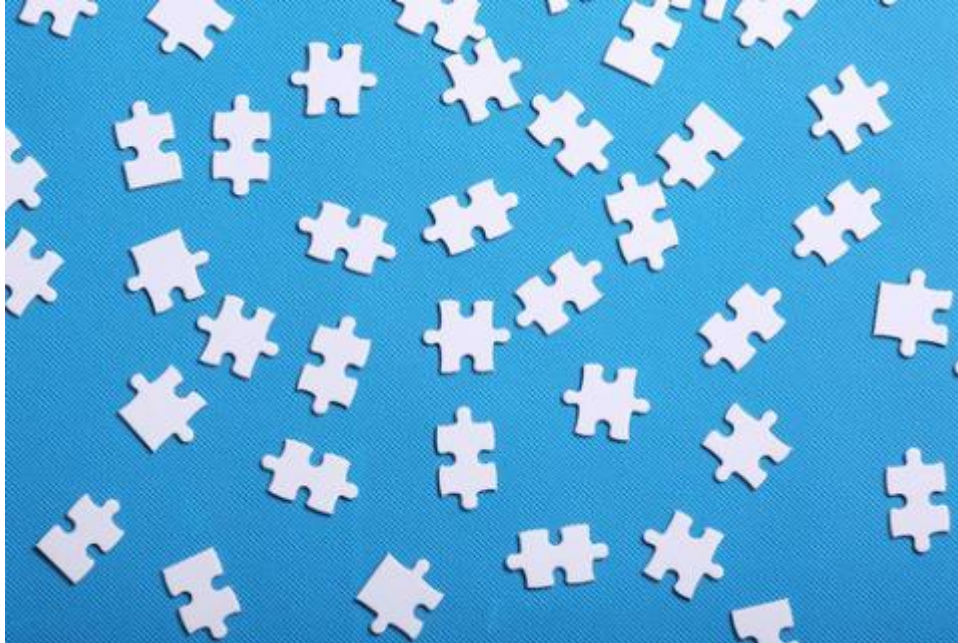


Invest using knowledge, not snippets of information

By Anton Tagliaferro | 02 August 2018



In the last 20 years we have witnessed an explosion in the amount of information that is available thanks to the advent of the internet and pay TV. In relation to the stockmarket, this means that investors are bombarded with a variety of headlines, broker reports and investment newsletters 24 hours a day.

Does this proliferation of information make it easier to invest in the sharemarket?

Well in truth it has probably made it more confusing! The quality of much of the information available has arguably declined over the last 20 years, this has made investment decisions in many cases more confusing as investors struggle to understand what information is relevant to the value of the shares that they own.

In deciding whether to buy, hold or sell an investment, investors nowadays have to filter through large amounts of information to work out what is actually relevant in determining the long-term value of the individual company. The vast majority of daily information that is now broadcast or published is largely irrelevant to the long-term value of companies and much of it can be considered 'noise'.

At IML we prefer to base our investment decisions on *knowledge*. Knowledge of any company is built through countless hours of research and often requires patience to achieve. We are focused on building up our knowledge of all ASX-listed quality companies as we strongly believe that this is what best equips us to decide

whether or not to include a stock in our portfolios, and when is the right time to buy and sell.

Building a full picture of a company through acquiring knowledge is akin to constructing a giant jigsaw. As an investor you are effectively outside the company looking in and you have to use the vast amounts of information available to piece together a full picture. This allows you to form a view of whether that company is one you want to invest in or remain invested in. Companies are like living organisms that operate in a changing economic and competitive environment and as an investor, one must constantly monitor and build ones knowledge in order to make sound investment decisions.

What areas are important to focus on when building knowledge of a company?

Some of the key areas that we ensure are well understood before we can make an informed investment decision on any company are:

- the key drivers of a company's earnings
- the competitive position of a company in its industry
- management's long-term plans to build shareholder wealth
- management's capability of delivering on these plans
- the company's debt position and the serviceability of this debt

We build this knowledge by reading of annual reports, industry journals and through countless meetings over time with a company's senior management (namely the CEO, CFO and Chairman). We also meet competitors, suppliers and customers to build up our knowledge of a company and its position within its industry.

Over the last 30 years that I've been a sharemarket investor the amount of information has exploded and it has become even more important to focus on these key areas rather than risk being swayed by the poor quality information - much of which floods my inbox every day.

At the end of the day it's important to understand that basing your investment decision on a new snippet of information is fraught with risk - as the majority of daily information available is largely irrelevant to the long-term value of that company.

In order to make sound investment decisions you should instead focus on building a full picture of a company through acquiring knowledge, similar the way you would construct a giant jigsaw. As an investor you are effectively outside the company looking in and you have to use the vast amounts of information available to piece together a full picture.