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VALUE INVESTING FUNDAMENTALS

MODULE 3: HOW TO IDENTIFY ECONOMIC MOATS

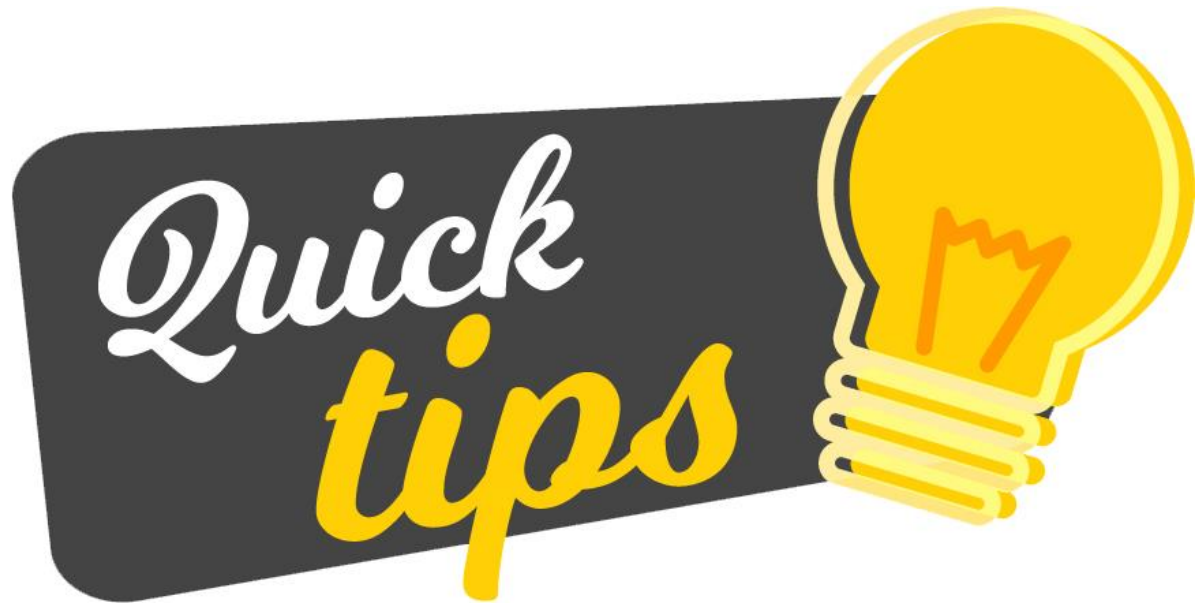
LEARNING NOTES FOR MODULE 3



Economic Moats



Sustainable Competitive Advantages



“Without one or more protective moats firmly in place, a formerly profitable business will soon find itself unable to maintain its market share, and its revenues will begin to drop off.”

The easiest way to determine the size of a company's economic moat is look at its historical operating performance.



Profitability & Efficiency Ratios

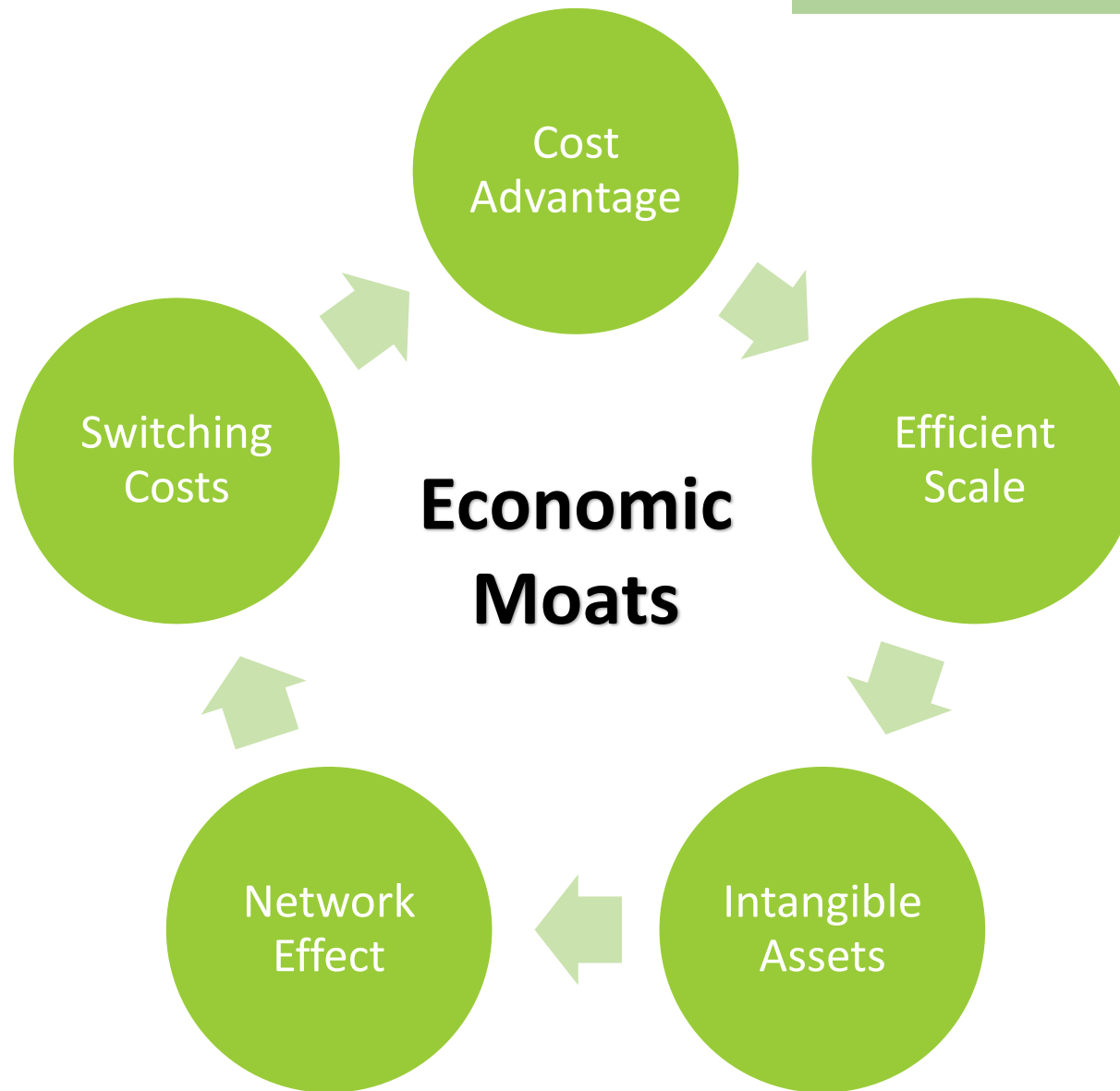


Why Companies Need a Competitive Advantage?



Sustainability is the key to consistent and ever-growing revenues,
and the **economic moat** is the key to that sustainability.





The Advantage of Lower Cost



- Ability to sell its goods or services for less than its competitors
- Location advantages
- Maintain a large market share of their industry by squeezing out any new competitors who try to move in



The Advantage of Greater Size



- Ability to produce more products on a larger scale with lower input costs
- Ability to control the supply of a particular product or service within a certain location or industry
- Ability to acquire other businesses

The Possession of Unique Assets



- Allow a business to charge a premium for their goods or services
- Prevent competitors from duplicating the company's products
- Popular brands aren't always profitable brands

The Benefits of the Network Effect



- The value of a good or service grows as more people use it
- More users = Never-ending cycle of continuous growth
- Difficult to dislodge and become unbeatable once it gains momentum

The Ability to Command High Switching Costs



- Ability to create a pain of switching the company's product or service
- Ability to maintain its customer and supplier base
- Have higher pricing power over competitors

THANK YOU FOR READING!

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