



FINANCIAL TIMES **Guides**

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# SELECTING SHARES THAT PERFORM

FIFTH EDITION

10 WAYS TO BEAT THE STOCK MARKET

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# **The Financial Times Guide to Selecting Shares that Perform**

analytical inclination, but hopeless at managing people. A score of 90–10–50 would mean someone unusually strong on creative vision, with little interest in analysis, but with quite a strong interest in practical implementation. Remember that the absolute scores mean little: it is the relative size of the

1–2–3 quotients that matters. Remember also that we are measuring a person's correlation with a person's relative abilities under the three headings (for the simple reason that it is easier to be good at something you are interested in), but the test cannot measure one person's actual abilities compared with those of someone else. For our purposes, take the highest score only as being relevant, defining your dominant type trait.

**The test cannot measure one person's actual abilities compared with those of someone else**

## Investment implications of your 1–2–3 test score

Table 7.1 gives the best fit of your personality type with the ways to beat the stock market.

**Table 7.1: Matching your personality type with investing approach**

<i>Way</i>		<i>Type 1</i>	<i>Type 2</i>	<i>Type 3</i>
I	Rainmakers			✓✓
II	Backing winners	✓✓		✓✓
III	Specialisations		✓✓	✓✓
IV	Earnings acceleration		✓✓	✓
V	Outsider information	✓✓	✓✓	
VI	Good businesses	✓	✓✓	✓
VII	Value investing		✓✓	
VIII	Emerging markets	✓✓	✓	✓
IX	Contrarian investing	✓✓	✓✓	
X	Star businesses	✓✓	✓✓	

## Summary of approach suitability

Now, the results from Chapter 6 and the personality test above can be used to check which investment way is likely to be best for you.

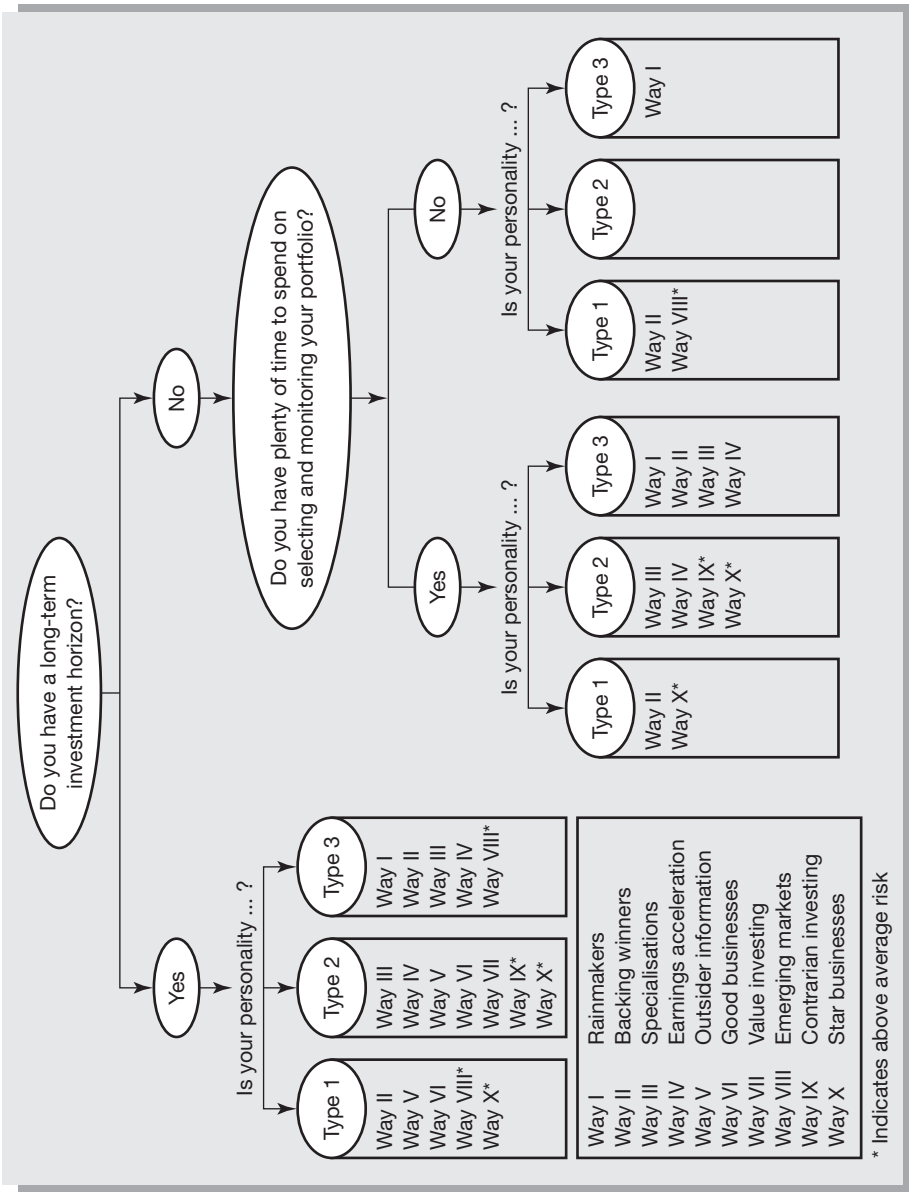


Figure 7.1     Choosing your investment strategy

The decision tree in Figure 7.1 summarises four influences affecting your choice of way, and should quickly lead you to a short list. You may then want to read the indicated chapters first. For those who want an even stronger indication of which way is suitable, at the cost of grappling with a difficult table, see Table 7.2.

By now you should have been able to ‘block in’ the approaches which are potentially suitable, perhaps by using a yellow highlighter. You are advised to read these ways in Part 2 before you read the other, diagnostically less suitable ways.

**Table 7.2: Focusing on the choice of investment way**

<i>Way</i>	<i>Timescale</i>	<i>Funds</i>	<i>Risk</i>	<i>Time available</i>	<i>Contacts</i>	<i>Quantitative skills</i>	<i>Personality type</i>
I	Any	Any	Medium	Any	Any	Any	3
II	Any	Any	Medium	Medium	Any	Any	1,3
III	Medium Or Long*	Any	Medium	Medium or High	Required*	Medium or High	2,3
IV	Medium Or Long	Any	Medium	Medium or High	Any	Medium or High	2,3
V	Medium or Long*	Any	Medium to High	High	Helpful	Medium	1,2
VI	Long*	Any	Medium	Medium	Helpful	Medium	2,(1,3)
VII	Long	Any	Medium	Medium	Any	High	2
VIII	Long*	High only*	High*	Any	Any	Any	1,(2,3)
IX	Any	High only	High*	Medium or High	Helpful	Medium or High	1,2
X	Any	High only	High*	Medium or High	Helpful	Medium or High	1,2

\* Indicates particularly suitable in given circumstances

## A final word before you read Part 2

The advice and tests in this chapter can only be indicative, not conclusive. There is nothing to stop you following any of the ways in Part 2 if you really like it and think it is suited to you, provided you have carefully weighed the words of caution. You should be pragmatic and only adopt an approach you like, whatever the tests say. The thing you should be very careful about is following one of the higher-risk ways if you have limited resources or a short investment horizon.

Whichever way you adopt, you should monitor your performance relative to the stock market index closely. This is particularly so if you do choose a method at variance to those indicated as suitable for your circumstances and personality.

Enough of the trailers! Let's move on to the 10 ways to select shares that perform.

part

# 2

## Ten ways that work

You should select the way that you like most and that is suited to your personality and skills, and stick consistently to that way for all your stock market investments

