CONCLUSION

This book sets out six tools to choose shares that outperform. In summary, the business model methodology ascertains whether the company and its sector have strong competitive advantage. This results from low-cost activities/and or doing something different from the competition which adds value to the customer, who is then prepared to pay a premium price. Thus, costs are minimised and revenues are maximised, as is profit, which is the difference between the two. The company is then analysed according to how it will perform in the economic cycle; whether it offers growth at a reasonable price; and if the technical analysis and scuttlebutting are positive. These tools can be wrapped up in a simple table, as set out below, to rate a company's attractiveness overall, using some sample scores.

Company scoring using all six tools

Tool	Score*
Company business model	2
Sector business model	1
Economic cycle	3
Growth at a reasonable price	2
Technical analysis	1
Scuttlebutting	4
Overall score	2

* 1 is highest, 5 is lowest.

Examples of actual company business models scores are given in appendix 1 and 2 for Radstone Technology and Microsoft, which score 2.0 and 2.2 respectively. Next, a company might score the maximum 1 for its sector business model, if it had, inter alia, high barriers to entry and sticky customers. It fares less well, say, against the backdrop of the current stage of the economic cycle, as its recession resistance is only average, so scores 3 on this count. It is attractive, as it offers good growth in profits at a reasonable price, scoring 2 on this measure. The share price is in a strong uptrend, that looks set to continue, and scores the maximum 1 for technical analysis. Scuttlebutting proves to be limited and only scores 4. In this example, the overall score is 2 and the company is a candidate for buying.

Obviously, the scoring is subjective but it should be relatively straightforward to form a gut feeling about a company. To make it easier, an investor can express

the scores of 1 to 5 in the following broad terms: very good, good, average, poor, and very poor. Such an exercise would be a very useful aid to decision-making, so that an investor can conclude that a company scores 2, or ‘good’, in this example. Equally important is to stay well clear of companies that score 4 or 5. The most likely time for there to be a good choice of companies scoring the maximum 1 overall should be at the end of a recession, when the green shoots of recovery are evident. Consequently, such an ideal buying opportunity can be expected to reap the greatest rewards. Lastly, always bear in mind the investment axioms of the gurus and profit from their wisdom.