

Step 10: Invest Like The Masters

Description

Growth, value, international. Which style is right for you? If you're a Fool, you happily blend together all three! Join us, though, as we walk through three distinct yet Foolish styles of investing, and see if you can figure out which way you tilt.

Growth investing, starring Peter Lynch

Growth guru Peter Lynch is a legend. Period. Lynch rose to fame through his unparalleled management of Fidelity's famed Magellan Fund and quotes of his abound in the land of the Fool — "Never invest in any idea you can't illustrate with a crayon" and "Although it is easy to forget sometimes, a share is not a lottery ticket ... it's part-ownership of a business."

So what makes Lynch so great? A wildly successful investor, Lynch truly stole our hearts with his books *One Up on Wall Street* and *Beating the Street*, both of which were resounding calls for the empowerment of small investors. By sharing his common sense and replicable philosophy in a plain-spoken fashion, Lynch convinced a generation of investors that they didn't need an MBA or a white-shoe stock broker to invest in the stock market.

The core drivers of Lynch's growth-centric strategy are pretty straightforward: Invest in growing, unheralded, easy-to-understand companies. Here's how it rolls:

1. **Buy what you know:** Lynch believes that the average investor knows more than they think. Not only do you consume an array of products and services on a daily basis, but you've developed unique career insights that can give you a leg up on the rest of the world. Put them to use! Invest in what you know, understand, and are comfortable with, and leave the rest for the "pros."
2. **Seek hidden gems:** Lynch highlights that individual investors have a huge opportunity when it comes to small- and micro-cap stocks. Most big shot research houses can't afford the time or staff to cover small- and micro-cap stocks, and most mutual funds are too large to comfortably trade in and out of them. The end result is that small caps are frequently mis- and *under*-priced, leaving enterprising investors the chance to buy into small, growing businesses on the cheap.
3. **Diversify:** Lynch's Magellan Fund held an incredible 1,000+ stocks when he finally handed off the reins in 1990. For perspective, that's roughly five times the average number held by current U.S. equity mutual funds. Lynch spilled coffee on the Ivory Tower of Modern Portfolio Theory by proving you can comfortably crush the market despite being incredibly well diversified. How? By choosing small, growing, well-managed companies and letting them run.

Value investing, starring Warren Buffett

No offense to the father of value investing, Benjamin Graham, but his pupil and understudy Warren Buffett is The Man when it comes to the practice and theory of value investing. Value investing is the art of buying stocks for less than their fair, or “intrinsic” value.

For Buffett and his legion of value-investing disciples, the craft involves three steps:

1. **Buy great businesses:** Buffett looks for businesses that boast strong brands, management teams, cash flow, and staying power. *Serious* staying power. The kinds of businesses that you think will outlive you. Buffett has done very well by investing in names like **Coca-Cola** (NYSE: [KO](#)) , **Procter & Gamble** (NYSE: [PG](#)) , and **Johnson & Johnson** (NYSE: [JNJ](#)). Once he finds these great businesses, he looks to buy them when they’re out-of-favour, and then patiently holds on for years upon years as these beauties compound wealth.
2. **Be contrarian:** It takes some nerve to buy stocks that everyone else is down on, but Buffett has made a living by going against the grain. As he’s been wont to say, “Be fearful when others are greedy, and greedy when others are fearful.”
3. **Invest for the long haul:** As Buffett once said, “Our favourite holding period is forever.” And if you can’t tell from our section on investor temperament, we feel the same way!

International investing, starring Sir John Templeton

As with Lynch and Buffett, we celebrate Sir John Templeton’s philanthropy, intellectual curiosity, and Foolishness. Templeton’s success was not the result of a proprietary trading scheme, inside information, massive amounts of leverage, or complicated derivatives. Rather, like Lynch and Buffett, Templeton succeeded because of sound, fundamental research and the patience and discipline to hold stocks for years. Incidentally, Templeton began his famed Templeton Growth Fund in 1954 right here in Canada to cut the impact of taxes on shareholders (no capital gains taxes in Canada at that time, ah the good ol’ days), and emphasize the global reach of his investment strategy.

His philosophies have become widely adopted today because they work and because people realize that in a global economy, it no longer makes sense to be provincial about investing. But many individual investors continue to try to time the markets and trade with a short time horizon.

His success also reflected a willingness to look where other investors would not. Appreciate Templeton for all we’ve said, but also for:

1. **Going abroad:** In a time when conventional wisdom demanded that investment houses set up on Wall Street, in Boston, or in London, Templeton not only started his Growth Fund in Canada, but made the Bahamas his permanent home. He was one of the first foreign investors to focus on Japan, and he strode early into Russia.
2. **Investing consistently:** Templeton didn’t chase a lower-case fool’s errand by trying to time the market. As he once said, “The best time to invest is when you have money. This is because history suggests it is not *timing* the markets that matters, it is time.”

John meets Warren meets Peter

Again, the perfect Foolish portfolio blends the traits of all these master investors: A business-focused,

diverse portfolio of growth and value stocks, both foreign and domestic. But your exact mix is a matter of personal style and risk tolerance. For that ...

Action: Take the Quiz

Take [this quiz](#) to discover which style tilt is right for you

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