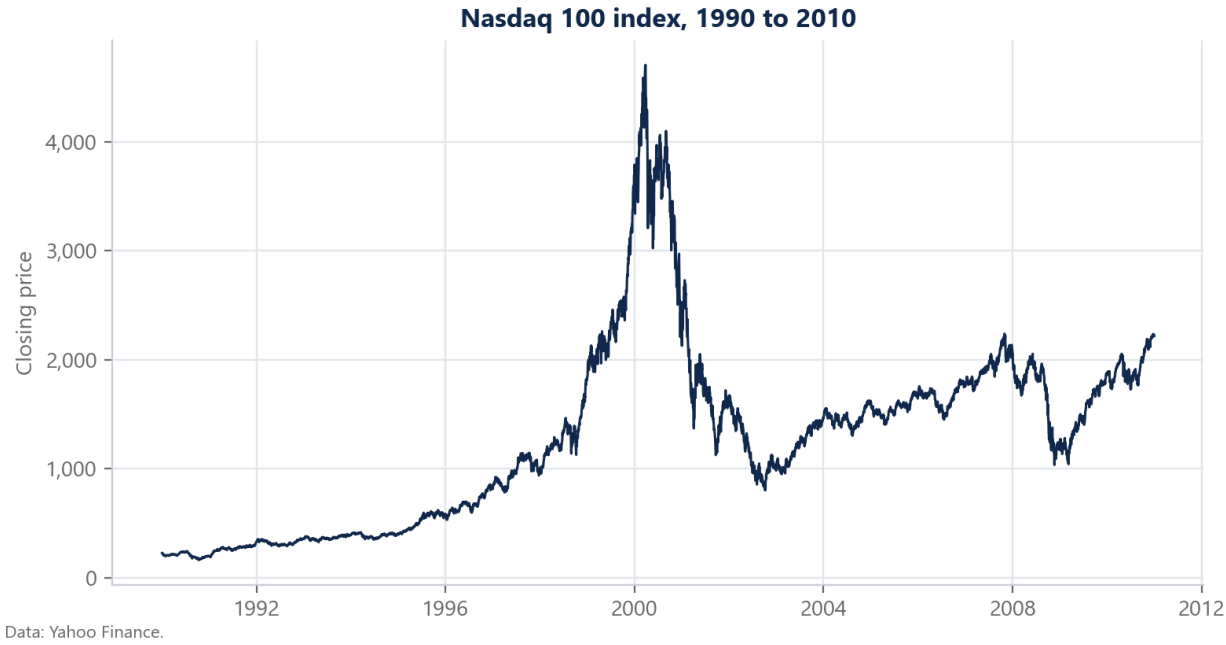
In 1999, in an interview given to Bloomberg, Warren Buffett explained in substance that with Coca-Cola he could arrive at a very rational estimate of the cash it would generate in the future, but that he could not say how much cash the ten leading internet companies would produce over the following 25 years. All he knew, he said, was that he did not know, and when he does not know, he does not invest.

To understand this remark better, one must remember the context of 1999 and 2000, when technology stocks were exploding on the stock market, before the frenzy gave way to what is called "the bursting of the internet bubble".

Buffett was mocked many times, notably for not having bought technology stocks while others were making fortunes. More recently, he was mocked for not having bought Bitcoin.

> *"What's Wrong, Warren? After more than 30 years of unrivaled investment success, Warren Buffett may be losing his magic touch."*
>
> Barron's, 27 December 1999

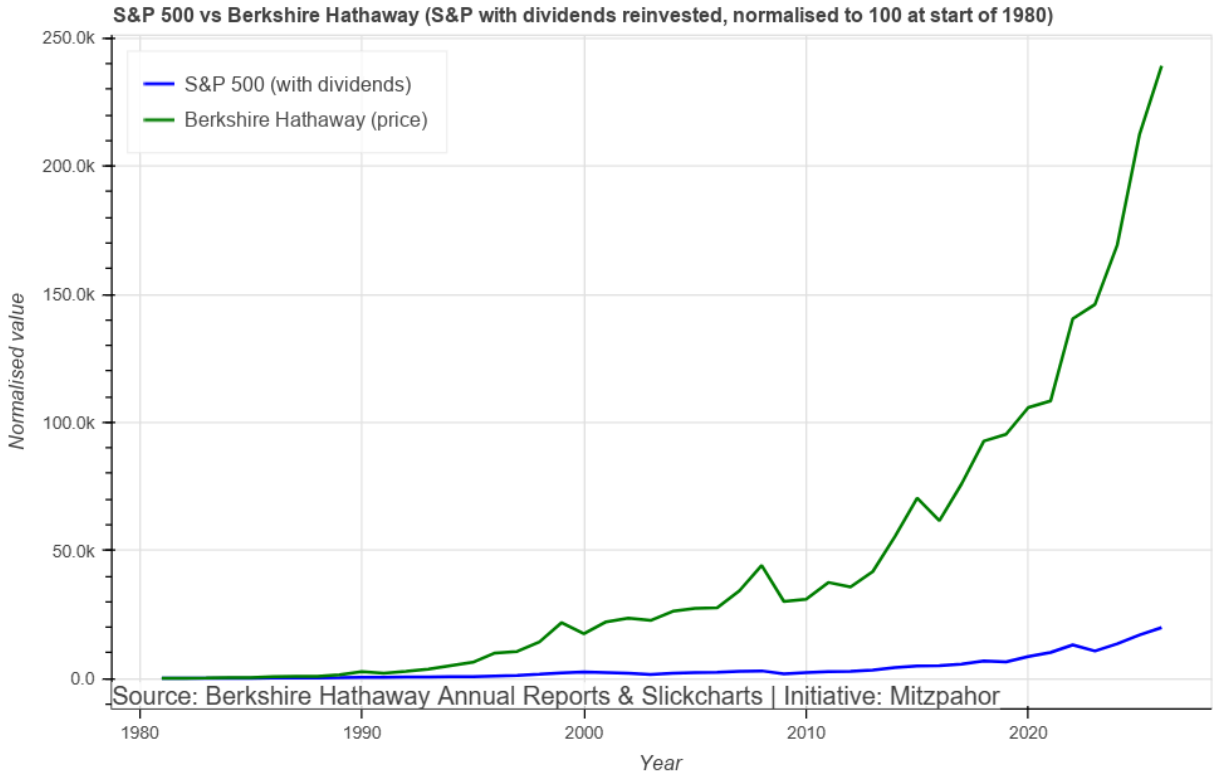
Time proved Buffett right.



Bursting of the internet bubble

As we saw earlier, we look for stability of financial results, or of their growth. Stability, however, requires a long and proven track record. This is precisely why Warren Buffett and Charlie Munger waited so long before investing in technology stocks.

Here is the performance of Berkshire Hathaway, the investment company managed by Warren Buffett and Charlie Munger, compared with the benchmark S&P 500 index with dividends reinvested, from 1980 to 2025.



An investment in the S&P 500 would have multiplied your initial stake by 200, while an investment in Berkshire Hathaway would have multiplied it by 2,390.

8. DIVERSIFICATION

We question the idea of diversifying for the mere principle of reducing risk, because it often dilutes returns without adding real value. Our approach consists in knowing each asset well: the better founded our conviction, the less useful it is to protect ourselves against the specific risk attached to a security. We focus on the best opportunities, taking all relevant factors into account.

Real estate

Munger built his initial fortune through a combination of private investments, including real estate, before turning quickly to the equity markets. He regarded real estate as a relevant investment for some investors, but poorly suited to his own investment style or to that of Berkshire Hathaway, notably because of the lack of durable competitive advantage, taxation, and the difficulty of identifying genuinely undervalued assets.

Buffett, for his part, has always preferred shares to direct real estate investments, which he considers more complex to negotiate, to manage and to deploy on a large scale. He has nevertheless acknowledged that real estate can be attractive in specific contexts.

As for listed real estate funds (REITs), which are more liquid and more easily traded than direct real estate, Berkshire Hathaway has held them very rarely, and only at marginal levels compared with the total size of its portfolio.

The logic remains constant: allocation depends on the existence of a better opportunity. If real estate had been the most profitable, least risky, most liquid and least efficiently priced asset class, it would have occupied a far larger place in Berkshire Hathaway's portfolio.

In practice, Berkshire has invested far more in bonds than in real estate.

Bonds

A bond is a loan embodied in a financial security, tradable on a listed market.

Historically, the bond market has offered lower returns than the equity market. Nevertheless, Berkshire Hathaway has repeatedly invested in short-term government bonds when opportunities on the equity markets were judged insufficient because valuations were too high.

Short-term government bonds, or Treasury Bills (T-Bills), then serve mainly to park cash temporarily while waiting for better investment opportunities.

At the end of 2025, Berkshire Hathaway held about 360 billion dollars in short-term T-Bills, which represents nearly a third of the group's total assets.

Diversification over time: DCA (Dollar Cost Averaging)

DCA consists in investing the same sum at regular intervals in a financial asset (shares, ETFs, bonds, cryptocurrencies, etc.), whatever the level of the market.

> *"By periodically investing in an index fund, for example, the know-nothing investor can actually out-perform most investment professionals."*
>
> Warren Buffett, letter to shareholders, 1993

Think of the financial institution that has the best image in your eyes. The odds are that the results of the great majority of its funds are worse than a passive purchase that consists in regularly buying the S&P 500 index.

Several studies demonstrate this underperformance by professionals.

SPIVA Scorecard

The SPIVA Scorecard is a half-yearly report published by S&P Dow Jones Indices which compares the performance of actively managed investment funds with that of their passive benchmark indices. It is a key tool in finance for assessing the effectiveness of active management compared with passive management:

In 2025, 92.07% of European equity funds had worse results over 10 years than the S&P Europe 350 index.

88.29% of US large-cap funds had worse results than the S&P 500 index.

Source: S&P Dow Jones Indices, SPIVA Scorecard.

The equity funds of the large financial institutions charge more fees than passive index funds.

The table below shows that most of these funds do worse than their benchmark index, and that fees only widen the gap.

Fund category	Benchmark	Funds, net of fees (%)	Funds, gross of fees (%)	Institutional accounts (%)
All Domestic	S&P Composite 1500	88.43	79.85	85.00
All Large Cap	S&P 500	84.15	76.23	85.81
All Mid Cap	S&P MidCap 400	76.69	65.81	64.71
All Small Cap	S&P SmallCap 600	90.13	81.11	81.82
All Multi Cap	S&P Composite 1500	88.56	79.67	83.20
Large-Cap Growth	S&P 500 Growth	86.54	78.30	89.89
Large-Cap Core	S&P 500	88.26	80.00	86.54
Large-Cap Value	S&P 500 Value	82.17	68.08	73.79
Mid-Cap Growth	S&P MidCap 400 Growth	81.48	69.59	68.00
Mid-Cap Core	S&P MidCap 400	76.51	69.09	64.29
Mid-Cap Value	S&P MidCap 400 Value	70.27	57.75	58.33
Small-Cap Growth	S&P SmallCap 600 Growth	91.89	85.00	87.10
Small-Cap Core	S&P SmallCap 600	91.44	81.91	81.48
Small-Cap Value	S&P SmallCap 600 Value	92.31	79.21	76.67
Multi-Cap Growth	S&P Composite 1500 Growth	90.57	82.94	81.25
Multi-Cap Core	S&P Composite 1500	91.16	83.33	84.09
Multi-Cap Value	S&P Composite 1500 Value	76.87	62.50	79.59
Real Estate	S&P United States REIT	82.64	52.38	27.27

Share of US equity fund managers underperforming their benchmark index over five years. Source: S&P Dow Jones Indices, eVestment Alliance, CRSP, data as of 31 December 2015.

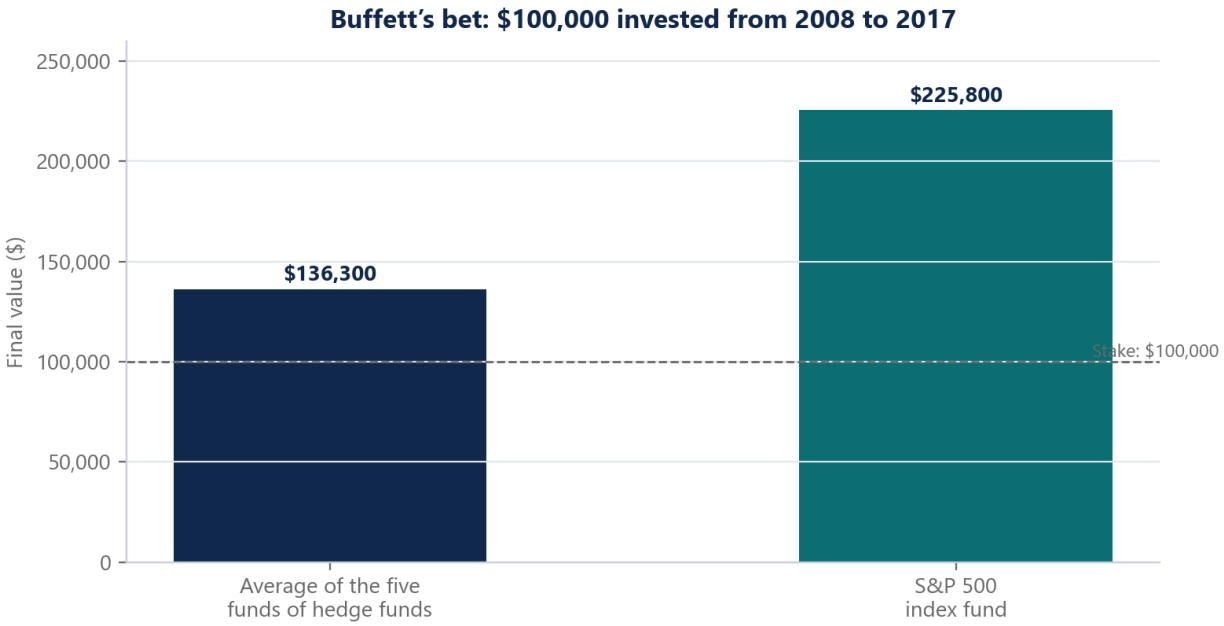
On 26 January 2023, the Swiss newspaper Le Temps ran the headline “Fewer than one manager in ten does better than the market” (our translation). According to the study by a Zurich consultant quoted by the paper, between 5 and 8% of managers have beaten the market since 2010.

Warren Buffett’s bet against the hedge funds

A hedge fund is an alternative investment fund, generally reserved for qualified investors, which uses flexible and sometimes complex strategies (short selling, leverage, derivatives) to generate performance independently of market conditions. Fees are high: typically a 2% management fee and 20% of the performance.

Warren Buffett's bet (2008-2017) was that a plain passive investment in the S&P 500 index would do better, over 10 years, than the average performance of hedge funds after their fees. Buffett chose a low-cost Vanguard index fund; on the other side, the fund-of-hedge-funds firm Protégé Partners selected five funds of funds. The result: the S&P 500 beat the hedge funds by a wide margin. For 100,000 dollars invested, the hedge funds returned 136,300 dollars and the S&P 500 index fund 225,800 dollars.

Buffett wanted to show that, over the long term, low-cost plainness beats costly complexity, and that the high fees of hedge funds heavily erode their net performance.



Figures: letter to the shareholders of Berkshire Hathaway, 2017.

> *"Warren Buffett Wins $1M Bet Made a Decade Ago That the S&P 500 Stock Index Would Outperform Hedge Funds, and It Wasn't Even Close"*
>
> Headline of an article by Mark J. Perry, American Enterprise Institute, 3 January 2018

In their defence, the equity funds of the large financial institutions often underperform the S&P 500 for several reasons:

- **Risk limitation**: they seek to reduce volatility, which restricts the potential return, especially when the index is driven by a few fast-growing technology stocks, as the S&P 500 is.
- **High fees**: managers' salaries and operating costs are paid for by clients, which reduces the net return.

When investing in an index fund, one sometimes has to accept more volatility than with equity funds actively managed by professionals. In 2008, the S&P 500 lost nearly 40%. Once this risk is accepted, the record shows that, taken as a whole, index funds have delivered better results than funds actively managed by professionals.

So why not buy an index fund through DCA (investing the same sum in an index at regular intervals)?

DCA is a sound approach, but far from optimal. As Warren Buffett wrote in his 2009 letter to shareholders, “When it’s raining gold, reach for a bucket, not a thimble.”

When a quality company becomes heavily undervalued, whether during a market crisis or because of a temporary difficulty specific to the company, it is more rational to invest heavily, provided our fundamental criteria remain satisfied.

Investing in an index means buying indiscriminately good companies and others that are in a bad situation or loss-making. In our view, selecting the best companies offers a higher potential return.

Diversification: Value versus Growth

This is a classic distinction in finance, opposing two investment styles with different logics and performance cycles.

The value strategy consists in buying mature, stable companies that are undervalued on the basis of their past results.

The growth strategy consists in buying fast-expanding companies, expensive because their value depends on future growth that is not yet proven.

We believe it is essential to understand that growth is a component of value.

By way of example, a flat whose rents rise by 10% a year does not have the same value as a property whose rents remain frozen because of state rent control. The same goes for a company.

> *"Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth." [...] We view that as fuzzy thinking. [...] Growth is always a component in the calculation of value, constituting a variable whose importance can range from negligible to enormous and whose impact can be negative as well as positive. In addition, we think the very term "value investing" is redundant. What is "investing" if it is not the act of seeking value at least sufficient to justify the amount paid? Consciously paying more for a stock than its calculated value, in the hope that it can soon be sold for a still-higher price, should be labeled speculation (which is neither illegal, immoral nor, in our view, financially fattening)."*
>
> Warren Buffett, letter to the shareholders of Berkshire Hathaway, 1992

Speculation consists mainly in buying an asset in the hope of reselling it for more, without the decision resting on the economic income the asset generates.

Investment, in the economic sense, for Benjamin Graham and Warren Buffett, rests on the asset's capacity to produce future cash flows.

How many securities in a share portfolio?

Diversification is a fundamental pillar of what financial institutions offer, from wealth managers to hedge funds. Theorised by Harry Markowitz, it spreads investments across various assets to minimise risks. Wealth managers use it to preserve wealth, while hedge funds exploit it for arbitrage.

Yet Warren Buffett's investment philosophy favours extreme concentration on a small number of well-understood assets selected with strong conviction, rather than excessive diversification.

For him, it is knowledge of the asset and understanding of the business that reduce risk. Diversification only reduces the return.

> *"If you have a harem of 40 women, you never get to know any of them very well."*
>
> Warren Buffett, 1984, annual letter to shareholders, quoting Billy Rose

Recall that most of the richest people in the world, such as Elon Musk, Mark Zuckerberg, Jeff Bezos or Bernard Arnault, embody these principles: a portfolio with little diversification, strong conviction, very good knowledge of the company.

One must nevertheless be able to sleep soundly when losing tens of billions in a few weeks, which is not within everyone's reach.

> *"We think diversification, as practiced generally, makes very little sense for anyone that knows what they're doing. Diversification is a protection against ignorance."*
>
> Warren Buffett, 1996

At Berkshire, 80 to 90% of the portfolio is concentrated in a handful of holdings such as Apple or Coca-Cola. This maximises the exponential effect, but requires high conviction arising from qualitative analysis.

9. WHEN TO SELL

Our favourite holding period is forever, selling only for fundamental reasons, not emotional or speculative ones. The triggers include:

- **Fundamental or structural change**: if the initial assumptions (moat, management) do not come true and, on the contrary, decline against the trajectory they followed in the past. Or if the fundamental reasons that led us to buy are threatened in the future, to the point that the expected results become uncertain.
- **A better opportunity elsewhere**: reallocating to a superior investment, even if that means selling a bargain. At the 2002 annual meeting, Warren Buffett said in substance that they would reluctantly sell something terribly cheap in order to buy something even cheaper.

10. KEEPING CASH

The strategy is to be 100% invested in shares when the market is undervalued or fairly valued, and to keep cash, mainly by buying government bonds, in the absence of a better opportunity, when the market is overvalued.

Why not sell everything when the market is overvalued?

Avoiding shares altogether for fear of overvaluation is a strategic mistake. We are invested in shares even when the market looks expensive, because nobody can predict precisely when to enter or leave the market.

> *"We have no idea, and never have had, whether the market is going to go up, down, or sideways in the near- or intermediate-term future."*
>
> Warren Buffett, letter to shareholders, 1986

> *"We believe that short-term forecasts of stock or bond prices are useless. The forecasts may tell you a great deal about the forecaster; they tell you nothing about the future."*
>
> Warren Buffett, letter to shareholders, 1980

To know whether the market is overvalued, we use several rough tools, which are not infallible and carry biases, but we would rather be "approximately right than precisely wrong":

Comparing the yield on shares with the yield on bonds. This is fundamental. Like all investors, Buffett and Munger watch the bond market closely. The yield on short-term government bonds is regarded as "risk-free". If that yield is higher than or equal to the yield on shares, then the equity market is overvalued. For an equal yield, one will tend to prefer the less risky investment.

The yield of the equity market is calculated, over the whole benchmark index, such as the CAC 40 in France or the S&P 500 in the United States, as the ratio Earnings/Market Capitalisation. It is the inverse of the Price/Earnings ratio (P/E ratio). Only known earnings are taken into account, since the future earnings estimated by analysts are unreliable.

On 5 December 2025, the Price/Earnings ratio of the S&P 500 stood at 31.06 (source: multpl.com).

Buffett Indicator. Calculated as: total valuation of a country's equity market / the country's GDP.

> *"For me, the message of that chart is this: If the percentage relationship falls to the 70% or 80% area, buying stocks is likely to work very well for you. If the ratio approaches 200%, as it did in 1999 and a part of 2000, you are playing with fire."*
>
> Warren Buffett, Fortune, 10 December 2001

On 31 December 2024, this ratio stood at 211% in the United States (source: currentmarketvaluation.com).

It is not our favourite ratio, because it can be artificially inflated when the share of profits earned abroad increases, or if listed companies represent a larger share of the total value of the country's companies than before.

Historical dividend yield. When the current dividend yield (dividends per share divided by the price) is compared with its historical average, too low a level may indicate that shares are overvalued relative to their intrinsic value. However, to compare several periods correctly, one must check that companies' Dividend/Earnings ratio is constant and, if it is not, make the necessary adjustments.

On 5 December 2025, the dividend yield of the S&P 500 was 1.14% (source: multpl.com).

We do not sell because the market is overvalued. We sell only for the reasons set out in chapter 9, "When to sell". Once we have sold, we keep our cash invested in government bonds if there is no better opportunity.

11. ADAPTING TO CURRENCY AND TAXATION

When you live in the euro zone or in Switzerland and buy American shares, you are automatically exposed to currency risk.

Even if the share price rises, a fall in the dollar can reduce, or even cancel out, the gain in local currency.

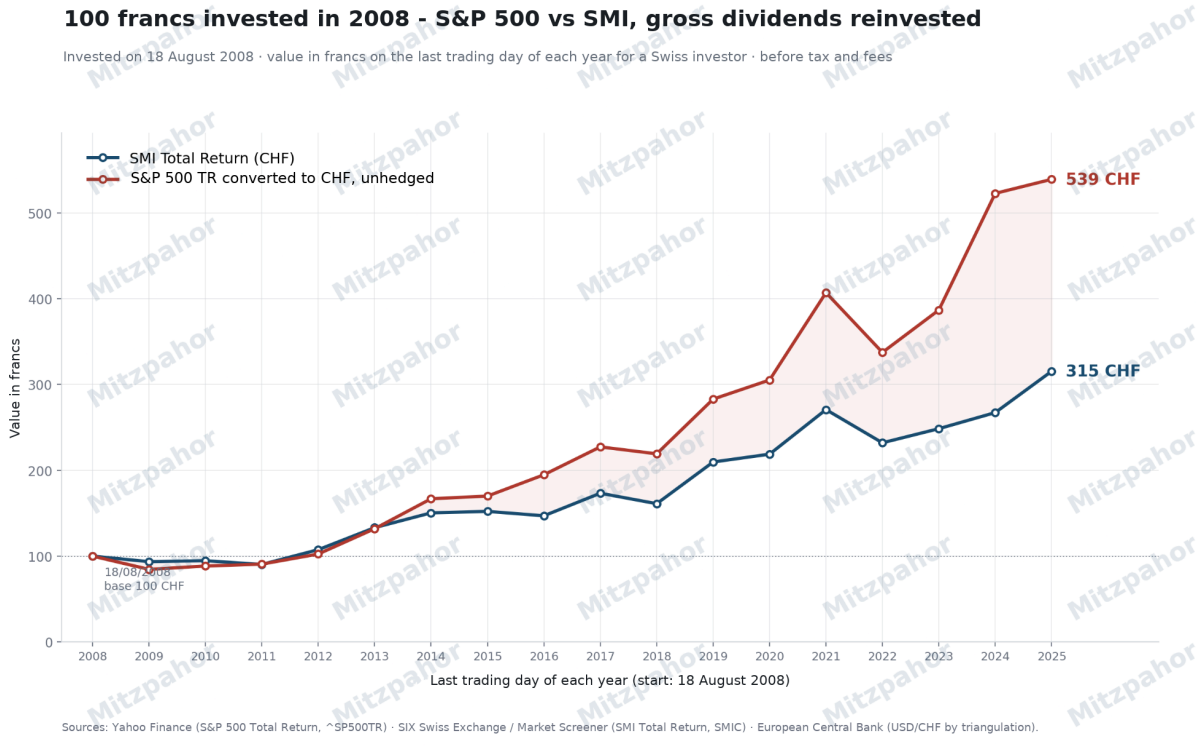
For example: if an American share rises by 10% but the dollar loses 10%, the final value in francs or in euros comes out almost unchanged.

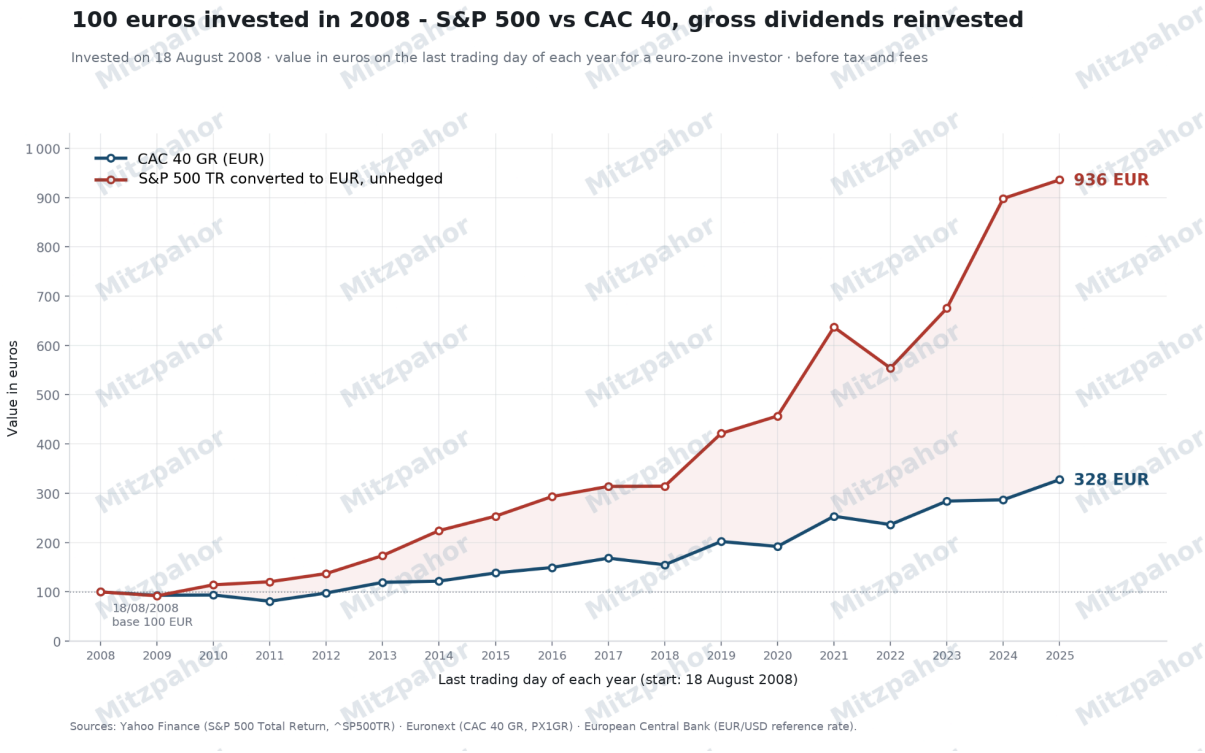
Local or international companies

Most large European companies earn a substantial share of their revenue abroad.

They use various hedging mechanisms, natural or financial, to limit the impact of currency movements. Even though this protection often remains imperfect, for companies of equal quality it is therefore more straightforward and logical to favour those that generate their revenue in the local currency.

However, some regions have shown better long-term results in the past. Here are charts comparing French and Swiss companies with US companies, using the benchmark indices.





Protection against currency risk

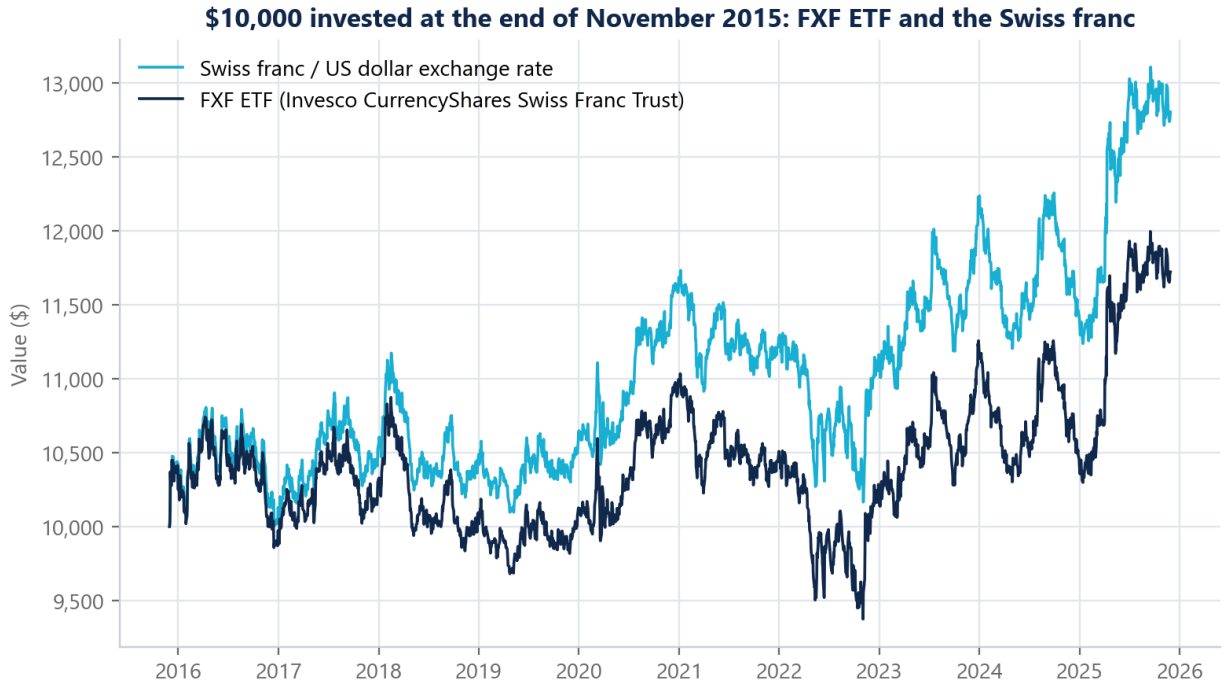
There are several instruments for hedging currency risk. Over the long term, however, we consider them costly and not very effective.

In April 2000, Warren Buffett explained in substance that they do not know how currencies will move from one week, one month or one year to the next, and that they always try to concentrate on what is predictable and important. Currencies can be important, he said, but he does not think they are predictable; in his view it would be a serious mistake to focus on currency fluctuations rather than on the product itself.

The chart below shows the change in value of a hedging ETF* (FXF) designed to neutralise the fluctuations of the Swiss franc (CHF) against the US dollar (USD).

* An ETF (Exchange-Traded Fund) is a fund listed on the stock exchange which seeks to replicate faithfully the performance of an underlying asset, here the Swiss franc/US dollar exchange rate.

The gap between the two curves corresponds to the impact, for the investor, of the annual management fee of 0.40% and of the negative interest rates long applied to Swiss franc deposits, which gradually erode performance compared with the actual exchange rate.



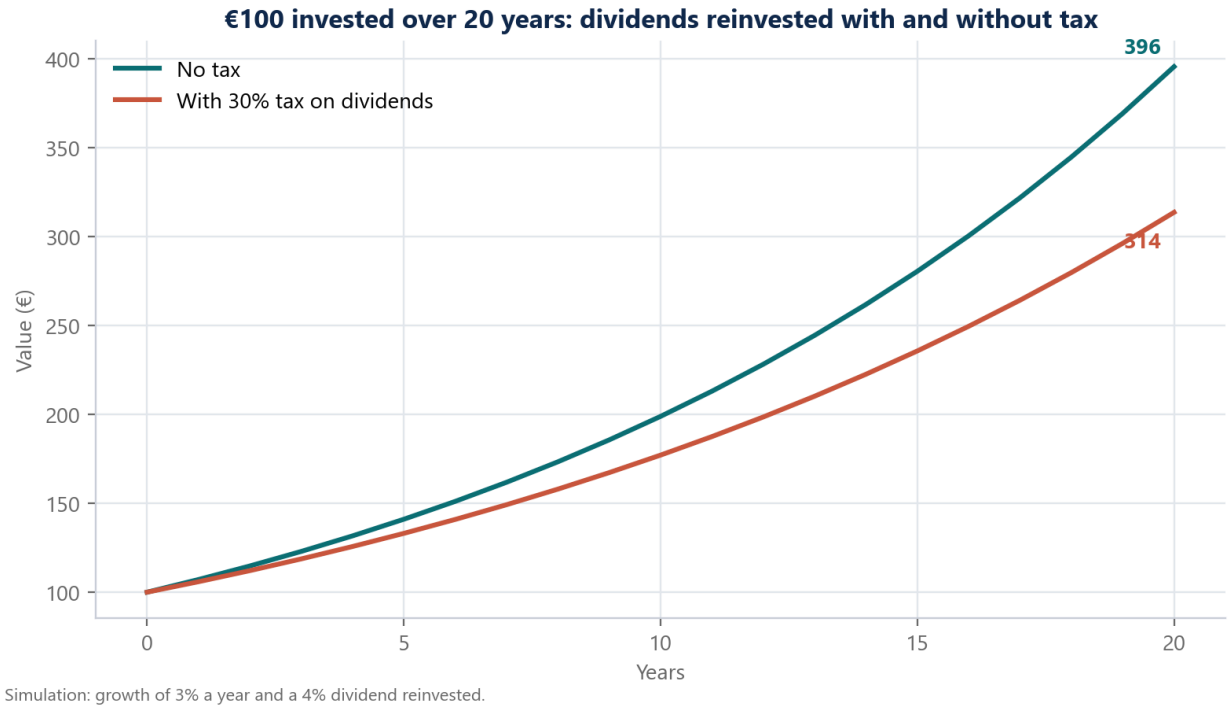
Buffett made an exception to his usual caution about hedging when he invested in several Japanese companies through borrowing in yen. This debt financing acts as a natural "shield" against currency fluctuations: if the yen depreciates, repayment costs less in dollars, thereby offsetting the fall, in dollars, in the value of the shares. It is important to note, however, that the conditions were particularly favourable: the borrowing carried interest of only 0.5%, while the dividend yield exceeded 4%, creating what is called a "positive carry".

Taxation

In Switzerland, capital gains are tax-free, unless you are regarded as a professional trader. Dividends, on the other hand, are taxed at the marginal rate of income tax, which is the percentage of tax you pay on the last franc earned. For companies of equal quality, it is therefore preferable to favour those that pay no dividends, in order to maximise the effect of compounding. We favour companies that pay no dividends when they know how to reinvest their margins profitably, thereby maximising the multiplier effect on value creation.

In France, within a PEA (Plan d'Épargne en Actions, a share savings plan taxed less heavily than an ordinary securities account), dividends can be reinvested without being taxed, even when the ceiling of the plan, set at 150,000 euros, has been reached. It is therefore advantageous to favour companies eligible for the PEA, in order to benefit as much as possible from the compounding effect.

This chart compares the change over 20 years in an investment of 100 euros with dividends reinvested in full (no tax) and reinvested after tax at 30%, highlighting the impact of tax on compounding:



For large portfolios, there are structures in France that make it possible to reinvest dividends without bearing income tax. A tax adviser is needed to assess feasibility.

Investing in excellent companies over the long term must take precedence over mere tax optimisation. It is better to acquire a high-quality foreign company outside the PEA than a mediocre European company merely because it is eligible.

12. VALUING A COMPANY

This chapter cannot stand alone. It is not enough to buy an undervalued company. In our view, valuation is the last of the criteria: it comes once everything else has been validated.

> *"If you buy something because it's undervalued, then you have to think about selling it when it approaches your calculation of its intrinsic value. That's hard. But if you buy a few great companies, then you can sit on your ass. That's a good thing."*
>
> Charlie Munger

To assess the intrinsic value of a company, one needs to know:

- **The cash flows**, that is, net profit or, preferably, owner earnings, as studied in chapter 4, "Financial performance";
- **The discount rate**, derived from the interest rate on long-term government bonds;
- **The growth rate of the cash flows**, in order to estimate how they will evolve.

The discount rate

There is abundant financial literature on the discount rate and many theories on the subject. Let us keep to the essentials.

Imagine that you buy a flat, without borrowing, in order to earn rental income from it. Would the price you are willing to pay not depend above all on the income this flat can generate?

Suppose a flat is sold already let, at a rent of 1,000 euros a month, that is 12,000 euros a year. Now imagine that the interest rate on a government bond (regarded as risk-free) is 5%. Would you then accept a return of only 3% on this property investment, which would correspond to a purchase price of 400,000 euros (12,000 / 400,000 = 3%)? At 400,000 euros the return is too low; it is better to buy the government bond.

With a risk-free interest rate of 5%, the property is worth at most 12,000 / 0.05 = 240,000 euros.

The interest rate on long-term government bonds, generally with a maturity of 20 or 30 years, serves as the reference for determining the discount rate. This rate can then be adjusted upwards to take account of a high risk attached to the company or of an exceptionally low level of government interest rates.

If you think that rents may fall or that there is a risk of unpaid rent, you will require a higher return, which amounts to paying less for the property, because the investment is riskier. For example, if you apply a risk premium of 1%, the required return rises to 6% and the intrinsic value of the flat then falls to 200,000 euros (12,000 / 0.06 = 200,000 euros).

The discount rate is the minimum return required by an investor, here 6%.

The higher the discount rate, the lower the intrinsic value of the asset.

In conventional finance, the discount rate used is generally higher than that of government bonds, in order to incorporate different types of risk. In our approach, however, we use a discount rate close to the sovereign rate, because we consider that these risks are greatly reduced by in-depth knowledge of the companies in which we invest.

In return, using a low discount rate requires a particularly cautious assumption about the growth rate.

The importance of the growth rate

Remember the distinction between the "Growth" and "Value" strategies at the end of chapter 8, "Diversification". If we were solely investors in undervalued assets, it would be enough for us to select companies with a low price-to-book ratio, a low price-earnings ratio or a high dividend yield.

> *"[...] a low ratio of price to book value, a low price-earnings ratio, or a high dividend yield. Unfortunately, such characteristics, even if they appear in combination, are far from determinative as to whether an investor is indeed buying something for what it is worth and is therefore truly operating on the principle of obtaining value in his investments. Correspondingly, opposite characteristics (a high ratio of price to book value, a high price-earnings ratio, and a low dividend yield) are in no way inconsistent with a "value" purchase."*
>
> Warren Buffett, letter to shareholders, 1992

Let us return to the example of buying a flat. If rents have historically risen by 2% a year and nothing suggests that this trend will reverse, the intrinsic value of the flat will necessarily be higher than in a scenario where rents are frozen by the state.

It is therefore essential to know the growth rate in order to assess the intrinsic value of an asset that generates cash flows. The following formula makes it possible to calculate the intrinsic value of the flat taking this growth into account:

Intrinsic value = Annual cash flow / (discount rate − growth rate)

The higher the growth rate, the higher the intrinsic value.

Example:

12,000 / (0.06 − 0.02) = 300,000 euros

The growth rate represents the pace at which past cash flows have changed and makes it possible to estimate future cash flows. It can be calculated from cash flows, from net profit or from owner earnings, the last of these being our reference indicator.

The growth rate must be sustainable over the long term

If the growth rate you have calculated is higher than your discount rate, it is probably an intermediate growth rate that cannot be sustained over the long term.

At the 2004 Berkshire Hathaway annual meeting, Warren Buffett pointed out in substance that if you use a present-value formula and plug in a growth rate higher than the discount rate you have assumed, the answer is of course infinity. Projecting extremely high growth rates over very long periods, he added, has cost investors very large sums of money; you may miss an opportunity from time to time, but he has never seen people succeed consistently by doing that.

We choose a conservative growth rate for cash flows, that is, lower than the average observed in the past, to limit risks and ensure that the assumption remains reliable. As we have seen, the discount rate must reflect the level of risk. With a cautious growth assumption, it becomes possible to use a discount rate close to that of long-term government bonds.

To determine the growth rate, it must be stable

Without consistency in the past, it is impossible to make reliable forecasts: when historical cash flows are too erratic, any estimate becomes uncertain.

If historical cash flows are not stable, it is quite impossible to estimate future cash flows correctly.

At the 1998 annual meeting, Warren Buffett explained in substance that there are all kinds of businesses for which he and Charlie Munger have not the faintest idea what the future stream of cash will look like and, therefore, not the faintest idea what they are worth. Believing you know what a share should be priced at today without having any idea of its cash flows over the next 20 years is, he said, a case of cognitive dissonance. They look for

businesses whose figures they believe they can estimate, with a fairly high degree of probability and within a range, over a long period, and then discount them back; they care more about the certainty of those figures than about finding what looks cheapest.

Growth rate: analysts' forecasts of future cash flows

There is a large industry made up of thousands of professional financial analysts (in investment banks, funds and research firms) who spend their time studying large companies and building complex models to forecast their future profits and cash flows, in order to estimate what they will be worth tomorrow and to help investors decide whether to buy or sell their shares.

We take no account of analysts' forecasts, because their reliability is limited, as several studies confirm, including that of Andrew Stotz in 2016.

Buffett and Munger have said much the same. Buffett has explained that they make rough projections in their heads all the time, but certainly do not want to listen to other people's. Munger has observed that business schools teach their students to make projections far into the future with computers, that these projections then feed into business decisions, and that he has always regarded them as doing more harm than good.

Checking the stability of the profit margin

Earnings / Revenue, or Owner earnings / Revenue.

Remember that the moat is the ditch that protects the company from the attacks of competitors.

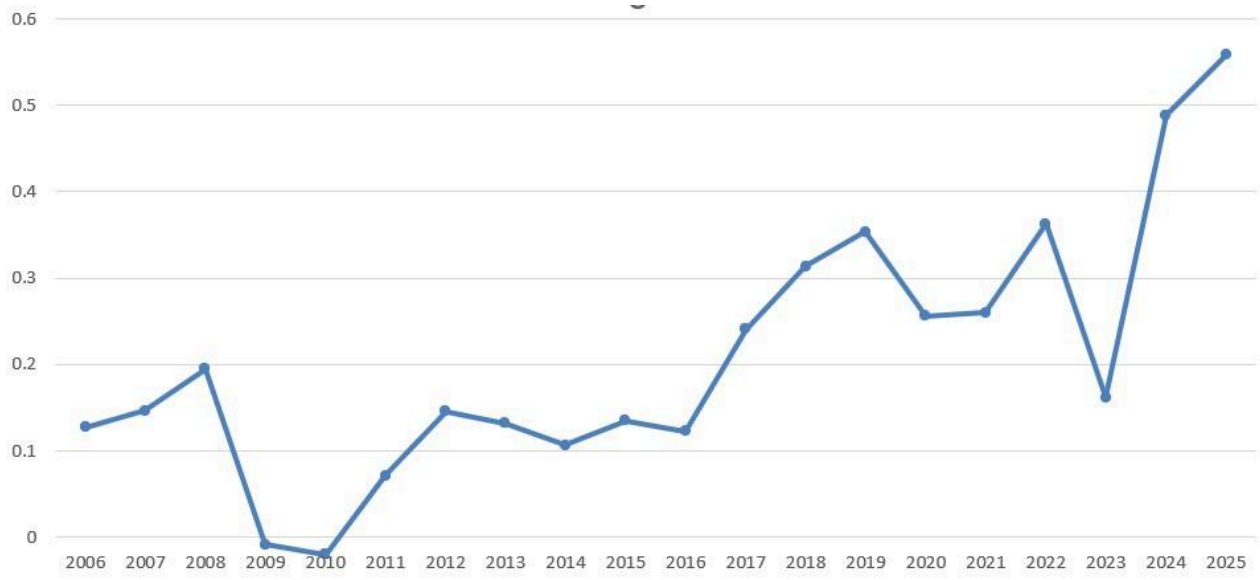
A rise in profits and cash flows can be explained by an increase in capital or by greater recourse to debt. A sudden rise in margins, on the other hand, is harder to interpret. We therefore remain cautious about forecasts which assume that these high margins will last. When a company posts large margins, it quickly attracts competitors seeking to copy its model. The arrival of a single new player can then be enough to bring those margins down noticeably.

We favour companies whose margins are high and stable, because this generally reflects the existence of a solid and durable moat.

Take the example of the margin of the technology company Nvidia, which has fluctuated between -2% and 55.8% over the last 20 years. Two things stand out clearly from the chart below. On the one hand, the margin has risen sharply to reach nearly 60%, which is

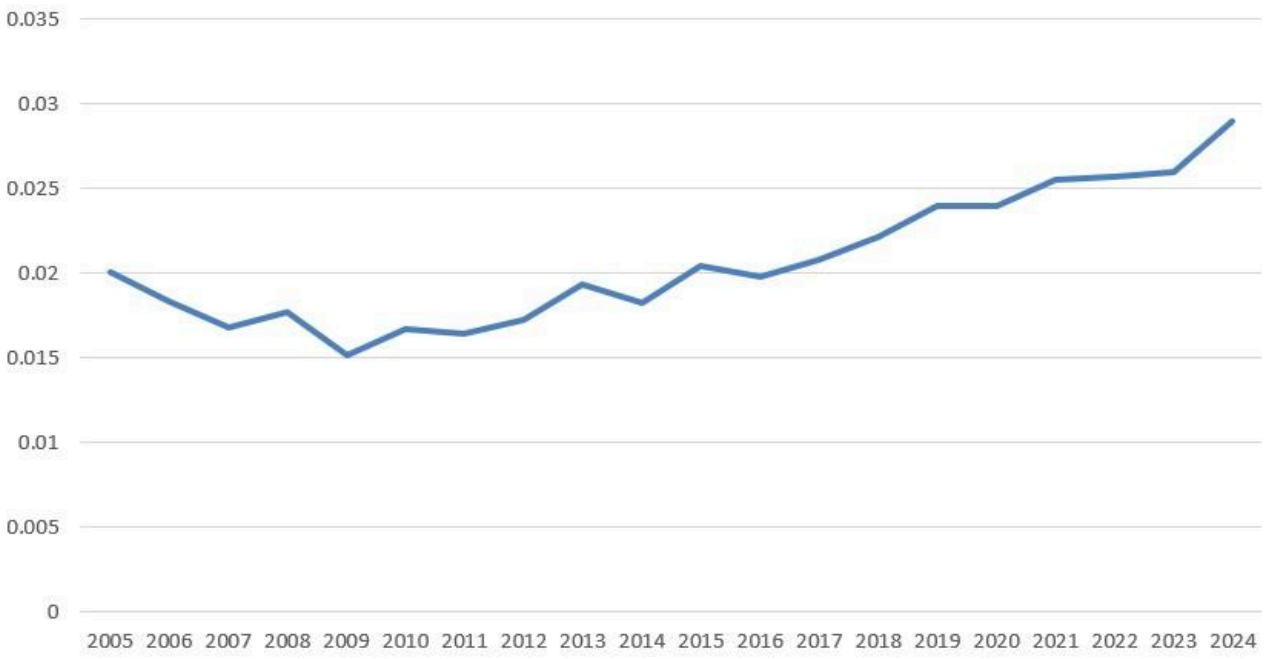
exceptional and suggests the existence of a potentially solid moat. This observation does not yet, however, allow us to conclude that it is durable: if a margin of 60% had been maintained over a period of twenty years, it would be a true signal of a durable moat.

On the other hand, the level of the margin varies widely, the curve being irregular. This instability makes it difficult to estimate future cash flows and, consequently, complicates the overall valuation of the company.



Profit margin of Nvidia, from 2006 to 2025. Source: EODHD

Costco's margin lies in a range between 1.5% and 3%. Its variance is markedly lower than Nvidia's, which makes Costco more predictable. It is therefore easier to anticipate Costco's future profits than Nvidia's.



Profit margin of Costco, from 2005 to 2024. Source: EODHD

> *"A truly great business must have an enduring "moat" that protects excellent returns on invested capital. The dynamics of capitalism guarantee that competitors will repeatedly assault any business "castle" that is earning high returns. Therefore a formidable barrier such as a company's being the low-cost producer (GEICO, Costco) or possessing a powerful world-wide brand (Coca-Cola, Gillette, American Express) is essential for sustained success. Business history is filled with "Roman Candles," companies whose moats proved illusory and were soon crossed. Our criterion of "enduring" causes us to rule out companies in industries prone to rapid and continuous change. Though capitalism's "creative destruction" is highly beneficial for society, it precludes investment certainty. A moat that must be continuously rebuilt will eventually be no moat at all."*
>
> Warren Buffett, letter to shareholders, 2007

The importance of reading a great many annual reports

Unlike academic and institutional approaches, which are often heavy, Buffett and Munger use these same fundamentals intuitively, without burdening themselves with complex calculations.

Their aim is to avoid the mistake of buying a company at far too high a price, and to spot those that are plainly undervalued.

Charlie Munger has summed it up by saying, in substance, that if it is not blindingly obvious, they do not buy.

> *"Warren often talks about these discounted cash flows, but I've never seen him do one. If it isn't perfectly obvious that it's going to work out well if you do the calculation, then he tends to go on to the next idea."*
>
> Charlie Munger

When one analyses a large number of companies, in particular the key items we have mentioned (net profit, debt, owner earnings, etc.), regularly and in depth, situations of undervaluation or overvaluation end up becoming obvious. Warren Buffett and Charlie Munger were renowned for accumulating considerable knowledge of the companies they studied, notably through intensive reading of annual reports (10-Ks and other financial documents). This reading habit allowed them to compare companies over time and with one another with great acuity.

> *"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time. None, zero. You'd be amazed at how much Warren reads, and at how much I read."*
>
> Charlie Munger, Poor Charlie's Almanack