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 *(These notes are to the best of my recollection and trusty ink pen. Discrepancies are due to my error in understanding & transcribing.)*

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* Return On Invested Capital (ROIC) is the primary test of a business’ moat.
* Moats general:
	+ Capitalism works and competition reduces profitability… but some *stay* profitable
	+ Moats are strategic business characteristics
		- Sustainable returns are more important than the ‘highest’ returns
		- Ex. Crocs (CROX) vs. Nokia (NOK) and Kinder Morgan (KMP) vs. Union Pacific (UPC)
* 5 Sources of Moats (Morningstar)
	+ Network Effects
		- The value of the service grows with additional users (circularity builds)
		- Ex. Mastercard (MC), Visa (V), E-Bay (EBAY), and Facebook (FCBK??)
	+ Cost Advantages
		- Economy of scale in distribution/manufacturing; Low cost resource base
		- Ex. Compass Minerals (CMP), Ultra Petroleum (UPL)
	+ Intangible Assets
		- Brands & Pricing Power - Sallie Mae (SLE) vs. Hershey (HSY), and Sony (SNU) vs. Tiffany (TIF)
		- Patents - Pharma
		- License & Government approvals – Casinos
		- Corporate Culture – Helpful, but not the strongest by itself
	+ Switching Costs
		- Time=Money, Money=Time – Consumer & Bank sectors especially
		- Ex. Oracle (ORCL), Autodesk (ADSK), Micros Systems (MCRS), Intuit (INTU)
		- *My note: coming from the architecture & engineering field, I can attest to ADSK’s dominate position.*
	+ Efficiencies of Scale
		- Limited market size; A new entrant would drive profits below cost of capital for all participants – Airports, Racetracks, Pipelines, Defense, Lubrizol
		- More modest profitability
* Morningstar Moat rating originated from Buffett
	+ 1999 Fortune article
	+ Measure by ROIC vs. WACC
	+ Wide (10%), Narrow (50%), None (40%)
	+ More moats in Consumer, Defense, Healthcare, Financial Services
* Morningstar is currently working on explicit listings of companies’ competitive advantages for use in reports:
	+ Multiple, smaller competitive advantages is better than one larger one
	+ Best competitive advantage is Intangible Assets
		- Ex. Healthcare patents, Consumer brands
	+ Least stable competitive advantage is Network Effects
	+ Efficiency of Scale resulted in best market return past few years – likely due to Utilities
	+ Switching Costs & Network Effects both seen on the most positive outliers – Apple (AAPL)
* Wide Moat Focus Index – Morningstar
	+ Roughly 120 ‘Wide Moat’ out of S&P Index
	+ 20 cheapest chosen
	+ Equally weighted and re-balanced quarterly
	+ Fun fact: Telecom has *never* been in it
* Q&A
	+ Wide Moat Focus Index turnover?
		- Around 150%, average 5-6/20 each quarter
	+ Track record of actual management compared to back testing?
		- They back tested to 2002. They started actual managing in 2007.
	+ Narrow Moat/Wide Moat differentiation?
		- Comes back to sustainability of competitive advantages; (+/- 10-15) years (narrow) and greater (wide)