



**SPECIAL
REPORTS**

ISSUE-3

**4 WAYS TO PICK
MULTIBAGGERS**

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4 Ways To Pick Multibagger Stocks

Dear Readers,

Who doesn't like to pick stocks that gives 5X or 10X Returns. But it happens rarely in a person's investing Journey. But what if we could find certain patterns and increase the probability of picking up a future multibagger ? In this report, we try to find out certain patterns & strategies that might help.

Buy aspirational brands with pricing power that sells in volumes

Ever wondered why Apple is the most valuable company in the world? It's because it has the following characteristics

- Aspirational Brand
- Premium Pricing
- Sells in Volumes
- Switching Cost

Everyone wants to buy an Apple product, more importantly, everyone is willing to slightly overshoot their budget for it. It has huge aspirational value. Often, the first thing that a person buys after a promotion or salary hike is an iphone, as a testimonial of his success. At the same time, it's pricing is such that the company earns a higher profit per unit, without compromising on volumes. It's one of the highest priced mainstream phones, and yet it is the world's largest selling phone.

Contrast this with other categories, wherein usually the best-selling product is the one that is one that is priced for the masses. Budget hatchback cars are usually the bestsellers, 100CC commuter bikes sell in volumes. Most companies either need to sacrifice on the price or the volume

Apple is one of those rare companies that sacrifices neither. This is what makes it the world's most valuable company.

Imagine what would happen if Maruti Suzuki Swift can be sold at the price of a BMW, while maintaining the volumes of Swift. The profits would be unimaginable ! That's Apple for you.

Do we have such companies in India?

Tough Question to answer. Firstly, such companies are extremely rare, you don't find them everyday. Secondly, even if there are a few companies with similar traits, they are often the darling of market and trade at exorbitant valuations. So it's not enough to just find such companies, it's also important to find them at a price from which they can become multibaggers.

Though quality wise, Page industries (jockey) and Eicher Motors (Royal Enfield) are the two i can think of, which have products that -

- Sells in volumes,
- Aspirational in Nature and
- Priced at a premium to its competitors

But what about Switching costs or network effect that takes Apple to a different league?

Buy Companies that enjoy Switching Costs or Network Effects

Consider this, Apple locks you in its ecosystem, If you use an Iphone and you need a smartwatch, Apple watch is the only one that will sync properly with it, so you are forced

to buy an apple watch. If you have purchased music, movies, books or apps via the iTunes store, you cannot use all that in your android phone or tablet, so all your purchases will be wasted if you ever shift to android. Your phone, iPad, Macbook etc will sync perfectly with each other, you can use features like iCloud, Airdrop etc. Thus you are tempted to buy on Apple product after another and if you ever decide to shift, you will need to buy all that music, books apps etc again. So you will incur additional charges & costs, that's called switching Costs.

Similarly, we use MS office because everyone else is using it. Its important to use it since you don't want to risk using any other wordd processor due to formatting & compatibility issues with MS word that your client, company, or your professor might be using. Everyone faces the same dilemma since MS office is the industry standard and you are forced to use it. This ensures continuous business.

Look for “Blind Buys”

“Blind Buys” are the stocks that are so cheap that your intuition screams a BUY! in just 30 seconds. A note of caution here - Such opportunities are extremely rare and usually there is a reason why the stock is trading cheaply. But at times, when a sector is facing headwinds, or when a company is facing temporary issues (Nestle's Maggi fiasco), it creates a perfect opportunity to enter that stock at rock bottom valuations.

Zero “Enterprise value” companies

Yes they exist. Two years ago, MOIL had cash equal to its Market Cap, which effectively meant that the price of share was backed by an equivalent amount of cash in the company. Add a handsome Dividend yield, Good EPS and what you have is a blind buy !

But before buying such companies, ensure that -

- It has a trustworthy management (so that you can actually trust the numbers)
- Company should be profit-making

So there it is, a non exhaustive list of extremely simple strategies that can help you come across a multibagger ! Got more such ideas ? I would be glad to hear them out at pranjal@finology.in

Bonus Tip - [TOP MUTUAL FUNDS OF 2018](#)

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