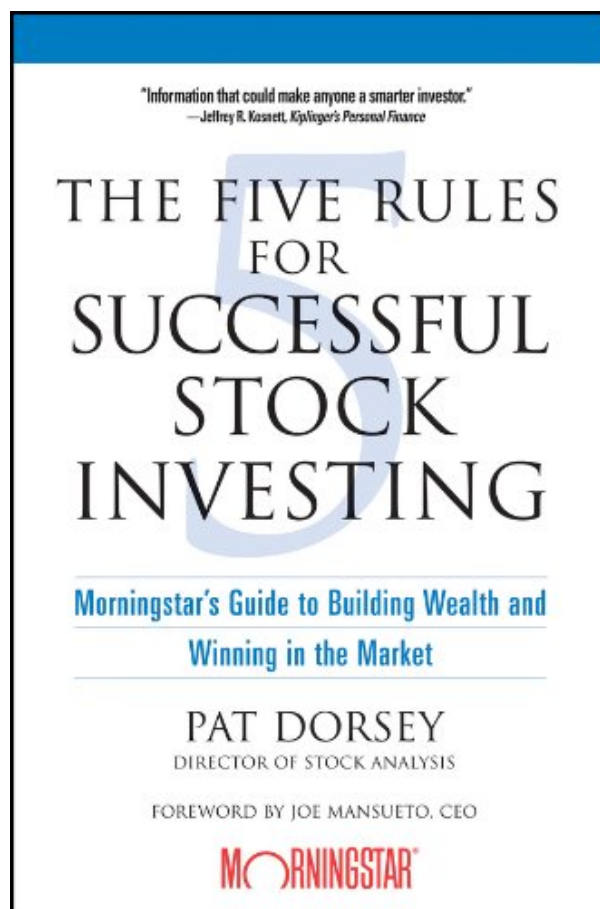


THE FIVE RULES FOR SUCCESSFUL STOCK INVESTING: MORNINGSTAR'S GUIDE TO BUILDING WEALTH AND WINNING IN THE MARKET BY PAT DORSEY



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"Information that could make anyone a smarter investor."
—Jeffrey R. Kossett, *Kiplinger's Personal Finance*

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**Morningstar's Guide to Building Wealth and
Winning in the Market**

PAT DORSEY
DIRECTOR OF STOCK ANALYSIS

FOREWORD BY JOE MANSUETO, CEO

MORNINGSTAR

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From the Inside Flap

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Most helpful customer reviews

107 of 110 people found the following review helpful.

Accessible, solid, grown-up

By The Honest Conn Man

I retired at 51 on my investments and have spent much of my time trying to counterbalance the instant-gratification claims of so many of those selling seminars and "help" to the investor.

While few people would be so foolish as to pay \$40,000 for a Honda Civic despite that car's solid engineering, many will buy a stock with no concept of what its fair-market value may be. Of this number, some are subscribers to the Greater Fool School of investing. They'll happily overpay for a popular stock in the arrogant belief that they'll be able to unload it for a profit to some Greater Fool. Sometimes, they will indeed make a profit. (At other times, they'll make an excuse.) This book is not for them.

The rest overpay not because they subscribe to the Greater Fool school but because they simply have no idea of how to value a stock. THAT is where this book shines. It will make the investor more conscious of what a stock is worth -- thereby avoiding the payment of \$40,000 for a Honda or (in some cases) the payment of \$100,000 for a Yugo!

Will the identification of value stocks and the discipline of not overpaying for a stock guarantee a profit? On any given purchase, of course not. However, it is a fool's task to argue that conscious investing based upon some sense of a company's true value will not reward more of its practitioners than Greater Fool speculations will over time.

If you're a serious investor with at least the discipline and patience than you demand of your own children, following this book's counsel should help you to make more money with greater safety. It's more accessible than *The Intelligent Investor* and a must read both for the novice and for the experienced investor who would like to pick up some distinctions that will improve his or her performance.

107 of 114 people found the following review helpful.

For Value Investors. Fantastic Guide to Evaluating Companies & Stock Prices.

By mirasreviews

"The Five Rules for Successful Stock Investing" is a guide to value investing by Morningstar's Director of Stock Analysis Pat Dorsey and the folks at Morningstar, Inc. The book's goal is to educate investors in how to "find wonderful businesses and purchase them at reasonable prices." Its title is a little misleading in that the "Five Rules" are a small part of this book. The five principles to which the title refers are: 1. Do your homework, 2. Find companies with strong competitive advantages (or economic moats), 3. Have a margin of safety, 4. Hold for the long term, 5. Know when to sell. Those are vague principles, but most of this book is dedicated to telling you just what homework you need to do and exactly how to do it. Pat Dorsey and Morningstar are advocates of long-term investing who are skeptical of trading and portfolio churning, so this book's intended audience is value investors. No technical analysis here. This is all fundamental analysis, but traders may find the advice on analyzing company finances useful as well.

"The Five Rules for Successful Stock Investing" has 2 parts: Chapters 1-12 are a "how-to" for analyzing companies, their finances, and determining what their stock should be worth. Key points include how to evaluate a company's competitive advantages, what to look for in financial statements, analyzing a company's management, spotting financial chicanery, and how to determine a company's intrinsic value. This

is all fairly complex, and there is math involved, but the book takes you through the process, with examples, explaining why and how every step of the way. Chapters 13-26 provide overviews of 13 industries, from banks to software to industrial materials, including information on what the industries do, how they make money, hallmarks of successful companies, and risks to look out for. Each of these chapters concludes with an "Investor's Checklist" for that sector to help you identify key factors when choosing a stock. "The Five Rules for Successful Stock Investing" is among the best books I've seen for learning how to pick apart financial statements, and it packs a great deal of advice on evaluating companies within their sectors into one concise and readable volume. Highly recommended to value investors.

54 of 57 people found the following review helpful.

silly title, great book

By Jeff Lipkes

Have been meaning to put in a good word for this book for a long time. It's a gem. I've read an embarrassingly large number of introductions to investing in equities and this is probably the best. Other books purport to tell you how to identify hot stocks; Dorsey shows how to value companies. This isn't just a matter of understanding PE ratios and other traditional metrics, which most books explain more or less adequately. Instead, it means analyzing balance sheets and cash flow and income statements. Five Rules provides as reader-friendly an introduction to assessing a company's financial statements as I've come across, with plenty of real-world examples. The object in the end is to determine the present value of a company's future cash flows, and Dorsey's explanation of a simplified version of Fisher's and William's discounted cash flow model is lucid and lively. Clorox is the company evaluated in this chapter, and en route there are instructive comparisons of HP and Dell, Best Buy and Circuit City, and, finally, AMD and Biomet. Chapter 8, Avoiding Financial Fakery, is particularly helpful. Obviously, having read this book and nothing else, you're not going to be able to spot something fishy in the footnotes to Microsoft's income statement that has escaped the attention of all the analysts. But for someone without a background in accounting, Five Rules is a godsend.

Dorsey then conducts a very informative tour d'horizon of 13 industries. It should go without saying that before you invest in a company, you'd want to find out something about the economics of its industry, so you can compare apples with apples. The chapter on health care is especially good, but I found them all excellent.

In an Ameritrade ad that aired this week, a teenager asks her dad for \$80 for a pair of jeans. The dad is nonplused, but the girl assures him that everyone is buying these jeans. He asks her who the manufacturer is, promptly logs onto Ameritrade, checks a chart, and buys the company's stock. The guy then gives his daughter the \$80, a reward for the hot tip, presumably. He might do OK this time, but you have to figure he'd be a lot better off in the long run investing a fraction of that \$80 in Five Rules.

Bottom line: there are a ton of books on trading strategies, but if you're looking for a practical book on value investing, this is the best.

See all 117 customer reviews...

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