

INVESTED

How Warren Buffett and Charlie Munger Taught Me to Master My Mind, My Emotions and My Money (with a Little Help From My Dad)

DANIELLE TOWN

DANIELLE TOWN is the daughter of bestselling financial author Phil Town who wrote the bestseller *Rule #1*. Growing up, Danielle rigorously avoided learning about investing until she became a lawyer and found her money and life were out of control. To regain her financial freedom, she asked her father to teach her value investing, the investment approach used by Warren Buffett and Charlie Munger. Phil Town agreed to take a year to teach her daughter how to go from being a reluctant investor to one who knows exactly how and when to invest in wonderful companies. What began as a series of conversations eventually morphed into a year-long investing plan and a personal finance podcast called InvestED (www.ruleoneinvesting.com/podcast).

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MAIN IDEA

The best way to achieve financial freedom is to become an "educated investor" – someone who invests to make money by backing companies with missions you personally understand and support.



So how exactly do you become an educated investor? You have to learn and then apply the value investing principles and methodologies used by people like Warren Buffett and Charlie Munger of Berkshire Hathaway, the world's most successful investors.

Allow yourself about 12 months to fully learn the underlying philosophies and practices of value investing. Aim to take a step forward every month as you start applying what you learn. Set aside a little time each month where you will work on advancing your investment program and you'll be amazed at how much you can achieve over the course of a year.

"Once you have your bearings, take your practice where you want it to go. Make the practice of investing your own, and you will have something that stays with you your entire life, a powerful skill that no one and nothing can take from you. I hope it compels you to think about your finances differently—not as a means to an end but instead as a source of happiness and freedom. My practice of investing has created the deep happiness that comes from my authentically making the life I want, and that happiness feels passionate, big, and free. May your Investing Practice be successful beyond your wildest dreams."

– Danielle Town

Month #1 – Be brave

Write down the things you would do if you can achieve financial freedom. It's important to start with the end in mind when it comes to learning how to invest. Articulate what financial freedom means.

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Month #2 – Know your number

Calculate how much you need in order to achieve financial freedom as you define it. It's only once you know this that you can decide the best way to move forward.

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Month #3 – Vote with your money

Identify how you currently vote with your money by the decisions you make. Then think about the missions you'd like to support in the future instead.

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Month #4 – Start doing research

The first principle of value investing is to do your research. Start reading business news and company filings. Start doing and keep doing research.

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Month #5 – Moats & management

Identify three companies from your research which have a moat and strong management. Learn how to calculate their growth rate going forward.

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Month #6 – Circle of competence

Clarify to yourself what your personal circle of competence is. Also face head on your preconceptions about money & financial freedom.

Pages 4 - 5

Month #7 – Look for bargains

Choose three companies you like and calculate their Ten Cap price and Payback Time. Apply Warren Buffett's calculation of Owner Earnings to price a company.

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Month #8 – Margin of safety

Calculate the Margin of Safety price for each of the three companies you've chosen. Use that to decide on a buy price you'd be happy with.

Pages 5 - 6

Month #9 – Stories

For the three companies you have been researching, write their Story and their Inverted Stories. Try to figure out why you should not buy them.

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Month #10 – Portfolios

Pick your favorite company and write your wishlist to put together your very own "antifragile portfolio". Have a plan for how and when to invest.

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Month #11 – When to sell

Set up your systems to keep tracking the performance of the companies you like on an ongoing basis. Be ready to move when the time is right.

Pages 7 - 8

Month #12 – Pause and celebrate

You've come a long way in the past 12 months as you've moved towards becoming an educated investor. Pause, take stock and celebrate progress.

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