

Fisher, Kenneth L. – Super Stocks

McGraw-Hill, 1984 1st ed, [Equity Investing] Grade ★★★★★

Some strands of value investing are relatively quantitative in their focus on the replacement cost of balance sheet items etc. A growth investor invests in the unknowable future of a company. In some respects growth investing then is more of an art form where some forms of value investing are more of an applied science. This doesn't change the fact that value investing over longer periods outperforms growth investing as growth stocks tend to be overpriced.

The key insight of this book is that growth stocks are not constantly overpriced. These rapidly expanding companies are often young and dependent on one or a few products. As products have product cycles and have to be replaced by subsequent products and this transition not always goes smoothly, there will be glitches. During these times the sales growth will slow or disappear, the company may well show losses and the stock price will nose dive like an airplane with motor failure. The trick is to figure out if the troubles are temporary or not. Ken Fishers solution is to try to find the Super Companies that are temporarily cheap and thereby also are Super Stocks.

Fisher sets up a number of qualifying criteria for companies to pass. A Super Company should have had at least 15 per cent annual top line growth on average over the last 5 years, its finances should be strong enough to survive a future 5 year worst case scenario, it should be able to generate good profit margins in a more normalized situation and preferably there should be a managerial share ownership to ensure alignments of interests with shareholders. A cornerstone of the process is then to amongst others, use P/S-ratios when looking for bargains among the potential Super Companies. This might not sound overly innovative; after all you can't use P/E-ratios to value companies with

losses. In 1984 however, P/S-ratios were practically unheard of and Fisher was a true pioneer in this respect.

After locating potential Super Stocks, a more thorough analysis must be performed to figure out the probability of the growth returning and what the normalised earnings generating ability of the company is. The book in a good way covers the vital insight that future prospective margins to a large extent depend on relative market shares and I fully agree that you probably often will find that Super Companies are those who dominate the niche they are competing in. After estimating future sales growth, normalized earnings and reasonable P/E-ratios when the company has left the glitch behind them, Fisher recommends that one should buy the stock if the price is 40 per cent lower than the valuation and only sell if the P/S-ratio becomes outrageous or if the company is starting to show signs that it's loosing its Super Company traits.

The story line of the book follows a very logical line. Fisher locates an area of the stock market where there in theory should be plenty of bargains to be found, he sets up a process to locate the stocks that best fit this description and then designs a research process that tries to weed out the least promising investment prospects. It might sound like the most reasonable thing in the world to do but in reality most investors never arrive at such a stringent strategy during their entire career - Fisher was around 33 years old at the time of writing.

On average growth investors don't generate market returns. This does not mean that no growth investors outperform and when a text reveals a successful growth investor's secrets this is hugely valuable. Symptomatically, the strategy adds a healthy dose of value to the mix.

Mats Larsson, June 3, 2014