
CHAPTER 7

First-hand experience of the
product: scuttlebutting

'Reading the printed financial records about a company is never enough to justify an investment. One of the major steps in prudent investment must be to find out about a company's affairs from those who have some direct familiarity with them.'

Philip Fisher, author of *Common Stocks and Uncommon Profits*.

Definition of scuttlebutting

The term 'scuttlebutt' describes the chatting that would take place round the scuttlebutt, the name of a water barrel or butt on a ship. In investing terms, it means assessing a company by testing it for yourself through empirical observation. Philip Fisher brought this method to prominence and suggested talking to company employees, suppliers, customers, company management and knowledgeable people within the industry. This way you can try to assess the real company and its strengths and weaknesses. This can involve much work and not everybody will be willing to discuss the company so it does have limitations.

Sectors to scuttlebutt

Scuttlebutting can be carried out more easily in some sectors than others and are principally those with consumer products that can be readily accessed and tested. Visiting retail outlets and discussing the business with the staff is often a very good source of information. Scuttlebutting is less useful when the product is more technical and sold to businesses. Suitable sectors include: telecommunications; insurance and life insurance; media and entertainment; banks; some support services such as estate agents; general retailers; transport; real estate; food and drug retailers; leisure and hotels; utilities; tobacco; food producers and processors; beverages; and some information technology software and hardware that is consumer-orientated, rather than business-orientated.

Asking management

The people most knowledgeable about a company are its management. There are several ways to gain access to them and ask questions.

1. AGM

Management may normally be reluctant to spend time answering investors' questions but a prime time to quiz them is at the AGM. After the formalities of the meeting, there is usually some refreshment and the directors can mingle freely. However, if an investor asks a pertinent question and is fobbed off with a