

BB's Investment Approach

Description

Quite a few of you have emailed me asking about my investing approach, so I thought I'd share a little more details about my investing philosophy here! Distilled into 3 steps because I like to keep my investing train of thought simple.

? Step 1: Find a business you like (or at least can appreciate).

My first step to picking a stock is look out for a company whose business model I can appreciate. This is really important because if I don't have faith in their biz model and can't figure out how they make money, then it isn't a company that I will feel assured putting my money into.

For instance, some people like the business of ship charters, and I do know some ship brokers who earn a lot of money. Unfortunately, the field isn't something I can grasp.

I'm invested in stocks like ComfortDelGro (read my blog for it – I've written at least 2 on this stock) because I can understand how their biz operates and earns money. CDG is one of the largest transport fleet operators in the world – many folks think they're only in Singapore but that's not quite the full story!

SMRT is another easy stock to appreciate and understand. Even if the markets crash tomorrow, will people stop taking the trains? Obviously not. Too bad they've delisted now.

"How do I go about finding good stocks?"

There is no straightforward answer to this – many roads lead to Rome. A lot of male investors I know look at charts and top 20 trades each day to find a good stock – but I'm terrible at math and charting really isn't my forte. Excel often puts me to sleep. So what's a girl like me got to do then – stay out of the market?

No. I find my own way, and I start by looking for businesses I like and appreciate. Then I'll try to understand their model – how do they spend and earn money?

? Step 2: Conduct Fundamental Analysis (FA) to confirm if the company is good.

I won't go through all the elements of my FA analysis here as it can get quite detailed, but I'll highlight some of the main aspects I generally look out for across all stocks:

?? revenue, earnings, profits, assets, debts and liabilities, etc

?? what are the company's operating expenses? (Eg. Staff salaries, cost of raw materials, etc)

?? how does the company earn money? What is its economic moat (aka competitive advantage?)

Since we're on Dayre, let's talk about social media stocks. Snapchat is filing for IPO next year, and it is being touted as one of the biggest IPOs ever. Lots of investors are excited about it.

Not me.

Taking this from Bloomberg: Snapchat could price its initial public offering at a valuation of \$25 billion to \$35 billion, Bloomberg reported. But Bloomberg's sources also said the "valuation could reach as much as \$40 billion."

To put that into context – Facebook's IPO in 2003 was \$3 billion.

Do I really think Snapchat is worth 10x more than Facebook? No. Although I've seen my friends use it, I personally don't use Snapchat nor do I see any point in doing so. Which is why, frankly speaking, I don't really understand the business. Maybe you girls on Dayre can help me out? I'll love to understand what exactly is Snapchat's appeal.

To me, Snapchat seems like Instagram's newly-launched feature Stories. And Instagram has a much bigger audience base (or am I wrong? I mean, even a social media noob like me has Instagram...) so I don't see what kind of competitive advantage Snapchat has over Instagram.

I see social media agencies buying ads on Instagram, but I haven't seen any look at Snapchat yet.

While Snapchat did earn \$59 million from advertising in 2015, the company reportedly expects to generate around \$350 million going forward. Huh?!?

Going into 2017, Snapchat even expects revenue of as much as \$1 billion. Very ambitious targets indeed, and I'm doubtful whether they'll really meet them.

More importantly, Snapchat continues to lose money, justifying it as expenses to find ways to make money off its user base.

Sounds like Uber and how they're just burning money. Hmm.

I also look at a company's financials and various ratios (PE, PB, NAV, EBITDA, etc) to determine if they're in sound financial health. For instance, just like how we try to build up our savings for rainydays, companies should also have a healthy free cash flow for emergencies or to withstand economic downturns.

? Step 3: Wait for a discount / sale and then go shopping!! ?

Once I've confirmed from the above 2 steps that I like the company + my thoughts about it are justified with concrete proof and sound financial health, I'll add the stock to my watchlist and then wait for a sale before I buy it.

Just like how we go shopping during Singles Day, Black Friday or GSS right?

For example, when I first blogged about CDG early last year, the stock price was trading at \$3+.

Recently it dropped, so I loaded up ?.

As you can see, I dislike buying at full price.

I used to be really impatient about buying stocks once I've found something I like. In fact, it still is a problem I struggle with today. But I try to rein in my emotions and set a purchase price – if it doesn't hit my target purchase price, then I'll force myself to walk away from the stock.

No point paying. Kind of like Coldplay's concert tickets now, isn't it? If you overpay from someone who is selling it off at a high price, your ticket could get up getting voided. Then you lose everything!

BB's 3-step investing method #bbinvests

So this is my Budget Babe approach to finding good stocks, analysing them and when to buy them! There are many methods out there, and you can read another post I did last month about different investment approaches that are most common. You don't have to follow mine, but I've found that it works.

I hope this guide helps! Sorry if the lack of pictures bored you guys, but I honestly express myself better through words.

If you've any questions about #dayreinvest #dayrefinance feel free to ask me!

I know investing may seem a little daunting, and many of the tools out there seem more geared towards the male population, or folks who are more technical and numbers savvy.

Even most financial blogs are run by...guys. Aiyo. I don't have a single female friend whom I can

discuss investing with. Most just wanna talk fashion, beauty or makeup.

I'm not that sort. But using my #bbinvests approach, I was able to grow my \$8k to \$10k in the stock market in the first half of this year. More to come?

Of course, the journey hasn't always been smooth-sailing, and I've learnt some painful mistakes along the way. I read a lot of investment advice and strategies, especially those quoted by Warren Buffett, only to fail badly.

Hmm would you guys be interested in some of these failings I went through? Let me know and I'll see if I can start a series!

Category

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