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*“Expanding Your Circle of Competence into Other Countries”*

Thursday, March 14<sup>th</sup>, 2019

*To Focused Compounding Free Members:*

Two of the most recent stock write-ups at Focused Compounding focus on non-U.S. stocks. One, by Jayden Preston, looks at Universal Robina (in the Philippines). Another, by Clayton Young, focuses on PRAP Japan (click the link at the top of this page to read that article now). So, I thought now would be a good time to talk about finding stocks outside the U.S. How can you widen your stock picking net to include stocks outside the U.S. without straying too far from your “circle of competence”? In his 1996 letter to Berkshire Hathaway shareholders, Warren Buffett wrote:

*“What an investor needs is the ability to correctly evaluate selected businesses. Note that word ‘selected’: You don’t have to be an expert on every company, or even many. You only have to be able to evaluate companies within your circle of competence.”*

This can lead some value investors to stick 100% to stocks in the countries they know best. You want to be careful when it comes to expanding your circle of competence. But, you don’t want to be so careful that you never widen your stock picking net beyond your home country. Why? Because a lot of companies and industries in the U.S. might not be within your circle of competence. In fact, this is why I like the write-ups of Universal Robina and PRAP Japan so much. Universal Robina is in large part a branded packaged food company. If you can analyze Kraft-Heinz, you might be able to analyze Universal Robina. And PRAP Japan is in the public relations business. If you can analyze Interpublic and Omnicom, you might be able to analyze PRAP Japan. Make a list of all the stocks you feel you know best. The ones you’ve owned the longest, or studied the most, or would be most comfortable holding indefinitely. What industries are they in? Different investors will answer this question differently. But, very few investors will have a list made up mostly of semiconductor companies, internet start-ups, gold miners, etc. Chances are you will have more companies in consumer services than in basic commodities. Chances are you will have more low-tech companies than high-tech companies on that list.

The way you can expand your circle of competence into other countries is by looking for companies that belong to industries you are already familiar with but which are in countries you aren’t familiar with. For example, on the stock watch list I send out to Focused Compounding premium members, I’ve included a Japanese elevator company. I don’t know how well I can understand a Japanese company. But, I do know I understand elevator companies. Elevators are a good industry for me to start with.

What’s the right industry for **you** to start with?

Sincerely,

Geoff Gannon

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