How to Learn to Invest in Stocks as a Beginner?

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Concept 1: **What do You Call a Good Company (ROI)?**

Concept 2: Accounting and Valuation Metrics

Concept 3: Macro and Economics

Concept 4: Read and Understand Market Message

Concept 5: Investing or Trading Principals

Concept 6: Trading Strategies (incl. Day Trading)

Concept 7: Practical Tips on Execution

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CONCEPT 1

What do You Call a Good Company?

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What do You Call a Good Company?

What is ROI (Return on Invested Capital)?

Benny's



$50

Benny's



$10 to make 10 cups ($1 per cup)

Benny's



$3 per cup

ROI = (3 X 10 – 10) / (50 + 10) = 33%

Lemonade Stand > Fixed Cost > Capex = $50
Ingredients > Variable Cost > Working Capital and Expense = $10
Sales > Value of Product Sold > $3 X10 = $30
Profit = Sales – Expense = $30 - $10 = $20
ROI = Profit / (Capex + Working Capital)

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Next Day...

Benny's



$50

Benny's



$10 to make 10 cups ($1 per cup)

Benny's



$2 per cup

Betty's



$50

Betty's



$10 to make 10 cups ($1 per cup)

Betty's



$2 per cup

ROI = (2 X 10 – 10) / (50 + 10) = 17%

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And the Following Day...

Benny's



$50

Betty's



$50

Bobby's



$50

Benny's



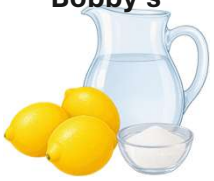
$10 to make 10 cups ($1 per cup)

Betty's



$10 to make 10 cups ($1 per cup)

Bobby's



$10 to make 10 cups ($1 per cup)

Benny's



$1.50 per cup

Betty's



$1.50 per cup

Bobby's



$1.50 per cup

ROI = (1.5 X 10 – 10) / (50 + 10) = 8%

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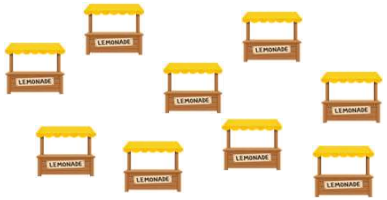
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Monopoly – very high ROI



Oligopoly (~2-4) – high ROI
Especially if they do not compete



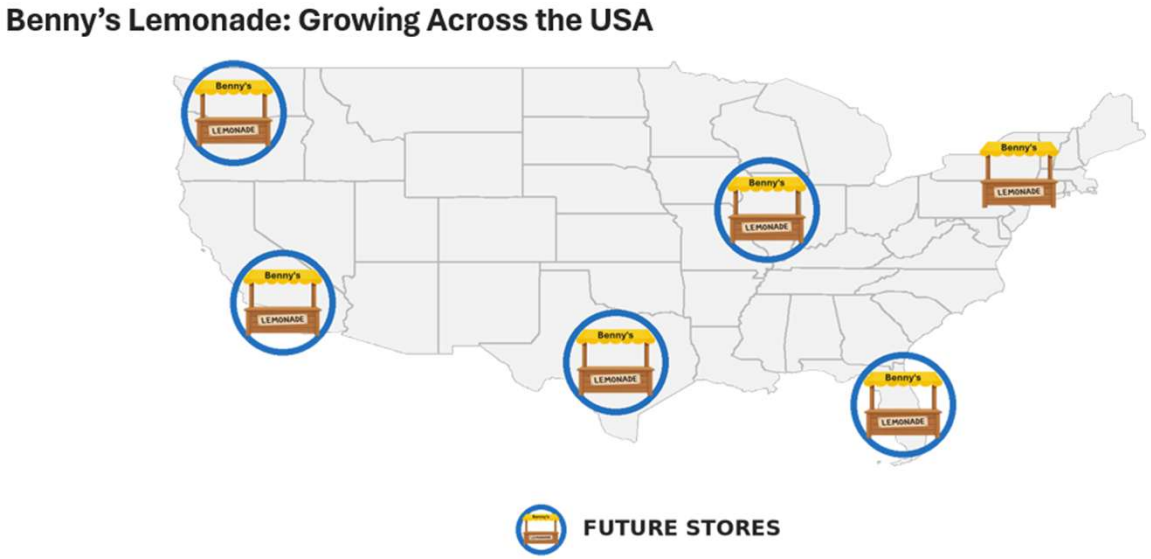
Perfect Competition – minimum ROI

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Now Imagine..
What if you could be the only lemonade distributor in the USA?



The Best Company = High ROI Company that Grows

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How is possible? How to make it possible? Here are some examples

01 **Regulatory Barriers —** your uncle is the mayor and there is only one permit (i.e. Benny's Lemonade) is allowed to sell. Example: NYC Taxies before UBER

02 **Patent or Technology —** Benny is the only person who knows how to make lemonade. Example: Coca-Cola or Pharmaceuticals

03 **Network Effect —** All your friends like Benny's lemonade or like to hang out by Benny's stand. Example: Apple, Facebook, Twitter

04 **Scale —** Benny's lemonade is everywhere in your town, so Betty runs out of money before she can attract stable customers. Example: Amazon and Walmart

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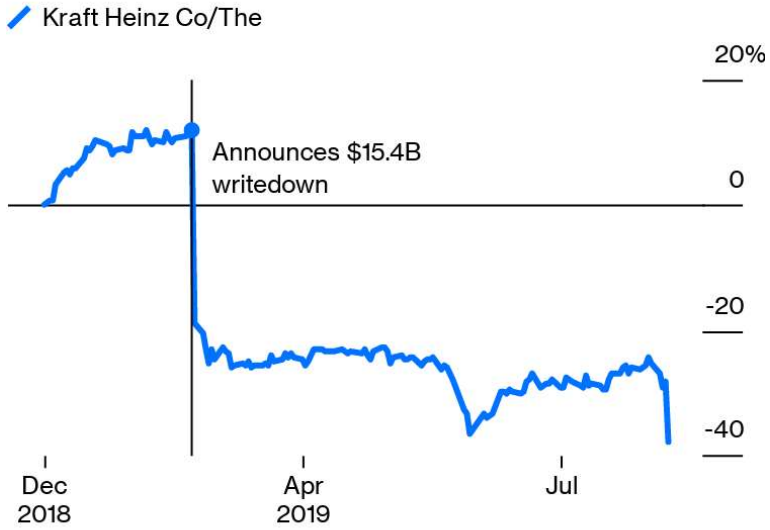
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How damaging is even a threat to your advantage? Very damaging...



Stomach-Turning

It had already been a rough year for Kraft Heinz stock before Thursday's earnings dragged its share price to all-time lows



Source: Bloomberg

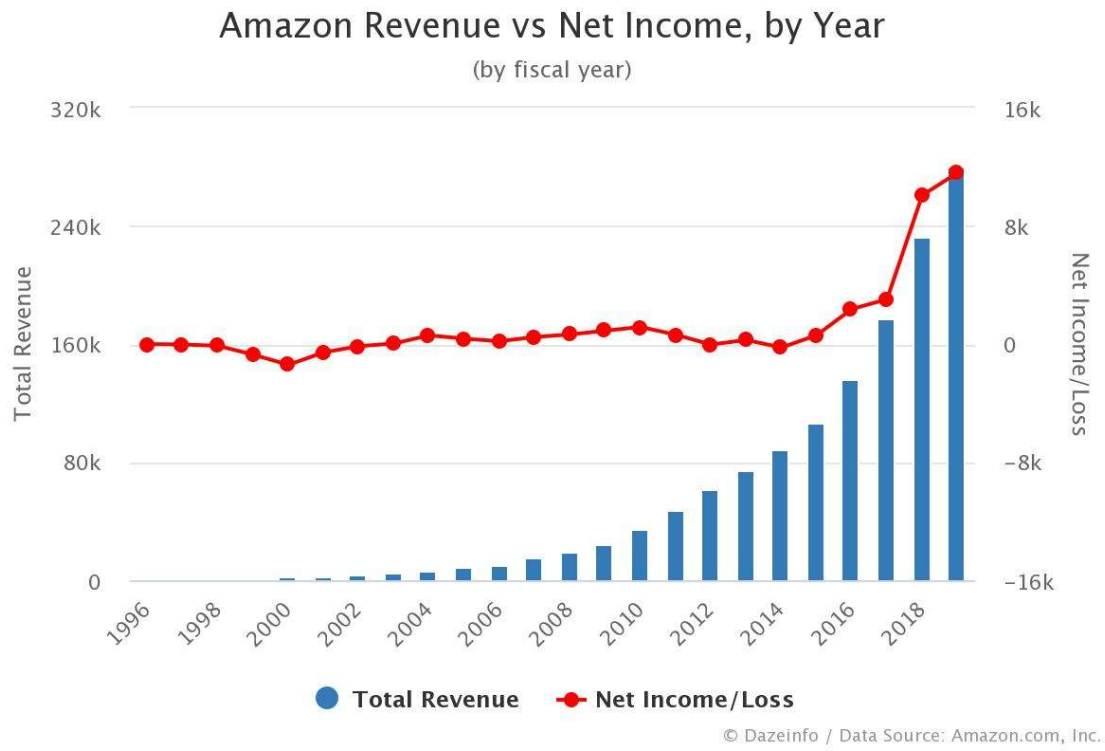
BloombergOpinion

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Sometimes it takes Time and Money to become a great company:



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The Bottom Line:

01

Great companies have high ROI — and ideally grow high-ROI businesses.

02

Great companies protect their competitive advantage
(e.g., Meta buying Instagram or the AI race).

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