Wealth Alpha Master Guide

Chapter 1: Stock Discovery Framework

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WealthAlpha Advantage: Our AI automatically applies these filters to shortlist quality businesses from 5000+ listed Indian companies, saving you time and avoiding traps.

Why stock discovery matters:
With over 5,000 companies listed on Indian exchanges, beginners can feel overwhelmed. Stock discovery is about filtering out noise and building a shortlist of quality businesses worth studying.

Discovery Approaches:

- • Top-Down: Start from Economy → Sector → Company (good for macro-driven themes).
- • Bottom-Up: Start from Company fundamentals → then validate with Sector & Macro (good for stock pickers).
- • 3C Rule: Consistency (growth), Cleanliness (low debt, strong cash flows), Competitive Edge (moat/brand).

Key Screening Pillars:

- • Growth: Revenue & Profit CAGR > 10%.
- • Profitability: ROE/ROCE > 15%.
- • Safety: Debt/Equity < 1, Interest Coverage > 3.
- • Cash Flows: Operating Cash Flow positive; ideally Free Cash Flow positive too.
- • Valuation: Reasonable vs sector peers (avoid hype premiums).

Common Traps: Penny stocks, hype-driven themes, chasing past winners, and anchoring to 'cheap' per-share prices.

DIY Action Kit:

1. 1. Use official exchanges (NSE/BSE) for company announcements.
2. 2. Apply the 3C filter to cut your universe down to 20–30 companies.
3. 3. From this, deep-dive into 5 companies using annual reports & management commentary.

Investor Psychology: Remember that discovery is only about shortlisting, not buying everything. Avoid FOMO — patience is key.
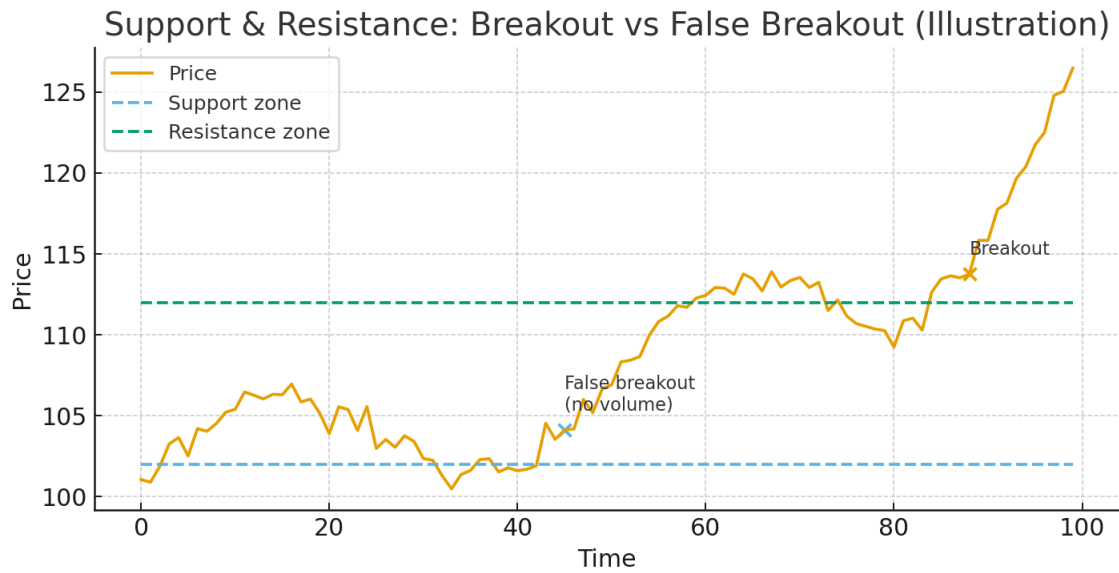
Illustration: Support & Resistance zones help identify strong vs weak stocks early in the discovery process.