



The Five Rules for Successful Stock Investing: Morningstar's Guide to Building Wealth and Winning in the Market

By Pat Dorsey

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The Five Rules for Successful Stock Investing

"By resisting both the popular tendency to use gimmicks that oversimplify securities analysis and the academic tendency to use jargon that obfuscates common sense, Pat Dorsey has written a substantial and useful book. His methodology is sound, his examples clear, and his approach timeless."

--Christopher C. Davis Portfolio Manager and Chairman, Davis Advisors

Over the years, people from around the world have turned to Morningstar for strong, independent, and reliable advice. The Five Rules for Successful Stock Investing provides the kind of savvy financial guidance only a company like Morningstar could offer. Based on the philosophy that "investing should be fun, but not a game," this comprehensive guide will put even the most cautious investors back on the right track by helping them pick the right stocks, find great companies, and understand the driving forces behind different industries--without paying too much for their investments.

Written by Morningstar's Director of Stock Analysis, Pat Dorsey, The Five Rules for Successful Stock Investing includes unparalleled stock research and investment strategies covering a wide range of stock-related topics. Investors will profit from such tips as:

- * How to dig into a financial statement and find hidden gold . . . and deception
- * How to find great companies that will create shareholder wealth
- * How to analyze every corner of the market, from banks to health care

Informative and highly accessible, The Five Rules for Successful Stock Investing should be required reading for anyone looking for the right investment opportunities in today's ever-changing market.

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Editorial Review

Review

Not long ago, MagicDiligence reviewed Mary Buffett and David Clark's Warren Buffett and the Interpretation of Financial Statement..... and concluded that, while possibly useful for beginners, experienced stock investors would dismiss the book as simplistic and adding nothing new. The review also mentioned that a good alternative for more experienced investors looking to add to their knowledge is Pat Dorsey's The Five Rules for Successful Stock Investing.

Today we'll take a look at that book. The author, Pat Dorsey, is currently the Director of Equity Research for Morningstar. Morningstar has historically been known for their 5-star scale of mutual fund ratings, but several years ago began applying the same scale to individual stocks. Since Morningstar's focus is on durable competitive advantage, the firm's investing philosophy correlates very well with that of the Magic Formula and of MagicDiligence. That makes the book particularly relevant and much of my stock analysis is based on techniques outlined in it. The Five Rules... is more or less a two part book. The first half deals covers the title, laying out the five rules for successful investing and then proceeding to expand on each of them. Without spoiling too much of the book, Dorsey's five rules are:

- 1) Do your homework.
- 2) Find economic moats.
- 3) Have a margin of safety.
- 4) Hold for the long haul.
- 5) Know when to sell.

This first section then continues on to introduce the investor to the techniques of stock analysis. Topics covered include detailed explanations of each financial statement, the points of emphasis to look for in a good investment (such as growth potential and financial health), how to spot accounting blowups before they happen, how to value a stock, and so forth. For everyone interested in stock analysis, from 10 year pros to those just beginning to dip their toes in the market, these chapters contain invaluable and vital information. Nearly every investor will learn something new about evaluating companies and valuing stocks. One particularly valuable chapter is titled "The 10-Minute Test", which will help you quickly throw out stocks that are not worth your time, while highlighting investment opportunities that warrant additional research.

The second half of the book is equally useful. In this section, Dorsey calls upon Morningstar's sector analysts to lay out the intrinsic moat qualities and the factors that separate good and bad companies in a variety of sectors, including Health Care, Consumer Services, Media, Banks, and so on. It's no secret to MagicDiligence Members that some industries are inherently better investment hunting grounds than others, and this book explains why. For example, retail is generally a difficult place to invest - there are no customer switching costs, tons of competition, and constantly changing consumer trends. On the other hand, most medical device makers have very high switching costs, as surgeons are trained on one company's products and are loathe to learn the intricacies of a competing product, unless there is a very good reason to do so.

To close this review, a personal observation. Most investors routinely cite classic investing books like Ben

Graham's *The Intelligent Investor* as the place to start for novice investors. I respectfully disagree. I've read many of those great classics, but no one book has explained the details of company and equity analysis as directly or relevantly as this book. This is one of the most overlooked investing books out there, and comes highly recommended to all investors. -The Motley Fool

From the Inside Flap

Stocks can be the perfect vehicle for your investment journey—if you know how to pick them. With Morningstar's unparalleled guidance you can get the story behind the numbers and learn how to invest in stocks with care and confidence.

In *The Five Rules for Successful Stock Investing*, Pat Dorsey, Director of Stock Analysis for Morningstar, Inc., helps today's investors learn from the mistakes of the past in order to lay a solid foundation for future success. According to Mr. Dorsey, "Investment success depends on personal discipline, not on whether the crowd agrees or disagrees with you." In a highly accessible and down-to-earth style, Dorsey helps even novice investors understand how to evaluate companies and achieve success by buying stocks at a discount of their true worth.

Reading *The Five Rules for Successful Stock Investing* is like joining a community of fellow investors who want to better understand how stocks operate, avoid the common pitfalls of investing, and build strong stock portfolios they can be confident in. Dorsey and his team of stock analysts will open investors' eyes to a wealth of investment opportunities that exist regardless of market conditions, as they learn:

- How to develop a feel for what makes a company profitable
- How to find great companies with a competitive advantage
- How to make sure a company's management team is on their side
- How to recognize red flags that can cause blow-ups in a portfolio
- How to apply proven valuation principles to improve results
- And how to apply a 10-Minute Test to any stock in order to determine if it's worth investigating in more detail

A complete investment guide for people who are serious about mastering stock strategies, *The Five Rules for Successful Stock Investing* outlines the rigorous process through which Morningstar evaluates stocks, providing readers with tried-and-true tools for selecting stocks that will make promising long-term investments—and perhaps more important—avoiding those that won't.

In today's economic climate, *The Five Rules for Successful Stock Investing* has something to offer every investor. Seasoned investors will welcome the kind of sound, reliable advice that can help them avoid the mistakes of the past, while novice investors will find the kind of "on-ramp" introduction they need to get moving along the road to better investment results.

From the Back Cover

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Users Review

From reader reviews:

Michael Trumbo:

The book untitled *The Five Rules for Successful Stock Investing: Morningstar's Guide to Building Wealth and Winning in the Market* is the e-book that recommended to you to learn. You can see the quality of the publication content that will be shown to you actually. The language that publisher use to explained their way of doing something is easily to understand. The writer was did a lot of analysis when write the book, so the information that they share to you personally is absolutely accurate. You also can get the e-book of *The Five Rules for Successful Stock Investing: Morningstar's Guide to Building Wealth and Winning in the Market* from the publisher to make you far more enjoy free time.

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Ricky Bradley:

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