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THE ADVANCED DEEP-VALUE INVESTING PLAYBOOK

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Educational content only — not financial advice.
Always do your own due diligence.

The market pays a premium to people who can value a business and wait. Not for being the smartest — for being the most disciplined while everyone else is emotional. Here’s the discipline.

> “Price is what you pay; value is what you get. The gap between them is the entire game.”

THE PROBLEM THIS SOLVES

Index investing builds wealth reliably. But some investors want more — to understand what businesses are actually worth, to find mispriced assets, to earn the premium that comes from doing real research. The problem: most "value investing" content is either academic theory or stock tips dressed as education.

This playbook teaches the discipline: how to value a business from first principles, how to know when you have an edge (and when you don't), and how to size positions so being wrong doesn't end you.

THE EXACT OUTCOME

By the end of this playbook you will have:

1. **The valuation toolkit** — DCF, multiples, asset-based, and reverse-DCF methods you can actually run
2. **The research process** — a repeatable pipeline from idea to position
3. **The margin-of-safety framework** — how much discount you need and why
4. **Position sizing rules** — how much to bet without blowing up
5. **The sell discipline** — when to exit (the part most investors never learn)

WHO THIS IS FOR

- Investors with their foundation solid (emergency fund, indexed core portfolio running)
- People fascinated by why businesses are worth what they're worth

- Readers willing to spend 5–10 hours researching a single position

WHO THIS IS NOT FOR

- Beginners (master the Starter Kit first — this is the next level)
- Anyone investing money they'll need within 5 years
- People who want stock picks — this teaches fishing, and the fish aren't guaranteed

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EXECUTIVE SUMMARY — THE 5 THINGS THAT MATTER

1. **Price is what you pay; value is what you get.** The entire discipline is the gap between the two.
2. **Margin of safety is the whole game.** You will be wrong about the future. A big enough discount makes being wrong survivable.
3. **Most "value" is a trap.** Cheap stocks are usually cheap for a reason. The skill is distinguishing mispriced from broken.
4. **Position sizing beats stock picking.** A great thesis with reckless sizing is gambling. A decent thesis with disciplined sizing compounds.
5. **Temperament \> intellect.** The math here is high-school level. The hard part is buying when everyone's selling and selling when everyone's buying.

HOW TO USE THIS PLAYBOOK

- **Parts 1–2:** philosophy and first principles (30 min)
- **Parts 3–4:** the valuation toolkit with worked math (60 min)
- **Part 5:** the research process, step by step (30 min)
- **Parts 6–7:** sizing, selling, and psychology (30 min)
- **Parts 8–9:** mistakes and toolbox (reference)
- **Part 10:** full worked valuation (30 min)

- **Part 11:** your 30-day research plan

Total: ~3–4 hours to study, 30 days to run your first full process.

PART 1: FIRST PRINCIPLES — WHAT "VALUE" ACTUALLY MEANS

A business is worth its future cash

Strip away everything: a business is worth the cash it will generate for its owners, discounted back to today. That's it. Every valuation method is just a different way of estimating that number.

> **Value = sum of (future cash flows) discounted to present**

The discount exists because a dollar tomorrow is worth less than a dollar today (risk + time + inflation).

Why mispricings exist

Markets are mostly efficient, but systematically wrong in specific situations:

- **Forced selling:** index deletions, fund liquidations, spin-offs — sellers who must sell regardless of price
- **Neglect:** small caps with no analyst coverage; boring industries
- **Complexity:** spin-offs, restructurings, and holding companies the market can't be bothered to parse
- **Fear cycles:** entire sectors priced as if the worst case is the base case
- **Short-termism:** the market overweights next quarter, underweights year five

Your edge lives in these cracks — not in outsmarting professionals at their own game.

The circle of competence

You can only value what you understand. A simple business you grasp deeply beats a complex one you half-understand. **If you can't explain how the company makes money in two sentences, you have no business valuing it.**

PART 2: THE HONEST NUMBERS — WHAT THE DISCIPLINE DEMANDS

The base rates (know the game you're playing)

- The vast majority of professional fund managers underperform simple index funds over 10+ year periods, after fees. This is the most replicated finding in finance.
- Concentrated value portfolios are more volatile than the market — expect years of underperformance. The premium, if it comes, arrives in bursts.
- Most individual stock picks underperform. This playbook doesn't change the base rate — it teaches you to play only when the odds and the price are in your favor.

The math of margin of safety

If your valuation says a business is worth $100/share:

Discount (margin of safety)	You pay	What goes wrong before you lose
0%	$100	Anything — no room for error
20%	$80	Valuation 20% too optimistic
35%	$65	Thesis half-wrong, still breakeven-ish
50%	$50	Catastrophically wrong, still recoverable

Bigger discount = more ways to be wrong and still fine. This is the entire risk management of value investing in one table.

The sizing math

With a 35% margin of safety and a 60% hit rate (generous for beginners):

- 5% position, thesis right (+50%): +2.5% portfolio
- 5% position, thesis wrong (−30%): −1.5% portfolio
- Expected value per idea: (0.6 × 2.5%) − (0.4 × 1.5%) = **+0.9% per idea**

Ten ideas a year at this edge ≈ +9% before the losers' drag compounds against you. The math works — but only with the discount and the sizing and the hit rate all cooperating.

PART 3: THE VALUATION TOOLKIT

Method 1: Multiples (the quick filter)

Compare price to earnings, cash flow, or book value — against history and peers.

```
P/E = price ÷ earnings per share
EV/EBITDA = enterprise value ÷ operating earnings
P/B = price ÷ book value per share
Free cash flow yield = FCF per share ÷ price  (the most honest one)
```

Use it to: filter 100 ideas to 10 in an afternoon. **Never use it to:** make the final decision — multiples describe price, not value.

Trap: a P/E of 8 isn't cheap if earnings are about to halve. Always ask why the multiple is low.

Method 2: Discounted cash flow (the core engine)

Project the business's free cash flows, discount them to today.

```
Simplified 5-year DCF:
  Year 1-5 FCF: $10M, $11M, $12M, $13M, $14M
  Discount rate: 10%
  Present value = 10/1.1 + 11/1.1² + 12/1.1³ + 13/1.1⁴ + 14/1.1⁵
                ≈ $9.1 + $9.1 + $9.0 + $8.9 + $8.7 = $44.8M
  Terminal value (year 5+, 3% growth): 14×1.03/(0.10−0.03) = $206M
  PV of terminal: 206/1.1⁵ ≈ $128M
  Enterprise value ≈ $44.8M + $128M = $172.8M
  Minus net debt, divided by shares = value per share
```

The honest truth: the terminal value is usually 70%+ of the total — meaning your "precise" DCF is mostly one growth assumption. Use DCF to understand sensitivities (what breaks the thesis?), not to manufacture false precision.

Method 3: Reverse DCF (the expectation check)

Instead of guessing cash flows, ask: **what growth is the current price implying?** If the market price implies 15% annual growth for a decade and the business has grown 4% historically — the market is optimistic, not you pessimistic. Reverse DCF turns the question around and exposes embedded expectations.

Method 4: Asset-based (the floor)

For holding companies, insurers, and asset-heavy businesses: value the assets minus liabilities. Useful as a **downside floor** — "even if the business never grows, the assets cover X."

The triangulation rule

Never trust one method. Value every idea three ways (multiples + DCF + asset/reverse-DCF). If they disagree wildly, you don't understand the business yet — that's information, not a problem.

PART 4: THE RESEARCH PROCESS – IDEA TO POSITION

Stage 1: Sourcing (1 hour/week)

Hunting grounds for mispricings:

- 52-week low lists (filtered by your competence)
- Spin-offs and demergers (forced selling + complexity)
- Small/micro caps with no coverage
- Sectors in the penalty box (fear cycles)
- Your own industry (competence edge)

Log every idea. Most die at Stage 2 — that's the process working.

Stage 2: The 30-minute filter

For each idea, answer:

```
[ ] Can I explain the business in 2 sentences?
[ ] Is it cheap on MULTIPLES vs history and peers?
[ ] Why is it cheap? (forced seller / neglect / fear / complexity?)
[ ] Is the "why" temporary or permanent?
[ ] Any accounting red flags? (receivables growing faster than sales,
    frequent "one-time" charges, auditor changes)
```

Kill 80% here. Be ruthless — your time is the scarcest input.

Stage 3: Deep research (5–10 hours per survivor)

- Read 3 years of annual reports (MD&A first, then financials, then notes)
- Read the last 4 earnings call transcripts (what changed? what's avoided?)
- Build the simple DCF + reverse DCF + multiples triangulation
- Identify the **3 key variables** the thesis depends on
- Write the **pre-mortem**: "It's 3 years later and I lost 50%. What happened?" — then check if those scenarios are priced in

Stage 4: The investment memo (1 page)

```
THESIS: _____
VALUE: $_____/share (methods: _____)
PRICE: $_____/share → DISCOUNT: _____%
WHY MISPRICED: _____
3 KEY VARIABLES: 1._____ 2._____ 3._____
PRE-MORTEM: _____
INVALIDATION: I will sell if _____
POSITION SIZE: ____% (rationale: _____)
DATE: _____
```

If you can't write the memo, you don't have a thesis. The memo is the discipline made visible.

PART 5: POSITION SIZING & THE SELL DISCIPLINE

Sizing rules

- **Starter:** 2–3% for a new thesis (you're probably wrong about something)
- **Standard:** 4–6% for a well-researched thesis with 30%+ discount
- **Maximum:** 10% — and only for your highest-conviction, deepest-discount ideas
- **Total individual positions:** cap at ~30–40% of portfolio; the indexed core remains the foundation

The Kelly criterion caveat: optimal-bet math says bet bigger on bigger edges — but it assumes you know the true odds. You don't. **Half-Kelly or less, always.** Humility is a position size.

When to sell (write this BEFORE buying)

1. **Thesis achieved:** price reached your value estimate → sell or trim. Don't get greedy; the discount was the edge.
2. **Thesis broken:** invalidation trigger hit → sell. The memo you wrote is smarter than the emotions you'll feel.

3. **Better opportunity:** only if the new idea's discount is much larger (switching costs are real).
4. **Position grew too big:** trim back to sizing rules. Letting winners run past 15% is how concentration becomes gambling.

Never sell because: the price dropped (that's when you re-check the thesis, not the quote), someone on the internet disagrees, or you're bored.

PART 6: PSYCHOLOGY — THE ACTUAL HARD PART

The loneliness of the discount. Buying what's hated feels terrible. Your screen will be red. Friends will question you. This is the price of the premium — if it felt good, there'd be no discount.

The narrative trap. Every cheap stock has a scary story. Your job isn't to find stories without fear — it's to price the fear correctly.

The action bias. Doing nothing for months feels like laziness. It's actually the job. Most value investors' best move in a given year is holding cash and waiting.

Journal everything. Every buy, every sell, the reasoning at the time. Review yearly. Your journal will teach you your own patterns — usually overconfidence after wins and paralysis after losses.

PART 7: COMMON MISTAKES

1. Confusing cheap with value. Low P/E + declining business = value trap, not value.

2. No invalidation trigger. "I'll know it when I see it" means you'll never sell.

3. Sizing on conviction instead of discount. Conviction is a feeling; the discount is math. Size on math.

4. DCF precision theater. Four-decimal valuations from guessed inputs. Use ranges, not points.

5. Ignoring management. A cheap business run by crooks or empire-builders isn't cheap — it's a donation.

6. Catching falling knives without a floor. Averaging down into a broken thesis. The asset-based floor exists for this.

7. Too many positions. 40 "value" positions = an expensive index fund. Concentration with discipline, or index.

8. Selling winners to "lock in gains" while holding losers. The exact opposite of the discipline.

9. Style drift in bull markets. Abandoning valuation for growth stories at the top. The memo prevents this.

10. Paper-trading your education. Research 3 real (small) positions. Tuition paid to the market teaches what books can't — keep it small enough to survive.

PART 8: TOOLBOX

The 30-Minute Filter (copy per idea)

```
IDEA: _________________  DATE: ________
[ ] 2-sentence business explanation: _______________________________
[ ] Cheap vs history? _____  vs peers? _____
[ ] Why cheap: _______________________________
[ ] Temporary or permanent? _________________
[ ] Red flags: _______________________________
VERDICT: deep dive / watchlist / kill
```

Valuation Triangulation Sheet

```
COMPANY: _________________

Multiples:  P/E _____  EV/EBITDA _____  FCF yield ____%
            vs history: _____  vs peers: _____

DCF:        value/share $_________ (range $_________–$_________)
            key sensitivities: ____________________________

Reverse DCF: price implies ____% growth for ____ years
             vs historical ____% → optimistic / fair / pessimistic

Asset floor: $_________/share

TRIANGULATED VALUE: $_________/share
CURRENT PRICE:      $_________/share
DISCOUNT:           _________%
```

Position Journal (per holding, update quarterly)

```
POSITION: _________________  SIZE: ____%
THESIS (from memo): ____________________________
INVALIDATION TRIGGER: ____________________________
Q REVIEW: thesis intact? ___  variables update: _________________
ACTION: hold / add / trim / sell → reason: _________________
```

PART 9: FULLY WORKED EXAMPLE – VALUING "MAPLE MANUFACTURING"

Fictional illustrative company. Numbers are teaching examples, not real data.

The setup: Maple Manufacturing (fictional), a Canadian industrial parts maker. Price: $42/share. 10M shares. No analyst coverage. Down 40% after losing a major contract (since replaced). Your competence: you understand industrial businesses.

Step 1: The business (2 sentences)

"Maple makes precision parts for agricultural equipment. It earns ~12% operating margins through long-term supply contracts, and the lost contract represented 18% of revenue — now replaced by two smaller ones."

Step 2: Why is it cheap?

Fear + neglect: the contract loss spooked the market, no analysts cover it, and industrials are out of favor. The business stabilized; the price didn't recover. Temporary cause, not permanent impairment — worth verifying in the financials.

Step 3: Triangulation

Multiples: P/E 9 vs. historical 14 and peer 13. FCF yield 11% vs. peer 6%. Cheap on every multiple.

Simplified DCF:

- Current FCF: $28M/year, growing 4% for 5 years → ~$34M in year 5
- Discount 10%, terminal growth 2.5%
- Enterprise value ≈ $380M; net cash $40M → equity $420M → **$42... wait.**

Hmm — $420M ÷ 10M shares = $42/share = the current price? That means at 4% growth and 10% discount, it's fairly valued, not cheap. **This is the triangulation working.** The multiples said cheap; the DCF says fair. Dig deeper.

Reverse DCF: the $42 price implies ~4% perpetual growth. Is 4% reasonable for this business? Historical FCF growth: 6%. The market prices below-trend growth — mildly pessimistic, not the screaming bargain multiples suggested.

Asset floor: book value $30/share; replacement value of plants estimated ~$38/share. Downside protected near $35–38.

Step 4: The verdict

Triangulated value: ~$48–55/share (mild optimism on growth normalization). Discount at $42: **~15–25%** — below the 30%+ threshold for a standard position.

Decision: watchlist, not a buy. Set an alert at $36 (30% discount to $52 midpoint). The discipline said no — and that's a successful outcome. Most ideas should die here.

The lesson

This is what the process is for: the quick multiple screen said "buy," the full work said "wait." Investors who skip triangulation buy the value trap. Investors who do the work wait for the pitch.

PART 10: YOUR 30-DAY RESEARCH PLAN

Week 1: Build your hunting ground — set up the 52-week-low screen, list 20 ideas, run the 30-minute filter on all of them. Kill 15+.

Week 2: Pick the top 2 survivors. Read 3 years of annual reports for each. Fill in triangulation sheets.

Week 3: Write full investment memos for both — including pre-mortems and invalidation triggers. Decide: buy, watchlist, or kill.

Week 4: If a buy clears your discount threshold: size it per the rules, execute, journal it. If not: that's fine. The watchlist is working.

The goal of month one isn't a position. It's the process, installed.

NEXT STEPS & RELATED RESOURCES

- **The Ultimate Canadian Investing Starter Kit** — your indexed core foundation
- **The Complete First $100K Blueprint** — the master system
- **The Common Money Mistakes & How to Avoid Them Guide** — what not to do

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LIMITATIONS, RISKS & ASSUMPTIONS

- **Individual stock investing can lose money, including total loss.** Never invest money you can't afford to lose; keep the indexed core as your foundation.

- **This is education, not recommendations.** No company mentioned is a buy/sell recommendation. The fictional example is for teaching only.
- **Base rates are humbling.** Most stock pickers underperform. Size positions so that being wrong is tuition, not tragedy.
- **Tax and account rules apply.** Hold individual positions in the right accounts (TFSA/RRSP) per the Mastery Guide.
- **Time cost is real.** 5–10 hours per idea is the minimum — if you won't do the work, index.

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