THE SEARCH PROCESS

Some members discuss their approaches.

There's more than one way to skin a cat, so I'm curious how others decide on where to focus their initial research efforts.

Do you start with an industry you're familiar with or have an interest in? Do you go off of recent news? Do you look at 52 week lows and go from there? Do you look at insider trades first and go from there?
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This is a great question. I'm an amateur (who hopes to someday go pro**!). I usually get my initial ideas from other investors.** I spend a lot of time reading investment theses. If I like the company and its competitive position, I add it to my watch-list, then perform my own regular research updates. Blogs, investment pitches for conferences, podcasts, magazine articles - all are great resources to discover new companies which have attractive economic characteristics.

An example is Input Capital, a canola streaming company based in Canada. I initially heard about the company from reading a blog article, approximately 18 months ago. The article piqued my interest, and from there I begun to conduct my own research. Over the course of the 18 months, I gained an understanding for the business and drivers of value. Then, in Nov. 2015, the price dropped over 40% in one day when it was revealed that 3 contracts were defaulted upon. I updated my research over the weekend, talked to management, then made it my largest position.

The danger of sourcing ideas on other's work is that you may not do your own. But I think it can be a greater starting point for sourcing ideas, especially smaller, boring companies with little news or analyst coverage. Just make sure you resist the temptation to get lazy. I've gotten burned on that when I began investing in companies and not just ETFs. It was JC Penny. **My investment was based on reading far too much into Ackman's thesis and doing far too little of my own research.** I made the mistake of confusing the number of slides with the quality of research. Not once did I, or Ackman for that matter, ask if JC Penny's customers LIKED used coupons and buying items on sales. Neither of us did the necessary "scuttlebutt" of actually *GASP* talking to JCP customers. Lesson learnt: retail investing is a lot like political campaigning, it's all about the ground game.

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Hey all,

This is a great thread. **I do a lot of what Ian talked about, but recently have started feeling that just reading investment pitches all day long isn't the best idea.** Not saying it shouldn't be a serious tool in your arsenal, just I feel I need more balance. The old fashion way of just researching companies and industries where one can remain unbiased by outside opinion helps me recalibrate. **Being able to maintain independence of thought is critical in investing.** This might be obvious to some, but I figured I'd put it out there to see what the group thought.

We also need to a thread on investment process, a subject that is really fascinating to me. It's an very individualized process that still can be honed by ideas from other investors.

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Mr. Munger/Mr. Buffett would suggest that you start with the A's and white knuckle yourself through the 2,500 companies in value-line and small cap value line. Any major library in the USA should have it online. Better yet, page through the hard copy at the library.

You can eliminate (with practice) many within seconds, but you will
1. find unusual opportunities that may not be picked up by screens.

2. build a wish list. I would love to buy BCPC (Balchem) 35% lower. Ditto with CFX
3. you build up a knowledge base in your head of various industries and the general financial metrics to compare.

4. You can come up with your own investment ideas vs. being a late herder into ideas.

How you search is only limited by your process and creativity. For example, you may be a collector of companies with regional economies of scale so you look at rock quarries or trash hauling.   You may seek specialized assets that can't be easily duplicated for zoning and environmental reasons like Copart's salvage yard (CPRT).

I like the economics of Uranium so I want a company with leverage to a higher uranium price but a strong enough balance sheet and variable cost structure to survive a few years of low prices. I saw insider buying and a deep value investor, Cannell Capital has owned the company at twice the price, and the company has a unique asset—1 (The White Mesa Mill) of 4 permitted uranium mills in the US.   Energy Fuels, Inc. (UUUU), but I hope to buy near or under $2.00. It is valued at ½ the price of uranium explorers but it is already producing and has lots of organic growth if uranium prices rise. Not a rec. but several elements combine for my search process—industry, asset quality, balance sheet, insider buying, ownership.

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https://www.quora.com/How-can-I-find-stocks-that-are-undervalued/answer/John-Mihaljevic?srid=C12B&share=e6db3f46

How can I find stocks that are undervalued?

The stock market has gone up so much recently it seems like there aren't any good buys. I'm tempted to just keep my money in a bank account and wait for the next market crash.

John Mihaljevic, CFA, editor, The Manual of Ideas

Idea generation is both art and science. In investing, various quantitative methods can throw up many "names" for consideration, based on criteria such as price to earnings, enterprise value to sales, or price to tangible book value. On the surface, the companies with the lowest ratios will be the cheapest publicly traded companies at the moment. However, if investing was as simple as picking the quantitatively cheapest companies and earning a market-beating return, then investment success might not be as elusive as it is actually.

Several issues arise with the use of purely quantitative methods. First, quantitative screens suffer from a version of the "garbage in, garbage out" problem: One-time items, such as a non-recurring gain on the sale of subsidiary, can inflate reported income, making a company seems cheaper on a the basis of P/E than it would be if the one-time gain was excluded. Second, even in the absence of one-time items, a cyclical business will report the highest earnings at the top of a cycle, right before income is about to decline. Third, cheap companies are often "cheap for a reason", with the most obvious reason being that the

company in question is a terrible business with low returns on capital. If a company trades at a low P/E multiple but retains earnings and reinvests them at a low rate of return, long-term shareholders are unlikely to earn a high return. Over time, shareholder returns converge with the return on capital at companies that retain the vast majority of earnings.

Every investor faces a practical constraint: limited time. If an investor had no time constraints, idea generation strategies would be much less important, as we could analyze every available idea. Time limitations force us to prioritize. Quantitative screens are one way of prioritizing companies for further research. Conversely, David Einhorn, founder of Greenlight Capital, has talked about looking not for statistically cheap companies but scouting for situations in which non-fundamental reasons may lead to the mispricing of a security.

Over the past seven years, The Manual of Ideas has queried a number of thought-leading investment managers about their idea generation strategies. We highlight some of their insights below.

The following excerpts have been edited for space and clarity.

Allan Mecham*, founder of Arlington Value Management:*

[I generate ideas] mainly by reading a lot. I don't have a scientific model to generate ideas. I'm weary of most screens. The one screen I've done in the past was by market cap, then I started alphabetically. Companies and industries that are out of favor tend to attract my interest. Over the past 13+ years, I've built up a base of companies that I understand well and would like to own at the right price. We tend to stay within this small circle of companies, owning the same names multiple times. It's rare for us to buy a company we haven't researched and followed for a number of years — we like to stick to what we know. That's the beauty of the public markets: If you can be patient, there's a good chance the volatility of the marketplace will give you the chance to own companies on your watch list. The average stock price fluctuates by roughly 80% annually (when comparing 52-week high to 52-week low). Certainly, the underlying value of a business doesn't fluctuate that much on an annual basis, so the public markets are a fantastic arena to buy businesses if you can sit still without growing tired of sitting still.

Charles de Vaulx*, chief investment officer of International Value Advisers:*

Compared to many of our peers, it would be fair to say that we may rely a lot less on screens. It would be easy every week to run screens globally about stocks that trade at low price to book, high dividend yield, low enterprise value to sales, enterprise value to operating income, and so forth. Generally speaking, a lot of our value competitors begin the investment process —by that I mean the search for ideas—by trying to identify cheap-looking stocks. Sometimes using screen devices they look for cheap-looking stocks and once

they have identified a list of cheap-looking stocks, then they decide to, one at a time, do the work and investigate each of these companies. The pitfall with that approach is typically those cheap looking stocks that you've identified will typically fall in two categories. Either stocks that are of companies that operate in overly competitive industries or overly regulated industries where the regulator may not always be a friendly regulator. So you may find steel companies, or some retail companies, or the insurance industry in many parts of the world is notorious for its overcapacity and lack of barriers to entry. So, either you'll find companies in overly competitive businesses where it's hard, or even worse, you'll find typically some of the lousiest competitors in their respective industry. If you had run a screen a day before a company went bankrupt, the stock probably looked cheap on maybe a practical basis or probably enterprise value to sales basis. The problem with these cheap-looking stocks of both categories is that it's going to be hard for these stocks to see their intrinsic value go up over time. If anything, especially in the second category, the worst competitor type category, some of these companies may actually see intrinsic value go down over time.

Conversely, what piques our curiosity, what makes us want to investigate an investment idea is not that it looks cheap at first sight. It's rather that the business looks neat or that the company seems uniquely good and well positioned in what they do, and then we hope and pray that, for one reason or another, the stock happens to be cheap. I'll give you an example which goes back many years. Maybe 15 years ago, I was reading briefly about a company I had never heard of – Thomas Nelson, a U.S.-based company. They were the leading publisher of bibles in America, maybe in the world. They were also a leading publisher of inspirational books and I said, well, book publishing used to be a great business. It changed from being a great business to a good business. Margins went from being obscenely high to just high because authors asked to be paid more over time. I said, gee, a bible publisher… There's not much in the way of author rights. That's pretty neat. Next to that brief description of the business was a P/E ratio that did not look low- it was15 times earnings, a P/B that did not seem low and a dividend yield that did not look enticing. So the stock did not look cheap, but I said maybe there's something hidden. Maybe the earnings are temporarily depressed, and so maybe the stock is cheap even though it does not look so at first blush. I was intrigued by the business, and I took a look at it and realized that the company had, for the five years just prior, started to come up with five new bibles – bibles for children, bibles for the elderly and so forth – and they had capitalized the costs of creating these new products. Now that those bibles were available for sale in bookstores, the company was amortizing over five years, or maybe three years, that cost. So now the company's earnings per share were after a pretty big amortization of capitalized costs, which was not a cash charge. What looked like a high price to earnings ratio of 15 times was only a 10 times price to earnings before amortization of capitalized costs. So the price to cash earnings was much more reasonable. I was intrigued by the fact that the company, two years prior, had misbehaved. Since they had a good business, they had decided to diversify and

buy into a difficult business. They had bought a printing business in the UK. They had borrowed money for that, but to their credit, a year later they realized their mistake and had sold that business at a loss, but they had sold it and the proceeds were high enough to pay down debt. The bottom line is that for the few people who knew that company in the past, who owned it, they were disappointed in management because of that one time mistake. I felt that, hopefully, management would have learned from their mistake.

Oftentimes, we will study over the years great businesses, whether it's a Google, an Expeditors International [EXPD], 3M [MMM], and we keep them in mind and we have a tentative intrinsic value estimate, and sometimes there could be a crash. There can be a crisis like '08, something happens and sometimes these stocks fall enough that we revisit them. I talked about these great businesses that are cyclical, the temporary staffing companies, most of the time they're too expensive for us to catch, but once in a while, especially during an economic downturn, we're able to buy them. Even L'Oreal [Paris: OR], the French-based yet global cosmetics company, a few times in the past during an economic downturn, sales slowed down and the growth guys that typically own the stock don't want to own it, because the growth rate is not there. So they dump it. It still optically looks too expensive for the deep value guys. In other words, instead of staying at six, seven, eight times EBIT, it may still trade at nine, ten, eleven times EBIT. So the growth guys don't want it, the deep value guys don't want it. It sits in limbo, and that's when we're able to get those things. So it's not much in the way of screening. It's just the analysts, based on the sector they follow, and because some of us have been in this business for a long time – myself, over 25 years and Chuck [de Lardemelle] and Simon [Fenwick] and Thibault [Pizenberg] for many years – and because we've looked at tiny companies and huge ones, we have a pretty good idea of what the best businesses and companies are out there in the world, and we keep them in mind and try to revisit them when there's a crisis or a big economic downturn.

Bryan Lawrence*, founder of Oakcliff Capital:*

Voracious reading, talking to other investors, and looking for areas of disturbance in the markets that may create opportunities. It has been interesting to study the records of the great investors, and see how they generated ideas. Often the great investor works alone much of the time, which makes sense given the difficulty that two people will have agreeing on which are the best ten stocks to own. But it is very smart to find a small number of other investors whom you respect, and with whom you can share ideas. You do not have to agree on everything, and their different perspectives can enhance your own thinking. Oakcliff shares space with two other firms run by first-class people. I enjoy having a collegial environment in which to kick around an idea, but also the freedom to make my own decisions.

John Lambert*, investment manager at GAM:*

The principal method of idea generation is through the use of very long-term performance charts, which help to identify areas of currently depressed sentiment and hence probable low valuations. Ideas also come through more quantitative screening, subscription to quality newsletters like the MOI and general reading. It is best described as eclectic, and there are no hard criteria for qualification as a potential idea or inclusion in the portfolio.

Larry Sarbit*, chief investment officer of Sarbit Advisory Services:*

There are many ways of generating them. It's called searching. It's just a long-term search process of opening yourself up to different ideas, don't be closed off. Ideas come in many forms and many types of businesses, and even the way you evaluate them can be different on a case-by-case basis. There's no perfect template that you can use to be successful.

Mark Cooper*, portfolio manager of First Eagle Investment Management:*

My number one thing I do for generating investment ideas is reading. And different people learn differently and different people process information differently. And as students of mine have heard in the past, I don't hear very well so I don't process things audibly very well. I don't spend a lot of time talking on the phone to people, having conversations with other investors as smart as they may be, and often smarter than me or who have very good ideas. But sharing ideas is not something that I spend time doing. I want to look for ideas and read various sources of information, and try to have an idea of what's going on in the world. How do I see things? Where do I see opportunities? Reading probably is the number one thing. I will use screens as well, and the reason I do that—I didn't use it as much in the past when I was focused really exclusively on one sector and one industry—but as I've become more of a generalist and I have positions in companies in pretty much every sector around the world, in many different countries, I find it harder and harder to filter out from 6,000 or 7,000 maybe possible equity securities that trade above $1 billion [in] U.S. market cap. I want to filter that list down to a more manageable list, which we can watch. And we do use a quantitative approach to do that, to narrow down the universe. But the idea being it's all about saving time, improving our search process and focusing on those ideas that might be potentially interesting at the right price.

Sahm Adrangi*, founder of Kerrisdale Capital Management:*

We've made some of our best investments by becoming experts in weird and unusual areas of the public markets, and using that deep understanding to our advantage. For instance, we generated strong returns on SPAC warrants in the second half of 2009, and accomplished that by becoming experts on how SPACs operated. Aside from that, we probably rely on Investment Community | SumZero more than anything else. People post some great ideas on Sumzero, and by doing our own diligence on those ideas, we can typically build an attractive portfolio.

Mark Massey*, fund manager of AltaRock Partners:*

It's all qualitative stuff. We really don't do screens. In fact, the only screen that I find useful is one that spits out companies that have been buying back a high percentage of shares. This MAY be indicative of a well-aligned management team that has great conviction in the durability of its competitive moat… but it could be the opposite, too… so you always have to do a lot of work to get to the truth. I really think the key to our success has to do with our love for the game. We absolutely love coming to work every day. I literally spend almost all of my time reading. And while it, no doubt, makes me a bit of an oddball, my greatest pleasure is to be constantly searching for wonderful businesses that, for whatever reason, are mispriced. Having done this for nearly thirty years, I have built up a lot of knowledge and understanding about many different businesses, moats and business models. The result is a long list of companies that we would like to own at the right price. And we know from experience that if we continue to be patient and disciplined, a few mouth-watering opportunities will eventually come our way.

Fernando del Pino*, private investor:*

I run value screens mainly focused on valuation rather than on business quality-oriented measures. For instance, high ROE is nice, but statistically high ROE stocks have not proved to perform better than the market. I also avoid extremely indebted businesses, except when the market is pricing a bankruptcy that I see improbable, making the risk-reward ratio extremely asymmetric and, therefore, attractive. I try to read as few newspapers as possible. Maybe 80% of what you read is just entertainment, 10% is pure propaganda and 10% is information, some true, some false. Therefore, I think that reading daily news is a terrible waste of time and a dangerous source of noise and distraction. I follow a few outstanding investors (partly through MOI) and a few selected newsletter writers from around the world whom I've followed for many, many years. I also keep reading a lot of books on anything from religion (I'm Roman Catholic), psychology or history to investment, economics or medicine. Apart from enjoying reading from the point of view of culture, I hope (and believe) that it builds the right mental model overtime. Information is the lowest use of man's intellectual capabilities; then higher up you find knowledge; and at the summit, there is wisdom. You have to aim at the latter. Too much information hinders knowledge, and very often, too much knowledge hinders wisdom – because of hubris. Today we live in a world with overwhelming loads of stupid information and very little wisdom, I'm afraid.

Josh Tarasoff*, general partner of Greenlea Lane Capital:*

I have a routine that I repeat on roughly a monthly basis, which includes many of the same things that a lot of investors do. This routine generates a list of companies that are worth more work. I prioritize the companies that seem to be attractively priced, but a lot of the time I find myself researching companies in order to be prepared if the price becomes

attractive in the future. Because of the very narrow focus on great businesses, I do not find as many interesting situations as many other investors do. A great deal of the work I do is simply expanding my knowledge base.

***Don Fitzgerald**, fund manager of Tocqueville Finance:*

Investment ideas come from a number of sources, such as regular quantitative screenings, tracking of Tocqueville investments which have been portfolio holdings in the past, monitoring of the financial press, management meetings and conferences. Opportunities caused by disappointments of short-term market expectations are good targets. Also spin-offs and de-mergers where existing investors often sell without doing their homework on the new company's real value or situations where you have a forced seller pushing down the stock price are good hunting grounds for fundamental investors.

***Simon Denison-Smith**, co-founder of Metropolis Capital:*

We get our ideas from two sources: 1. A proprietary screen that we have built with assistance from Thomson Reuters which works off their Reuters Knowledge platform. This model processes over 80 historic financial variables and uses these to calculate a first-cut intrinsic value, from which we derive a first-cut margin of safety for each company that we run through the screen. We use cash flow and debt filters to further refine the screen. 2. Reading widely in business magazines (e.g., Investors Chronicle), newspapers (e.g., the FT) and various online sources – to see if there are any companies that we have missed, which we then analyze.

***Ori Eyal**, founder of Emerging Value Capital Management:*

The short answer is I read everything and talk to everyone. I subscribe to about 20 different publications: Forbes, Fortune, Barron's, The Economist, Value Investor Insight, Capital and Crisis, Complete Growth Investor, etc. I also surf the leading investing websites: Value Investors Club, SumZero, Market Folly, etc. I attend great investing conferences: The Value Investor Congress, IRA Sohn Investment Conference, The Rodman & Renshaw Global Investment Conference, etc. And perhaps most importantly, I regularly talk with other smart fund managers and discuss ideas.

***Jake Rosser**, managing partner of Coho Capital Management:*

The great thing about investing is you get to cultivate your curiosity about the world at large. I once described my job as sitting between four walls reading and thinking. That truly represents the majority of my day. At its heart, investing is a multi-disciplinary endeavor. Thus, one has to know a little about everything to make informed decisions. I often joke that one can become a real Cliff Claven in this business. Our reading diet consists of *The New York Times*, *The Wall Street Journal*, *Forbes*, *Fortune*, *Business Week*, *Bloomberg*, *Barron's,* and various value-oriented investment blogs. We subscribe to

two newsletters, The Manual of Ideas and Value Investor Insight. In vacuuming up large quantities of information, we keep our antenna alert for informational inefficiencies. […] Apart from reading, we utilize a number of sources as a starting point to sift through ideas. These include Value Investors Club submissions and SEC filings of investors we admire. We also find that informational inefficiencies are often present in spin-off situations, busted IPOs or post re-org opportunities. Last, we keep an "On Deck" portfolio of companies on Yahoo! Finance that are worthy of further research and a "Punch Card" portfolio of what we consider the world's best businesses. This allows us to keep tabs on the world's best companies and position ourselves quickly should opportunities materialize.

***Zeke Ashton**, portfolio manager of Centaur Capital Partners:*

We get ideas from all sorts of places. We used to get a sizable number of leads from statistical screening, and we still use screens, but we have found them in recent years to be more productive in sourcing short ideas rather than long ideas. Nevertheless, we still scan through lists of stocks that appear to be cheap from a statistical basis and occasionally we find a good one. One of our major idea sources these days is from the inventory of the many ideas we've owned or researched at some point in the past – many times, after we've sold those stocks, the price will come back down to a level that makes them very interesting again. Since we generally already know the company, it is just a matter of getting quickly up to speed with the latest developments to determine if it is actionable. We also find occasional ideas by doing industry overviews to get to know a number of players in a specific sector or niche that we think may be out of favor or neglected for some reason. Often we will find a gem or two. Finally, we get some ideas through our network of value investing contacts, and through a number of specialized research publications that we have found are compatible with our approach, of which your own publication would be one example. But no matter the source, the ideas are merely candidates until we've actually produced a piece of internal research that covers the bases and gives us confidence that we understand the business, can reasonably value it and also gauge the risks factors involved. And of course, the stock has to be cheap.

***Charles de Lardemelle**, portfolio manager at International Value Advisers:*

I have found over my career as an investor that the best ideas often do not screen very well. Basically, you are spotting something that doesn't show in the numbers yet and will show over time. That happens from time to time, those tend to be larger positions or we would build them over time. But unfortunately, we don't find enough of those. These situations are few and far between, require judgment and a vision. Those inflection points, however, can be sources of great gains or losses in any industry.

***Barry Pasikov**, managing member of Hazelton Capital Partners:*

Originally, a majority of my ideas were generated by a screening tool using metrics like price/sales, revenue growth, margin expansion, cash on the balance sheet, debt reduction, 52-week lows, etc. The results were as you would expect: names of companies that met my criteria but frequently did not have the long-term results or earnings power that I was looking for. My searches then began to progress from quantitative to qualitative valuations. Unfortunately, I don't know of any screening tools that can search for a company with a sustainable competitive edge, operating in a niche industry with high barriers to entry, requiring little to no capital expenditure, and of course, is cheaply priced when you fully understand their business model. I found that the trick to finding these companies is not to search for them. Instead, study the types of industries where investment opportunities may be hiding; an industry that could conceal an unloved, abandoned, sometimes vilified company lacking sex appeal. I also do a fair amount of reading and two of my favorite magazines are BusinessWeek and Fortune. I am not reading them for investment recommendations; I read them because both magazines do a great job of giving a quick and concise overview of different companies and their industries. Knowing which facts and metrics to focus on is extremely helpful when researching a new company. This has helped me to invest in a few companies I would definitely have overlooked simply because they would not have popped up on a screening tool. [...] Ultimately, there are a number of ways to generate ideas, and like strategies, an investor should pick the ones that best suit his investment style. The one common thread is that doing your own homework is mandatory. Even though I get a good amount of information flow coming in from very trusted sources, I still find it necessary to do my own research. More importantly, when you do your own research, it makes a big difference in truly understanding whether the swoon in the price of a company's stock is an opportunity to add at a more attractive level or whether your valuation of the company was misunderstood.

Lisa Rapuano*, founder of Lane Five Capital Management:*

Idea generation is fairly idiosyncratic, frankly. We run screens of high-return, low-multiple names (the so-called Magic Formula) and of low-multiple names and of things that have recently moved down in price aggressively. My favorite screen is the New Low list – at least it tells me what is truly out of favor. From there, it's a fairly labor-intensive process of going through the names and seeing if any of them look like they would be down for temporary reasons and that there are decent business models on the other side of what is causing the controversy. More often than not, we come up with ideas from much more random sources than screens: magazine articles, talking with other managers, randomly typing the wrong ticker in Bloomberg, sell-side downgrades that might signal capitulation, looking at spin-offs or recapitalizations, tracking management changes and turnarounds. In my experience, the nice neat little funnel of screening to portfolio doesn't really work. Undervalued things are sometimes hiding under expensive-looking or very complicated rocks.

Brian Bares*, founder of Bares Capital Management:*

We do exactly one computer screen on market cap that identifies our constituent investment universe. From that point it is old-fashioned hard work. Our research analysts are free to follow their intellectual curiosities. I want to foster a collegial environment where people are constantly exchanging ideas. If I constrain people to specific sectors, or task them to write up a specific idea, they may not go the extra mile to get an idea as polished as it can be. We have had ideas come to the table from researching competitors. Others have materialized by visiting management simply because we are in the area. And some have come to our attention through shared board members or founders. Anytime one of our research analysts comes up with an idea, it is presented in a formal process internally. The idea needs to meet our qualitative criteria for competitiveness and management capability. We also have a very important discussion about what our advantage is in researching a specific idea. We love it when there are behavioral reasons for pervasive contrary opinions. We also take pride in knowing that our research is better than what is out there, both from the sell and buy sides.

Adam Steiner*, head of research of SVG Capital:*

A mixture of customized valuation screens, industry contacts, and by monitoring private equity transactional activity. It's quite hard to get the sell side to understand what we are looking for, except for a few exceptional brokers.

Max Otte*, founder of IFVE Institut für Vermögensentwicklung:*

I'm generally a man of too many ideas. So my challenge is rather how to narrow down my ideas systematically. My discipline is to stick to a rather limited universe of stocks — 200 German, Swiss and Austrian, maybe 100 international stocks — which I follow intermittingly and which change only slowly over time. I'd rather profit from price fluctuations in the securities I know than try to find new ones all the time. I read papers. I read annual reports. I have an excel-database with approximately 150 stocks. Over time, you develop expertise in certain markets. You acquire a "feel" for those stocks, when a sector or stock might become interesting and when its price is getting too high. I am also looking at a list of relative losers over five years to find interesting cheap stocks. And sometimes I take home an interesting idea from value conferences or a publication like yours. That's not forbidden by law! Success is what counts.

Philip Best*, founding partner of Argos Managers:*

One of the things we really believe in is that there is too much investment that goes on from people who are basically just sitting behind a Bloomberg screen and who are doing arm chair investing. They are sitting there and they are waiting for ideas to come to them. And Marc and I believe a great deal in getting out there. In getting out there and meeting companies and talking with managers and we spend a lot of time traveling around France. And "A" we like that and "B" that is what we think brings the most to the job…We try and read as much of the local press as we can. Whether it's in France or the UK, Switzerland or

whatever and also a bit of the trade press. Plus, it is classic value investor stuff. A lot of the ideas have come from this idea of "idea clumping." You know you find one cheap software company in Germany and suddenly you find a bunch of others.

Jeroen Bos*, investment director of Church House Investment Management:*

The funny thing is that it is often said that finding these so-called net-nets is very difficult, but I find that if that is the only area that I look for in a relatively small market like the U.K., if you look hard enough, you'll find them. And that is exactly what I do. By looking at companies that I think look attractive but are at levels that I find too expensive, I'm already in a much better position because I'm only having to wait for the price to drop to the level that I'm willing to pay for them and make up my mind instantly to buy them. I have done the process beforehand. By just sitting there and watching, there are always stocks that can be bought at these extreme levels. And that is all that I do. If I can't find them, then we'll just wait in cash until the period comes that they are available.

Massimo Fuggetta*, portfolio manager of Bayes Fund:*

I do unconstrained screens… unconstrained from a geographical and from a sectoral point of view. And what I look at is situations where the valuation metrics, P/E or price to book or price to cash flow, things like that, are in sharp contradiction with the history of profitability… when I can relate that undervaluation to a particular situation, to a change in management, to a scandal, or to something that has happened around the company, not necessarily that particular company but in a more general context that becomes an opportunity…Greece has come down for obvious reasons, but that's a huge hunting ground for cheap bargains…of course the dangers are very high, you have to be very, very careful but the opportunities are certainly there. Same I would say for Spain and for Italy.

David Baran*, chief executive officer of Symphony Financial Partners:*

We visit every company. So if we're interested in a particular company usually it's not because we've done a screen and we found it's cheap. Finding what's cheap is easy because that algorithm is very well-known. But unless you can go and meet management and understand why is the company cheap then your investment process hasn't even started. So I would actually tell most investors to throw away your screens…we visit companies year after year after year and they're still cheap. But until you can identify what's going to cause them not to be cheap, there's no point in investing.

Drew Edwards*, Managing Director, Advisory Research:*

The majority of our ideas come to us through screens. We run lots of different screens based upon different industries and so forth. But what we're looking for are the same core criteria. We're looking for companies that trade at attractive levels relative to their net asset value or their tangible book value. Companies that have strong balance sheets, limited leverage and

have shown an ability to generate consistent operating profit through cycles. Those are the basic criteria whether it's a bank or a manufacturing company… At a tactical level, the way we handle this is: I run screens on a daily basis, I take the output of my screens and I drop the tickers into an internal database that we maintain. And we're looking for situations where the company is triggering new criteria. So in our database we will, as I mentioned before, there could be a company that's trading—we like the business fundamentals, we like the valuation but we have concerns about the management team or the debt levels are maybe a little bit higher or whatever the case may be, we're looking for, in our internal database, for that criterion to be triggered and at that point we go on and do additional research. Or alternatively, if the company has never populated our internal database, that's an exciting situation to us because it's a new idea that we haven't researched before and we very quickly go and meet with management.

***Tim McElvaine**, president of McElvaine Investment Management:*

…we don't really have any market cap constraint. Obviously, North American or Anglo-Saxon markets as you might typically define them would be preferred because of familiarity and governance. But the bigger the population you can select from, the better ideas you can have. I'd like to give you an example. We've had investments for the better part of certainly since I've worked with Peter or since I had my own fund I've always invested in and out of Japan – quite different culture, its own peculiarities but we've always had very good experience there. Mostly because we were disciplined about the price we're paying. That's a market where a lot of people have negative comments, but it's a good example of—as a recent book on Peter, There's Always Something to Do, and even within a market like that—we're able to find stuff to do.

***Rahul Saraogi**, managing director of the Atyant India Fund:*

I use multiple methods to generate ideas. I do not, however, aspire to know every single thing about every single listed company, it is just not possible. Even if one's analyst team does it, it doesn't help the fund manager because he or she cannot internalize that much information effectively. The beauty of the investment business is that you don't have to kiss all the girls. If one can find a few investment ideas that meet one's investment criteria, one can do very well over time.

***Amitabh Singhi**, managing director of Surefin:*

It is a combination of reading newspapers, screening, talking to friends, looking at investments made in the past, reading annual reports, etc. The process of getting ideas is often lumped together so long periods of inactivity are (fortunately) interrupted by brief periods of hyper-activity.

***Igor Lotsvin**, portfolio manager of Soma Asset Management:*

All of our ideas our internally generated – we never use the sell side to come up with investment ideas. We frequently listen to conference calls or meet with management of companies.

***Paul Sonkin**, former portfolio manager of the Hummingbird Value Funds:*

I've seen a lot of companies [in the micro cap space]. There are companies that I'll look at for five or ten years before I even own a share. I got an email from one of my former students who said, have you looked at such and such company? It's been on the periphery of my radar for ten years. We do look at them, and I keep track of their progress. I read through their press releases, and if the stock price falls to a level that becomes extremely attractive, or there is some corporate event, then it moves to the top of the inbox. I have a very big inbox, but you have to do triage or prioritize. Then there is also maintenance research on existing companies. Sometimes we have to go back and do a lot of research if there is something that has changed, but a lot of the times nothing has really changed. And again, a lot of these companies take very long-term views in terms of their business plans, so we just want to see if they are executing against their plan.

***Paul Johnson**, professor at Columbia Business School:*

We are always on the lookout for new opportunities. We source many of our investments from screens and sometimes we get ideas from the Street. We are also constantly reading the news and investment forums. We run a low-turnover, concentrated fund with approximately 12 core positions. As such, we only need to find a few great ideas a year. We have a clear sense of our target investment and can filter ideas quickly. Few make it past the initial screening, but those that do get intense scrutiny.

***Brian Gaines**, founder of Springhouse Capital Management:*

For the most part, we keep our eyes open and use past experience to quickly identify what could be interesting. If you follow stocks as actively as we do, you really find yourself in the flow of many different potentially interesting names and using past experience prevents you from wasting time on ideas that have a low likelihood of securing a place in the portfolio. We also look for ideas in many of the areas that Joel has written about, as well as some of the more standard channels for value investments, such as insider buys and new low lists. But we have found that most of our ideas have come from simply following many stocks over a long period of time. Our experience has been that good ideas don't come in perfectly spaced installments—they tend to ebb and flow. It is always more fun to have a long list of great new ideas, but when the ideas are sparse you have to continue doing company research and wait patiently for opportunities that meet your criteria. We find ourselves in the latter situation today. As I mentioned earlier, the environment for new ideas can change rapidly. The only thing we can do in the meantime is learn about more companies so that we are better prepared when the tide changes.

***Scott Barbee**, portfolio manager of the Aegis Value Fund:*

We generate ideas in a multitude of different ways. Our primary methodology is a simple stock screen looking for companies trading at discounts to tangible book value. Additionally, we run screens in search of companies trading at low multiples of leverage-adjusted cash flow. Speaking with other similarly oriented fund managers, examining their regulatory filings, and reading industry-specific research are other channels through which good investments can be found. Additionally, we are all voracious consumers of business news and we occasionally find gems through this general reading.

***Ciccio Azzollini**, CEO of Cattolica Partecipazioni:*

I'm always checking the new low list, not just stock prices but also lows based on P/E, P/S, etc. I also find ideas by reading constantly — I regularly read the *Wall Street Journal*,*Financial Times*, *New York Times*, *Barron's*, *Fortune*, *Forbes*, Value Line, SPACAnalytics, Gemfinder, Value Investor Insight, Superinvestor Insight, The Manual of Ideas, Outstanding Investor Digest, Value Investors Club, SumZero, Distressed Debt Investing, Merger Arbitrage Investing, Magic Formula, and Grant's Publishing. I'm always eager to read shareholders' letters, news and interviews with some of my favorite investors, including Whitney Tilson, Bill Ackman, Lloyd Khaner, Seth Klarman, Joel Greenblatt, Mohnish Pabrai, Rich Pzena, David Einhorn, John Paulson, Marty Whitman, Howard Marks, Bill Miller, Bob Olstein, Francisco Parames, Eddie Lampert, Jeremy Grantham, and of course Munger and Buffett. Finally, I always attend the Value Investing Congress in New York and Los Angeles, which is a great place to find new ideas.

***Scott Callon**, partner of Ichigo Asset Management:*

We invest only in Japanese small caps, so we need to build our understanding of our portfolio companies directly. The sell-side is a business, and Japanese equities have underperformed for so long that the sell-side has retreated (along with a good chunk of the buy-side), so our investment universe has no research coverage to speak of. If one is investing in Toyota, there are plenty of folks out there expressing a view, but our universe is under-researched, under-known, and under-owned.

Mike Pruitt**, **Matt Miller**, and* **Joe Koster. former principals of Chanticleer Holdings:*

We read a lot, pay attention to what other people we respect are buying, follow stock idea websites, watch for insider purchases, but we generate most of our ideas by running screens in Capital IQ. Even though it is a pricey service for a small fund, we realized in the beginning that we could get a big edge with a powerful screening tool and the ability to quickly filter results to try and find attractive things. What we have found is that especially in the small and micro-cap space, you have to turn over a great number of rocks to find something truly interesting and Capital IQ helps in that regard.

***Eileen Segall**, former portfolio manager of Tildenrow Partners:*

The majority of Tildenrow's ideas are generated from a quantitative screen based on free cash flow as a percentage of enterprise value, and on the metric return on invested capital (ROIC). The remainder of ideas I find through reading value investment publications like The Manual of Ideas, talking to other stock pickers, investment websites, blogs, and conferences. Every now and then, an idea that doesn't make it into the portfolio will lead to a better investment in that same industry.

***Adam Weinrich**, portfolio manager of Pala Fund:*

For me generating ideas in Asia is no different than in the US (you see, I have this big dartboard…). I look for changes, events, and disruptions leading to mis-valuations. The changes may apply at the company level, to an industry, or to an entire country. So I read a lot of news and company reports. I talk with friends at other funds. I listen to what insightful people on the sell-side have to say. Part of the appeal, and challenge, of investing in Asia is that each market and economy is unique. Each country is at a different stage of development and has different trading dynamics. The Hong Kong market is quite speculative with a lot of fast money and small caps that go up 3x in two months. Korea has some similarities. But in both markets there are terrific opportunities if you do your own work and are careful. Japan has a plethora of liquid stocks, a wide range of industries and is relatively transparent. But one has to understand how corporate decision making there differs from other countries. Taiwan, Australia and Malaysia are very different economies, but each has stable equity markets supported by big domestic institutional buyers.

***Doug Barnett**, president of Quest Management:*

We screen for stocks with high growth using Bloomberg, then go and visit the companies and construct our own financial models. We read broker research to see what companies are doing, but we never rely on broker earnings estimates as they are usually wrong. We also read the newspapers, *The Economist*, *Fortune*, *Forbes*, and Marc Faber's Doom, Boom and Gloom newsletter.

***Sid Choraria**, investment manager of APS Asset Management:*

I concentrate my idea generation efforts within the under-researched areas of the market, typically small and mid-cap companies in Asia Pacific, which tend to be ignored, misunderstood and provide the most interesting opportunities. I like generating original ideas, companies that are off the beaten path and with potential to grow but the underlying theme is always finding value. I look to source ideas constantly, through a variety of sources that keep me intellectually curious. Some of my ideas can come from just paying attention to companies in Asia in day to day life. I developed an exhaustive screening database that assists me mine for key factors I look for in a forensic way, quantitative and qualitative.

These can include return on invested capital, quality of earnings and free cash flow, significant share repurchases, insider buying, brand, customer captivity and pricing power. I also generate leads by asking companies "Which of your competitors do you fear the most?". Finally, I regularly read value oriented publications. Once I narrow it down to a certain set of opportunities, my investment process is driven by a bottom-up, fundamental research approach. I like to spend a substantial amount of time understanding the business, specifically its competitive position (i.e. pricing power, economies of scale, customer captivity). Then I look for an alignment with and incentives of management with shareholders (i.e. capital allocation, compensation, sticking to core competency, etc.). Finally, I look for opportunities to purchase companies at a substantial discount to the price a rational private owner would pay for the business. I keep a watch list and add companies when they pass the first two criteria but do not meet the price. Accumulated knowledge about the business, industry and management often lead to additional opportunities. I also follow some prominent value and private equity investors to see if they might be shareholders in the business. While their presence is not necessary, if the value discrepancy is large, it can be an advantage to have an informed investor engage in value creation and invest alongside them.

***Peter Kennan**, managing partner of Black Crane Capital:*

Our universe of companies is in Hong Kong, Singapore, Southeast Asia, Australia, New Zealand. That includes Taiwan. We look at enterprise value above $200 million. We don't care how small the market cap is, so they can have a small market cap. That generates a screen and then we scan out financials because we can't get really comfortable with what assets are inside financial organizations. That results in about 1,800 companies in our universe and we then sort through those looking at various criteria. One of the key criteria for us actually is a big fall in share price, so we take a look at any company that has fallen more than 50% versus a 52-week high. It might be five minutes, it might be five hours, but we take a look at all of them almost without exception. We have some screening based on we might do a small-cap company in the private development space, for instance, so we get used to screening things that are relatively lower quality businesses. We're really looking for a quality business at the heart of it, but it can be pretty ugly in terms of leverage, corporate governance concerns, cyclical issues, etc., etc., etc. It can have lots of problems, but at the heart of it, it must be a core, good quality asset, which could be cash, could be properties, could be infrastructure, could be a very strong cash flow business, for instance, with a solid market position. That's how we scan, so the share price fall is one of the key ones. The problem is really cheap stocks get scanned over and over and most cheap stocks, even in Asia, unless you're in 2009 territory or 2011 after the big selloff, most cheap stocks are cheap for a reason. Then we also look at things like bigger portion of minority interests, which would be indicative of a large conglomerate, which might have a sum of the parts discount and might have some activity to unlock that value. Big associate earnings, so again,

this is another thing the market will miss is that a lot of the earnings are coming through associates and are not in consolidated form. These are the things we look at.

Wong Yu Liang *and* ***Victor Khoo****, managers of Lumiere Capital:*

Our primary source of ideas is from reading corporate announcements and annual reports, especially during the earnings results season, because this will allow us to pick up ideas that may not be found using valuation screens or from the media or broker reports. We look primarily at the Singapore and Hong Kong markets which have similarly high standards of corporate disclosure hence the approach is pretty similar. For other markets like Indonesia and Malaysia, we will scrutinize corporate governance and management motivations a lot more closely.

John Burbank*, chief investment officer of Passport Capital:*

Looking at China or looking at Silicon Valley, it's [about] understanding what is the leading edge of change as well as what is being hurt by change — either part. Anything moving quickly will have those two things happening. It's generally most useful if you can figure out what is changing that's different than people understand. Anything that's changing differently than it happened before – it's an important point – is inherently not understood very well, because most things regress to a mean. Most thinking regresses to a mean. It expects things to go back to a level [they were] before. The things that change market prices, more broadly — it's the signal that diverges from reversion to the mean, at least for long periods of time. That is where you should put your attention. The problem with "value" is that, relative to growth, it often can keep you stuck in a lack of change, unless it's value for positive change reasons, but that's rarer than just "value". Markets are probably smarter about rating growth relative to value, but there's so many affecting things going on — globalization, technology change, Fed policy, although that's really not most important from a secular, long-term reason — that need to go into a probabilistic weighting [in] your investment analysis. Most Americas are trained [in] bottom-up stock picking — that's the direction they go in markets. The issue is, you need to learn a different way of approaching it, and it's accretive. You have to learn a lot more things, and it gets accretive with time. It can probably be discouraging at first. I think about how is the world changing or industry changing, and then I look to understand companies. Companies that are changing in ways I did not expect make me then go up to try and understand what are the broader things going on, so I can see a pattern emerge. Then try to take advantage to that.

Brian Boyle*, chief investment officer of Boyle Capital:*

We really don't have a rigid process or use screens to generate ideas. However, there is usually a common linkage among our investments. For example, Fairfax Financial has been a major holding for years, which led us to Sandridge Energy. We owned Canadian Oil Sands Trust in the past because of Seymour Schulich. Likewise, when he became a significant

investor in Birchcliff Energy we took notice. We also study the investments of other great investors. I have files on over 50 other investors that we respect, so we look at what others have been doing to see if anything might be interesting. At the end of the day, you must do your own homework though.

Vitaliy Katsenelson*, chief investment officer of Investment Management Associates:*

Number one, I have a watch list — a few hundred stocks that I researched at some point in time, some of which I owned in the past, and which I want to own when they hit my price target. I look at the list weekly. I screen. I learn what other investors I admire own. I have a good circle of friends who are value investors; we share ideas. I look at stocks that are making 52-week lows. None of these things are earth-shattering. Before I buy a stock I need to figure out what the street is missing. With very few exceptions, I find little value in street research. I read it on occasion but mostly to find out the consensus.

Robert Vinall*, founder and managing director of RV Capital:*

I generate ideas by speaking with like-minded investors, screening (in particular for 52-week lows) and reading newspapers. I am particularly keen also on referrals from competitors and suppliers of investee companies. I do not view my circle of competence as static. I am permanently trying to expand the edges of my circle of competence to encompass new companies, sectors and countries. For example, I have felt for a long time that China is beyond my circle of competence as I am unfamiliar with the culture and frankly the issue of property rights scares me. But Buffett has made a few investments there and stated categorically that all investors should have it on their radar screen. You ignore Buffett's advice at your peril, so I have started ordering annual reports for some Chinese companies. I hope that one day I can claim that certain Chinese companies are within my circle of competence.

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What are the best websites to follow for value investing-oriented investment ideas?

Includes websites, forums, blogs, etc. Anything that would be great for someone looking for great potential value investments.

John Mihaljevic, CFA, editor, The Manual of Ideas

1.1k Views • John is a Most Viewed Writer in Value Investing.

The Corner of Berkshire and Fairfax has an excellent message board on value investing.

Jae Jun's **Old School Value** is a wonderful resource for company analysis.

The Brooklyn Investor and **Bayes Blog** are two of my favorite blogs on value investing.