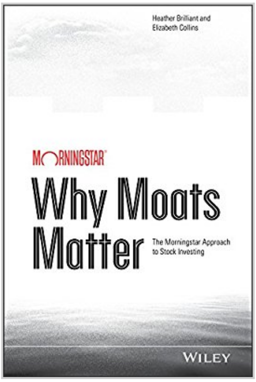

Why Moats Matter: The Morningstar Approach to Stock Investing

By Heather Brilliant, Elizabeth Collins

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Incorporate economic moat analysis for profitable investing

Why Moats Matter is a comprehensive guide to finding great companies with economic moats, or competitive advantages. This book explains the investment approach used by Morningstar, Inc., and includes a free trial to Morningstar's Research.

Economic moats—or sustainable competitive advantages—protect companies from competitors. Legendary investor Warren Buffett devised the economic moat concept. Morningstar has made it the foundation of a successful stock-investing philosophy.

Morningstar views investing in the most fundamental sense: For Morningstar, investing is about holding shares in great businesses for long periods of time. How can investors tell a great business from a poor one? A great business can fend off competition and earn high returns on capital for many years to come. The key to finding these great companies is identifying economic moats that stem from at least one of five sources of competitive advantage—cost advantage, intangible assets, switching costs, efficient scale, and network effect. Each source is explored in depth throughout this book.

Even better than finding a great business is finding one at a great price. The stock market affords virtually unlimited opportunities to track prices and buy or sell securities at any hour of the day or night. But looking past that noise and understanding the value of a business's underlying cash flows is the key to successful long-term investing. When investors focus on a company's fundamental value relative to its stock price, and not where the stock price sits today versus a month ago, a day ago, or five minutes ago, investors start to think like owners, not traders. And thinking like an owner will makes readers better investors.

The book provides a fundamental framework for successful long-term investing. The book helps investors answer two key questions: How can investors identify a great business, and when should investors buy that business to maximize return?

Using fundamental moat and valuation analysis has led to superior risk-adjusted returns and made Morningstar analysts some of the industry's top stock-pickers. In this book, Morningstar shares the ins and outs of its moat-driven investment philosophy, which readers can use to identify great stock picks for their own portfolios.

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Why Moats Matter: The Morningstar Approach to Stock Investing By Heather Brilliant, Elizabeth Collins Bibliography

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Editorial Review

From the Inside Flap

Just as physical moats protect castles from enemies, economic moats—or sustainable competitive advantages—protect companies from competitors. Legendary investor Warren Buffett devised the economic moat concept. Morningstar has made it the foundation of a successful stock-investing philosophy.

At Morningstar, we've always viewed investing in the most fundamental sense: We want to hold shares in great businesses for long periods of time. How can you tell a great business from a poor one? A great business can fend off competition and earn high returns on capital for many years to come. The key to finding these great companies is identifying economic moats that stem from at least one of five sources of competitive advantage—cost advantage, intangible assets, switching costs, efficient scale, and network effect—each of which we explore in great depth.

Even better than finding a great business is finding one at a great price. The stock market affords virtually unlimited opportunities to track prices and buy or sell securities at any hour of the day or night. But looking past that noise and understanding the value of a business' underlying cash flows is the key to successful long-term investing. When you focus on a company's fundamental value relative to its stock price, and not where the stock price sits today versus a month ago, a day ago, or five minutes ago, you start to think like an owner, not a trader. And thinking like an owner will make you a better investor.

As you've probably guessed, this book won't tell you how to get rich quick by juggling stocks. What it will give you is a fundamental framework for successful long-term investing. The book will help you answer two key questions: How can I identify a great business, and when should I buy that business to maximize my return? If you get these two things right more often than not, you're well on your way to investing success.

Ours is not the only valid method for investing in stocks, but it's one that has worked well over the years. Using fundamental moat and valuation analysis has led to superior risk-adjusted returns and made Morningstar analysts some of the industry's top stock-pickers. In this book, we share all the ins and outs of our moat-driven investment philosophy, which you can use to identify great stock picks for your own portfolio.

To find out more about Morningstar's approach to stock investing and receive a free trial of our research, visit: www.global.morningstar.com/whymoatsmatter

From the Back Cover

"The search for the enduring economic moat is the holy grail of value investing. These modern-day protected business castles allow their owners to earn high returns on capital, the ultimate goal for any long-term investor. In *Why Moats Matter*, Heather Brilliant and Elizabeth Collins provide a wonderfully detailed map to help both small and large investors find these great companies."
—John W. Rogers Jr., founder, chairman, and chief investment officer, Ariel Investments

"Morningstar's Economic Moat framework is a useful complement to Michael Porter's five forces model, as it approaches the issue of franchise quality from an investor's perspective. Armed with Morningstar's moat

framework, I've been able to make better assessments of companies' competitive positions, which is a critical element of my stock-picking process."
—**Michael Luciano**, investment analyst and U.K. pilot fund manager, Fidelity Worldwide Investment

About the Author

Heather E. Brilliant, CFA, Co-Chief Executive Officer, Morningstar Australasia
Prior to assuming her current role, Brilliant led Morningstar's global equity and corporate credit research teams, consisting of more than 120 analysts, strategists, and directors. Brilliant is a member of the CFA Institute Board of Governors and is a past chairman of the CFA Society of Chicago.

Elizabeth Collins, CFA, Director of Equity Research, North America, Morningstar
Collins is responsible for leading Morningstar's team of North American-based equity research analysts. She has served as chair of Morningstar's Economic Moat committee, a group of senior members of the equity research team responsible for reviewing all Economic Moat and Moat Trend ratings issued by Morningstar.

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