Memo to: Clients and Contacts
From: AMI Investment Committee
Re: Stock Purchase Criteria
Date: November, 2015

"Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business whose earnings are virtually certain to be materially higher five, ten and twenty years from now. Over time, you will find only a few companies that meet these standards - so when you see one that qualifies, you should buy a meaningful amount of stock. You must also resist the temptation to stray from your guidelines: If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio's market value." – Warren Buffett[1]

"What makes investment hard...is that it's easy to see that some companies have better businesses than others. But the price of the stock goes up so high that, all of a sudden, the question of which stock is the best to buy gets quite difficult…It doesn't help us merely for favorable odds to exist. They have to be in a place where we can recognize them. So it takes a mispriced opportunity that we're smart enough to recognize. And that combination doesn't occur often. But it doesn't have to. If you wait for the big opportunity and have the courage and vigor to grasp it firmly when it arrives, how many do you need?" – Charlie Munger[2]

When researching stocks, we look for candidates that can successfully clear seven rigorous hurdles:

1. Are we confident this business be around in a similar form 10-15 years from now?
2. Is the business conservatively financed? Can it withstand a severe recession?
3. Are there any existential operational risks (e.g. customer concentration risks, supply risks, foreign exchange mismatches, etc.)?
4. Can we trust that management will work to build shareholder value?
5. Is there evidence that the business has some kind of competitive advantage that allows it to fend off competitors and retain customers?
6. Is the stock priced at a reasonable multiple relative to its normalized earnings power or asset value?
7. What's our edge? Why are we being afforded an opportunity to buy an attractive business at an attractive price?[3]

Few stocks ace this test. Accordingly, we try to be as patient as possible, waiting for "fat pitches" to cross our plate.

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[1] Berkshire Hathaway 1996 shareholder letter.
[2] Poor Charlie's Almanack, by Charles T. Munger, edited by Peter D. Kaufman. Walsworth Publishing Company; 3rd edition (2005).
[3] As Buffett once said, "As they say in poker, if you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy." Berkshire Hathaway 1987 shareholder letter.

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