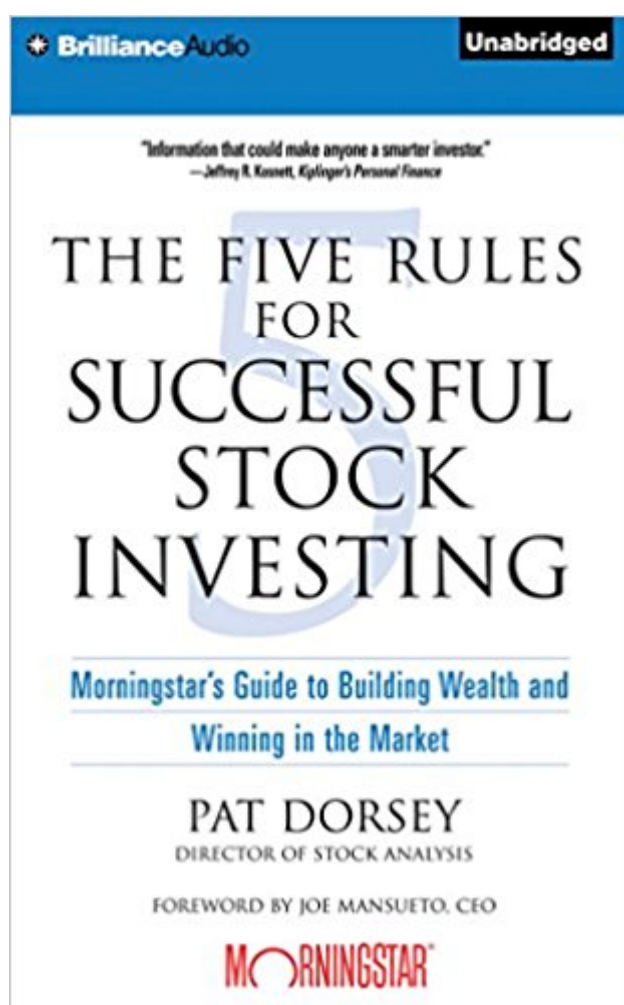


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# The Five Rules For Successful Stock Investing: Morningstar's Guide To Building Wealth And Winning In The Market



## Synopsis

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 listening for anyone looking for the right investment opportunities in today's ever-changing market.

## Book Information

Audio CD

Publisher: Brilliance Audio; Unabridged edition (October 20, 2015)

Language: English

ISBN-10: 1501261894

ISBN-13: 978-1501261893

Product Dimensions: 6.5 x 1.1 x 5.5 inches

Shipping Weight: 9.6 ounces (View shipping rates and policies)

Average Customer Review: 4.6 out of 5 stars 125 customer reviews

Best Sellers Rank: #719,962 in Books (See Top 100 in Books) #52 in Books > Books on CD > Business > Investing #59 in Books > Books on CD > Business > Personal Finance #447 in Books > Books on CD > Business > General

## Customer Reviews

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 --This text refers to the Digital edition.

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. --This text refers to the Digital edition.

Pat Dorsey's book, *"The Five Rules for Successful Stock Investing"* gives a comprehensive description of the Morningstar evaluation of a company. Explanations of "protective moat" and the term "safety margin" of a company are clearly presented as well as many other criteria of value determination used in the Morningstar evaluation process. The author clearly outlines the importance of distinguishing intrinsic value from market value of a company before purchasing .

Examples are given demonstrating use of the processes and philosophy used. It is well written and is recommended reading for amateur and profession investors alike. I found it gave a lot of good tips to avoid overpaying for an investment. It also gave me a better understanding of the process and more confidence in its use to determine value. The book describes potential common mistakes made by amateur investors. I strongly recommend this book as a informative and enjoyable read.

The book met my expectations with the subject matter but had few interesting insights. Although I have a fair understanding of the financials involved in selecting securities the author went a little too deep into analysis for my taste. Pat Dorsey was not very inspiring versus other similar authors that continually created a level of interest throughout the book. It should have been designed in a text book format. It was also difficult reading the financial examples on a Kindle. If I would have known in advance that there were a lot of financial examples I would have bought the book in hard cover.

This book is great, as it brings structure to value investing. However, following any book by suspending judgment will result in financial losses. I made the mistake by investing in oil stocks---thinking OPEC will keep the prices up and oil will stay a special commodity. Rest is bitter history. Lesson learned not to touch a commodity stock ever again, and not to trust a moat coming from a "cartel" price fixing, because cartels don't last forever. Other insights from book about pharma, biotech and analog electronic stocks were all amazing. Specially electronic companies like former Linear Tech ( now part of ADI), Texas Instruments, Avago all keep compounding shareholder value, yet they still don't get the love they deserve. There's still value in boring old analog semiconductors.

Content: 5 stars  
Old Kindle Format: 2 stars  
Customer Rep: 5 stars  
New Kindle Format: 5 stars  
I enjoyed reading the methodology and the thought process in analyzing and valuing companies. Pat does a great job in explaining the concepts in a structured manner. I learned a lot from reading this book. I don't have any issues with the content. My issue is with the book's format... The kindle format of this book is terrible. It's very difficult to read the tables and financial statements. The tables look like it was scanned from paper. The background and fonts has the same shade of gray which makes it difficult to read in my Kindle. I had to read this book via the web <http://read..com> to see the tables. Even then, it's still not that easy to see the numbers. I have to zoom in to read it clearly..  
Update #2 After I submitted a complaint with , they deployed an updated version of the book and now I can read the tables clearly! Thank you !!!!

The Five Rules is a solid platform for investing in stocks based on fundamental analysis. All aspects of financial reports are covered in good detail with valuable discussion on what different aspects of the balance sheet or income statement can reveal about a company. Also a very good discussion of different industry groups and how analysis of the fundamentals of these industries need to focus on different factors.

The consensus is that this is a great and easy to understand book, and it is. It is thorough, but because so, it makes for a good, but can not be a great audio book, which is what I purchased. I'll now have to purchase the standard text format as well. Since often Kindle does a poor job of organizing the "flipping" back and forth of text pages to coordinate figures to their appropriate paragraphs, this book may be best as a standard, non-Kindle book.

The book arrived quickly and so far is quite interesting and it is likely to be quite useful. I'm not a stranger to trading stocks and I have read a number of other books describing strategies for picking stocks. It seems that each strategies has its own merit, but only time will convince me if one is better than others. My opinion is that this book presents many of the same concepts as others with one major difference. Morningstar strategies place more emphasis on the relative strength of a company in its industry/sector. I like how MorningStar focuses on the actual companies themselves much more than patterns in stock prices. My only complaint is that this book seems to be a bit too wordy and I question the value of some of the lengthy descriptions. It does not strike me as an introductory level book (not that it was marketed as such) and it can be a bit hard to follow at times. I believe the book will be beneficial to me in making me a better investor, which I think is what the title promises, so I am happy with it.

I hope the second printing corrected some of the many errors that found their way into the original. I'm referring to incorrect numbers, for the most part. For example, p. 150 Step 3 for Clorox shows "perpetuity value =  $(412.8 \times 1.03) / (.09 - .03) = \$16,777.61$ ." Way off. The 412.8 should be 977.3. There are many such errors. I'm afraid the beginning researcher/investor will become frustrated at not being able to replicate the analyses. Take all calculations with a grain of salt. However, for \$12 or \$17 it's hard to beat. Dorsey goes through the discounted cash flow approach to analyzing a company and valuing a stock step by step. Very clear. Once the errors are fixed it could be a great book. I know how it is rushing a book to the printer before it's ready and I don't want to be too harsh.

Even eliminating all practical examples it's still a good read.

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