Safal Niveshak's

Interview with

StableInvestor

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This is not an interview which I have taken of someone else, but *my* interview on **Stable Investor**, a website dedicated to long-term investing.

So someone has finally found me deserving for an interview! 😉

Dev, who runs Stable Investor, has been a long time tribesman of Safal Niveshak and a friend. I have come to respect him a lot via our discussions and also via his work.

In this interview, I share my background, philosophy, and journey as far as investing is concerned, and a guided route map for anyone starting out on his/her own journey as an investor. Hope you find some value in my experiences.

Let's start right away.

Dev (Stable Investor): When and how did you get started in the stock market, and when did you feel that stock investing may be your true calling?

Vishal (Safal Niveshak): It's a long story, but let me still start.

My indirect connection with the stock market started somewhere in the early 1990s when I was just around 13-14 years old. My father and uncles used to trade in stocks then, and had earned and lost a lot of money during the Harshad Mehta boom and bust.

My father used to read the financial newspapers with great interest and I remember him telling me then how important it was to read newspapers. As an obedient son, I started glancing through the financial pages of newspapers then, though I did not understand much of what was written (I still don't!).

Anyways, after a quiet period after the Harshad Mehta scam burst in 1992 and the dotcom bubble started in late 1999, I don't remember stocks being talked about a lot in my household.

As the bubble was building up and the markets were rising, I came to like the way CNBC anchors talked about stocks day in and day out and how smartly they *predicted* the next rise. That was the only channel that was on in my house, and that is all I saw. Though I did not know much about stocks even then, I surely came to know one very important fact about the stock market seeing what was happening around me.

This fact was that you could make a lot of quick money when there is euphoria in the stock market, and lose it all even quickly because each euphoria ends up in a crash.

I saw this in the early 1990s and then in the early 2000s, around me and within my family. So that was my first brush with the stock market, though indirectly.

Anyways, in 2001, I came to Mumbai to do my MBA. So you can say that this is when I came real close to the stock market. 😉

These two years at MBA were the most wasteful years for me as far as classroom education is concerned. I realized that, around me, everyone was running for the highest marks to be able to get the best jobs. In fact, we were asked to prepare for our placements from the very first semester of the Course, and what our professors did for the next two years was exactly that – cram into us whatever was written in books instead of how the real life worked.

Now, how did I know then that the reality was different from what the MBA profs were teaching us?

The books in my college's library told me that. Whether it was Eliyahu Goldratt's **Goal**, or Jim Collins's **Good to Great**, everything pointed at something different than what was written in my MBA textbooks.

This library was where I got seriously involved in reading. And this is where I first read Peter Lynch's **One Up on Wall Street** and Robert Hagstrom's **The Warren Buffett Way**. I don't remember falling in love with these books or their ideas at that point of time, but they definitely got me interested in the business of stocks.

Now, this was around 2002-2003, and the Indian economy and the job market had not recovered fully post the dotcom crisis.

In fact, howsoever I aspired to get into a stock market job, somewhere in early 2003 I lost hope of getting any decent job after being rejected by the very few employers who attended my college’s placement season.

But as luck had it, a small, unknown equity research company called Equitymaster came in search for candidates to my college for the position of “equity research analyst”. I managed to pass their interview process and got selected for the job.

I had not known this term “equity research analyst” earlier and neither did I know about my employer. But I still accepted the offer, which came at a salary that was almost what I would have earned in the role of a peon. “So much for an MBA degree, huh!” I told myself.

Apart from the fear of becoming an “educated-unemployed”, I also took up that job due to a promise I had made to my ‘would-be wife’ before joining my MBA that we would get married as soon as I got my job so that her family didn’t get her married off somewhere else. 🙂

As I try to connect the dots now, looking backward, the saying that there is a woman behind every man's success has been true in my case. In fact, the woman in my life has not really been 'behind' me, but has walked besides me, holding my hand through the thick and thin that life has brought.

Well, I am not going to bore you today with my life story (let me keep it for some other day , but that first job – which was also my last – was the beginning of my love-hate relationship with the stock market.

Getting into an independent research company which Equitymaster was, was very fortunate for me.

You see, I am a firm believer in the fact that our "values" are the things that are most important in the way we live and work.

For example, if you value family, but you have to work 70-hour weeks in your job, you will surely feel internal stress and conflict. In the same way, if you value honesty, but you work in an environment where the incentives are designed to make you dishonest, you will gradually kill yourself out of stress.

So, the reason I find myself lucky to have accepted that job was that, and I realized this later, it matched perfectly with the key values I live my life by, which are – family, honesty, and freedom.

While I was working in the stock market, my job wasn't stressful, and neither were the incentives misaligned given that it was an independent research company and not a brokerage hungry for commissions.

So, I was working mostly in the interest of my clients, and not that of mine, which is so unlike how the stock market industry generally operates.

That is where I formed the belief that it was possible to do honest work in the stock market. And that is one of the core reasons I love doing what I am doing now at **Safal Niveshak**.

Anyways, my job as an analyst typically involved reading annual reports, meeting managements, working on financial models, and writing research reports. I found all the three parts of my work exciting – reading, researching, and then writing. And that again is what gave me the confidence that I could do something of my own based on these aspects, which also gradually became my strengths.

Now it is another part that, after 2008 happened, I gradually lost the charm in being an analyst and doling out futuristic recommendations to investors.

I realized over a period of time that I was recommending stocks into the "unknown" – to real people with real-life savings, but those I knew nothing about – and just because they had paid in advance for that research.

So if there was a service that was supposed to recommend (either Buy, Sell or Hold) one stock per week to a paid subscriber, the research team was obligated to write that one report per week.

While we had a decent internal process of choosing stocks that helped us recommend some great stocks and avoid some really dud ones, just the velocity of recommendations created greater chances of making wrong (under-researched) recommendations.

In fact, by the time I was leaving my job, we were writing almost 100 reports a year (or around eight per month), a gigantic number for any small investor to digest!

What is more, as I said above, it was a “one-size-fits-all” kind of a philosophy, as the same stock recommendation was being bought and acted upon by a young executive, and a retiree.

So after 2008 happened and I got to know that stock market analysts are not *masters of the Universe* as they claim to be, a deeper realization set in within me. I asked myself – “What if my “one-size-fits-all” recommendations have made the difference between a comfortable retirement and a miserable one?”

The answer pinched me hard, and laid the ground for my exit from the industry, which I had already started hating for the above-mentioned reasons.

Travelling every day with people, and travelling to a place that I detested (Nariman Point, the heart of the financial system in Mumbai, and also the heart of arrogance and greed) had really gotten over my senses. And that pushed me towards quitting my job, which I did in April 2011, exactly eight years after I had joined it.

So, that was to answer your question – in case you are still awake 😉 – when and how I got started in the stock market. The process was pretty long – 1992 to 2011 – and I was still a beginner.

Anyways, the seeds of what I am doing now, my liking for the ideas of investing legends like Warren Buffett, Charlie Munger, Philip Fisher, and Prof. Sanjay Bakshi, and my passion for educating small investors in their sensible ways of stock investing, were sowed sometime during the 2006-2008 period.

I am still not impressed when someone calls me a “stock market investor” because investing is not what gets me up each morning.

What excites me much more is the thought that each day connects me with so many new small investors whom I can help to change the way they invest, for the better. I have been extremely pained by how small investors have been taken for a ride over the years, and this is what I have set out to challenge.

Helping people move from -15% CAGR to +15% CAGR is a bigger goal in front for me than to earn 20% ROI on my own personal stock investments. So I can say that is my true calling, and not really investing my own money. But then, I also love the entire process of being an investor. The very ideas of learning how various businesses work, what makes some of them great and most of them gruesome, and why managers and investors behave the way they do, hold great charm for me.

Dev: Once you realised that investing was to play a major role in your life ahead, how did you begin to learn about the markets and investing in general?

Vishal: While my learning process started on the job, when I was working as a stock market analyst, the real kick came in after I quit my job and gave a serious thought to my personal investing and what I had set out to do – help others become better investors.

So, when I realized this, I found some great companions in the literature of Warren Buffett, Charlie Munger, Ben Graham, and Prof. Sanjay Bakshi. I started reading and re-reading all the material that I could find on them, or written by them.

The thoughts on separating great businesses from the gruesome ones, I learned from Buffett (and the process is still on).

The belief in margin of safety came from Graham.

Munger told me how foolishly I often behave in my investing endeavours, and how I can minimize my behavioural mistakes.

And Prof. Bakshi taught me that all I learned from Buffett, Munger and Co., can be applied in the Indian context as well. Plus, I also learned a lot from him on the idea of being an effective teacher.

So, reading, re-reading, making notes, and sharing my thoughts with my tribe members on Safal Niveshak have been parts of my process of learning to become a better investor, and of course a better human being.

Of course, I have just started and there is a long way to go…a lot of things to learn…and a lot of things to teach.

Dev: Explain you investment philosophy in 20 or lesser words.

Vishal: That's easy, as I recently did a **post on Safal Niveshak** asking readers to share their investment philosophy in less than 10 words. 🙂
Anyways, my personal investment philosophy is – Do the best. Expect the worst. Keep learning. Keep going.

This is the concise version of the five most important things I practice in my investing life –

1. Do hard work;
2. Have margin of safety;

3. Read, read, read;
4. Learn from my own and others' mistakes; and
5. Practice patience and perseverance.

Dev: How do you typically find ideas and what is your selection process before an idea gets added to your portfolio?

Vishal: I somewhere read Warren Buffett as saying, "Can you really explain to a fish what it's like to walk on land? One day on land is worth a thousand years of talking about it, and one day running a business has exactly the same kind of value."

And then, he has said many times that he is a better investor because he is a businessman and he is a better businessman because he is an investor. So, my experience as an entrepreneur has been very fundamental to being better at investing. And this has especially happened over the past three years. Of course, I was investing in the stock market earlier as well, but I did not have a well laid-out process then.

Most of my investing prior to 2011 happened on the back of recommendations from my analyst friends, whom I really trusted (and there were just a couple of them), because I was not legally allowed to buy stocks I was analyzing. Of course, even when I bought stocks based on my friends's recommendations, I used some my own understanding as well. But as I realize now, that was just to confirm the original hypothesis.

Coming to the present times, my understanding of how I must run my own business helps me a lot on deciding which businesses to buy, and which ones to avoid with a 10-foot pole.

So the first thing I look at is the quality of business. And here are a few things that help me decide whether a business is good or not.

One of the **first things I look for in a business is how simple or complex it is to understand –** the "too hard" stuff as Warren Buffett calls it.

If there are a lot of regulations involved (energy, power etc.), or if the business has an unproven past (green energy, ecommerce, pharma R&D), I simply avoid it. Then, there are some businesses – like those from the real estate and infrastructure sectors, and business groups that have a history of being unethical – I don't trust, so I avoid these as well.

Then, there is a third category of businesses that I avoid – ones that harm the ecosystem in which they operate. Like cigarette, alcohol, and stock broking companies. Banking is one more sector I avoid as I do not understand how they account for the money they borrow and lend.

Then, I assess whether a business has the ability to sell its products/services to the world rather than a single region or a single market. In other words, I ask whether it has a large and unlimited market opportunity in front of it. This is because if the opportunity is not large, it's difficult for me to assess the sustainability of the business and its earnings growth 10-15 years down the line.

This thinking has helped me avoid businesses like retailing store that has been doing well for years – then another bigger and better retail store moves nearby, and it's kaput for the first store.

Anyways, **the next question I ask is whether the business is a commodity or enjoys some brand power in its industry.** I try to seek out companies that are either market leaders or are operating in industries with low competition, either due to an exclusive licence or brand name or similar intangible that makes the product or service unique.

The reason I look for this aspect in a business is because I am searching for companies that earn high *gross profit margin* and *net profit margin* and also high *return on equity* – better than the industry average – and can sustain these over the long run. 'Sustainability' is the keyword here.

A high gross margin is an indicator of pricing power, which is the result of a moat the business has. Investing in moats has worked well for me in the past, and I am in no mood to shift from this sphere.

Another important factor that I consider is how the company has grown its earnings over the past 8-10 years. Research states that a typical business cycle lasts for seven years, so this is the minimum time for which I study a company's earnings growth. Here, I am looking at earnings that have risen consistently in the past, and without much volatility.

So, if I am given a choice between –

- A business that has seen sharp surges and cliffs in its earnings growth in the past, and has earned, say and average Rs 100 per shares in EPS over the past 10 years; and
- A business that has seen a gradual rise in its earnings in the past, and has earned, say an average Rs 70 per shares in EPS over the past 10 years

…I will choose the latter. So you see, it's again sustainability that I am looking for.

What is more, **I also try to assess whether the business has the capability to grow earnings at a minimum 15%+ per annum over the next 10 years** or not. Again, here, my idea is not to try and count the leaves on a tree in the next season – quarterly or annual EPS estimates – but to assess what the next season is going to be i.e., where the business is headed.

Rising earnings serve as a good catalyst for stock prices in the long run, and thus I try to seek companies with strong, consistent, and expanding earnings.

The third question I ask is how conservatively or aggressively the business is financed. I am a debt-averse person myself, and hate the thought of borrowing money to buy anything. The only times I have borrowed money in the past were to buy my house and car, and I cleared both the loans as fast as I could.

So, I look for companies that suit my personality in terms of their debt profile. What this means is that I try to seek out companies with conservative financing, which equates to a simple, safe balance sheet.

Such companies tend to have strong cash flows, with little need for long-term debt. **I look for low debt to equity ratios, plus companies that have history of consistently generating positive free cash flows.**

The fourth thing that I look at in a company I am researching is whether it sticks with what it knows. Thus, again, I am looking at a business that suits my personality. I find it difficult to think or work on things that I don't understand – my circle of incompetence – and that is what I expect from a business as well.

So, I look at the company's past pattern of acquisitions and new directions. They should fit within the primary range of operations for the firm. I am cautious of companies that have been aggressive in acquisitions in the past.

This is also given my direct experience in the stock market, where I have seen most acquisitions been made not for the benefit of the acquirer's business but to satisfy the ego of the CEO/promoter.

Then, I look at how good the company has been in terms of investing its retained earnings – profit that is left over after paying dividends. Here, I look at the return on equity (ROE) profile of the business in combination of its debt, which must be low.

Now, as far as ROE is concerned, an absolute number may fool investors, as it has fooled me in the past. Earlier, I thought a higher ROE was always a great thing, till I came to realize that companies can artificially raise their ROE using debt.

So, one formula I use now to dissect the ROE is the **DuPont model**, which captures management's effectiveness at three key factors that determine the quality of a business – (1) Generating profits (net profit margin), (2) Managing assets (asset turnover), and (3) Finding an optimal amount of leverage (financial leverage).

I see Du Pont model as one of the best formulas ever created to measure the quality of a company's business and also the quality of its management, and I suggest all investors use it before getting happy about companies with high and/or rising ROEs.

Then, I also consider how capital intensive the business is. I have learned from reading Warren Buffett that companies that consistently need capital to grow their sales and profits are like bank savings account – you can earn more interest only by depositing more money – and thus bad for an investor's long term portfolio.

So, I seek companies that don't need high capital investments consistently. Retained earnings must first go toward maintaining current operations at competitive levels, so the lower the amount needed to maintain current operations, the better. Here, more than just an absolute assessment, I do a comparison against competitors.

To just sum up what I mentioned above, here are the few key questions I ask every time I look at a business that can potentially become a part of my portfolio –

- **Is this business inside my circle of competence?**
- **Is the business simple to understand and run?** Complex businesses often face complexities difficult for its managers to get over.
- **Has the company grown its sales and EPS consistently over the past 8-10 years?** Consistency is more important than speed of growth.
- **Will the company be around and profitably better in 10 years?** This suggests continuity in demand for the company's products/services.

- **How well has the company done in retaining its earnings?**
- **Does the company have a sustainable competitive moat?** Pricing power, gross margins, lead over competitors, entry barriers for new players.
- **How good is the management given the hand it has been dealt?** Capital allocation, return on equity, corporate governance, performance against competition.
- **Does the company require consistent capex and working capital expenditure** to grow its business? Companies that have to spend continuously on such areas are like running on treadmills, which is not a good situation to have.
- **Does the company generate more cash than it consumes?** Cash generators have a higher probability of surviving and prospering during bad economic situations.

You see, in tying up my investing with how I want to live my life, I want to study and invest in a business that leaves me with a lot of free time, which I can spend with my family and in reading books, instead of worrying about where the business is headed.

And that's why the simplicity of the underlying business and cleanliness of its management are the foremost priorities for me.

I don't want to invest in anything that could potentially give me stress, which could also affect my personal life.

Finally, I have learned over the years through reading investing greats and more from my own experience, that sensible investing is always about using folly and discipline – the discipline to identify excellent businesses, and waiting for the folly of the market to drive down the value of these businesses to attractive levels.

As an investor, you will have little trouble understanding this philosophy. However, its successful implementation depends upon your dedication to learn and follow the principles, and apply them to pick stocks successfully, which I am trying to do.

Dev: After you have assessed a business's quality, how do you go about valuing them? What is your thought process on this intriguing subject of valuations?

Vishal: After a company meets my business quality checklist points as I enumerated in the above answer, I consider its valuations to check how cheap or expensive it is trading at compared to its long term earnings power.

I use a mix of valuation models like DCF or discounted cash flow, reverse DCF, Bruce Greenwald's EPV or earnings power value, Stephen Penman's Residual Income Model, and the Graham formula.

Now, as I have realized from the numerous mistakes I have made in the past in valuing stocks – it's a fuzzy concept, you see – valuations is not about identifying the “target price” for the stock. It’s not about estimating or predicting where the stock would or should trade in the future.

Instead, I now use valuations to understand the perceptions of other investors embedded in the market price, so those perceptions can be challenged.

As Stephen Penman writes in his wonderful book, **Accounting for Value**…

The investor is negotiating with Mr. Market and, in those negotiations, the onus is not on the investor to come up with a forecast or a valuation, but rather to understand the forecast that explains Mr. Market’s valuation, in order to accept it or reject his asking price.

In simpler words, what Penman suggests is that instead of estimating an intrinsic value for a business, we must focus on assessing whether the stock’s existing market valuation (which is based on what others are willing to pay for it now) is right or wrong.

We must focus on identifying the amount of speculation in a stock’s current price, which causes the stock to be priced more than what the book value and future earnings would justify.

So, rather than trusting the market to deliver returns in the long run, I try to assess whether the market’s long run expectation for the business I am studying is a reasonable one or not.

In all, my view is that investors must not take a valuation model too literally. Instead, they must see a valuation model as a tool to challenge the stock price.

Rather than plugging a growth rate into a model, apply the model to understand the future growth that the market expects.

After all, valuation is not a game against nature, but a game against other investors, and one proceeds by first understanding how other investors think.

As an investor, you are not required to establish a valuation, but only to accept or reject the valuation of others. That makes the job much easier, isn't it?

But again, the underlying idea is to use a variety of valuations models instead of laying your complete faith on only one.

You see, even if a carpenter finds the hammer to be his favourite tool, he never comes on the job with just a hammer (at least not intentionally). He brings his toolbox with a variety of tools in it. Right?

It's the same with investing. You have a few valuation tools at your disposal, and they all have advantages and drawbacks. However, by using them in conjunction with one another and being aware of their strengths and weaknesses, you may make a more accurate valuation of any given company.

Here, it’s important to remember that investing is about trying to predict what will happen in the future. Our ability to do this is very limited. The future of most businesses is highly uncertain, because they operate without a durable competitive advantage and are therefore bounced about and pummeled by the waves of relentless competition and creative destruction.

On the other hand, there are a select few businesses where you can make meaningful predictions about where they will be in ten years. You are able to see that the conditions that led to their success over the past ten or twenty years – or, in rare cases, fifty years – are likely to remain in place for the next ten or twenty years.

So the most important elements in valuing a business are to have a very clear view of why a company is a good business and a very clear view of where the business will be in a few years.

The problem with cranking out valuation methods is that they create the impression of false precision – like using DCF will make us believe that that we can actually look into the future and plainly see a company’s free cash flows for the next decade or more.

So before you get down to valuations, spend time and energy on what really matters and what is doable. Remember that there are things that are important and knowable and there are things that are important and unknowable.

A company’s stream of cash flows over the next ten or twenty years is very important but for most businesses falls into the column of unknowable.

If you don’t get the part right about whether it’s a good business and where it will be in a few years, the investment most likely won’t work out as planned – whatever its valuation tells you.

All in all, while analysing businesses, the less non-mathematical you are, the simpler, sensible, and useful will be your analysis and results. Great analysis is generally “back-of-the-envelope”.

Also, your calculated intrinsic value will be proven wrong in the future, so don’t invest your hard-earned savings just because you fall in love with it.

Don’t look for perfection. It is overrated. Focus on decisions, not outcomes. Look for disconfirming evidence. And then, please act on your conviction.

Dev: Compared to good old days, the amount of noise (useless information in common terms) is much more today. How do you cut out the noise and remove personal biases while evaluating potential investment?

Vishal: I think one of the keys to investment success is to avoid noise. And the best way to avoid noise is to learn to say 'No'.

I say 'No' to a lot of things. In fact, to most things. That helps. I don't watch business television, nor do I read newspapers. I have not had a newspaper delivered to my house for the past 5-6 years now. Also, I do not participate in stock discussion forums. That saves me a lot of time and energy that I would have otherwise wasted amidst the noise all around.

It was of course difficult at the start to avoid noise because I used to mix that up with information, and information to me meant wisdom. But ever since I have learnt to differentiate between the noise/information, knowledge, and wisdom, I have tried to keep as much away from the first i.e., noise/information, soak in as much of the second i.e., knowledge, and work towards building wisdom.

There's a long road to travel to become wise, but my journey has begun.

You see, the problem with noise or information is not only that it is diverting and generally useless, but that it is toxic.

Look at how too much noise and information creates *commitment and consistency bias* amongst most of us. We want to consume so much information because we are perennially in search of the ones that are consistent with our worldviews.

So if I believe, say Tata Motors, is a great business, I will scour for information that proves it is a great business, and dismiss every information that tells me how foolish I am in my belief.

If I believe the Sensex is heading towards 100,000, I will keep myself busy searching for information that validates my belief, and ignore every person who tells me how the stock market does not move in a straight line.

That's an utter waste for time and brainpower, both of which are in such short supply (at least I can say the same for myself).

In a recent post on Brain Pickings, which I suggest every one trying to become wise must read, the author Maria Popova shared an essay on seeking wisdom in the age of information. She wrote…

We live in a world awash with information, but we seem to face a growing scarcity of wisdom. And what's worse, we confuse the two. We believe that having access to more information produces more knowledge, which results in more wisdom. But, if anything, the opposite is true — more and more information without the proper context and interpretation only muddles our understanding of the world rather than enriching it.

This barrage of readily available information has also created an environment where one of the worst social sins is to appear uninformed. Ours is a culture where it's enormously embarrassing not to have an opinion on something, and in order to seem informed, we form our so-

called opinions hastily, based on fragmentary bits of information and superficial impressions rather than true understanding.

The Dutch philosopher Spinoza suggested that wisdom is seeing things *sub specie eternitatis*, that is, in view of eternity.

A fundamental principle of wisdom is to have a long term perspective; to see the big picture; to look beyond the immediate situation.

That's a great advice for me as an investor – to have a long term perspective; to see the big picture, and to look beyond the immediate situation. That's the dawn of wisdom.

But them, wisdom requires humility. You must be teachable. You must be willing to live with understanding, with meaning, and with wisdom. And you can do all this only when you say "no" to noise.

Dev: This question came in from a reader of Stable Investor. How do you generate investment ideas? Is it through screening, or reading, or blogs, or from your personal sources like friends and fellow investors?

Vishal: Well, it's a mix of all.

As far as screening is concerned, I largely use **Screener.in**, owned and managed by my friend and fellow investor Ayush Mittal. I also sometimes use Morningstar and Google Finance. In fact, I had written a full-fledged post on **screening and generating stock ideas**, which I would direct your readers to read.

While don't read much apart from investment books, among the few magazines I read and find good are Forbes India and Outlook Business. These publish a lot of good insights on businesses, both listed and unlisted. Among blogs, my favourites are **Fundoo Professor** written by Prof. Sanjay Bakshi, **Value Investor India** written by Rohit Chauhan, and of course your own blog, **Stable Investor**.

A few exceptional international blogs I read include **Old School Value** and **Farnam Street**, the latter not directly related to investing but to multi-disciplinary mental models.

Finally, I find a lot of great investment ideas inside my existing portfolio itself. 😃

Dev: Thinking back, what would you say was most instrumental in your development toward investing sensibly and successfully in stock markets?

Vishal: Finding my role models, I must say. Sensible investing is something you either pick up instantly or you don't. So I have been lucky to get introduced to the writings of Buffett, Munger & Co., and then to Prof.

Sanjay Bakshi. I just fell in love with what they had to say and that, I believe, has made the difference.

As I understand, you become the average of five people you spend the most of your time with. Three of those five people I spend most of my time with (not face-to-face, but vicariously) are Buffett, Munger, and Prof. Bakshi, and that has really helped me build a sensible process for investing.

How successful that process will be, only time will tell, but I am not worried about the outcome knowing that the process is all I have control on.

So yeah, to answer your question, finding the right role models has been the most instrumental factor in my development toward investing sensibly. And why just investing, these people have helped me tremendously in becoming a better, more humble person, than I was a few years back.

I would like to leave you here with a brilliant quote from Guy Spier's book *The Education of a Value Investor*. He writes about the criticality for a budding value investor to find his role models early in life…

…there is no more important aspect of our education as investors, business people, and human beings than to find these exceptional role models who can guide us on our own journey.

Books are a priceless source of wisdom. But people are the ultimate teachers, and there may be lessons that we can only learn from observing them or being in their presence. In many cases, these lessons are never communicated verbally. Yet you feel the guiding spirit of that person when you're with them.

Role models are highly important for us psychologically, helping to guide us through life during our development, to make important decisions that affect the outcome of our lives, and to help us find happiness in later life.

Dev: What is the best advice you got from your investment guru or mentor?

Vishal: I would mention two advices here. One, keep things simple. And two, learn to say 'No'. Whether it's how I pick my stocks or how I live my life, these two advices have helped me tremendously.

Simplicity – in thinking, in my investment process, and the kind of businesses I pick – is what I learned largely from Buffett.

Saying 'no' to things is what Munger taught me. I believe, Munger's quote – "All I want to know is where I'm going to die so I'll never go there" is one of the most important ideas that investors must always remember.

Dev: **From your blog I know that you do not prefer Index Funds even though they are highly recommended as decent options for average long term investors. Do you think that an average investor is better off picking an actively managed fund over index funds, despite the risks associated with fund manager and his team's ability?**

Vishal: To clarify my stand on index funds, these are what I personally don't prefer because I trust a few active managers more than the index. However, that's not to take away from the simplicity of investing in index funds, which people not wanting to choose active managers or direct stocks, must do.

In investing, the most important thing is to know what you don't know. So if you don't know how to pick stocks directly and how to pick the right active funds directly, it's better to start with a passive, low-cost index fund.

Since there's not much differentiation between different index funds, pick the one with the lowest cost and from a decent fund house.

Dev: **As an allocator of capital for your personal and family wealth, what percentages do you generally have in equity / non-equity baskets (ignoring real estate investments)? The percentage allocations might be dynamic depending on market conditions, but what is the thought process behind the decision making when allocating capital to various asset classes?**

Vishal: Well, my allocation is not so much dependent on the market conditions as it is dependent on when I need the money.

Any money I need in the next 1-3 years, plus my emergency fund that is around 6-8 months of my household expenses, I don't invest much of that in stocks.

However, of all the money I need beyond three years, I invest 80-90% of the same in equities, either directly in stocks or through equity funds.

Largely, I try to keep 80/20 allocation between equity and bonds, with the latter also including some gold.

Dev: If you were to go back to the start of your career as an investor, would you like to change something – add or delete?

Vishal: Nothing to delete, but I will like to add a greater amount of patience. I have always been a long term investor, but I have lost a lot of wealth-creation opportunities by owning some great businesses for just 2-3 years which should've been owned for 15-20 years. So I have lost a lot of *potential* gains.

Another mistake I made, which I would like to correct if I were given a chance to go back in the past, is that I used to get anchored to stock prices. So I've sold a lot of stocks that earned me 100-200% returns just because they earned me 100-200% return, and because I was anchored to my buying price.

Your original cost price, as I realize now, does not matter when you are making a decision to hold or sell a stock, or buy more of the same. Once you have bought a great business – and there aren't much of such businesses – it's important to sit tight on it for years until the business itself does not change for the worse.

So yes, if I could, I just want to add more patience to my past investing decisions. How I wish that was possible!

Dev: What would you say to those who are just starting to learn about the markets and investing their own money?

Vishal: First, read Safal Niveshak. 😉

On a serious note, here are my ten quick suggestions to a new, young investor –

- Start…don't wait
- Read everything
- Know that you don't know…a lot
- Keep it simple and minimalistic
- Turn off the noise
- Have patience

- Focus on process, and outcome will take care of itself
- Accept that you will make (a lot of) mistakes
- Find your role models
- Know what to avoid (like leverage, trading, and speculation)

Finally, while these ten suggestions/rules can help a new investor take better care of his/her money and financial life, I would also suggest him/her to not get too focused on these things that he/she loses out spending time on the real joys of life.

As a wise man, or maybe a woman, once said, “No matter how hard you hug your money, it never hugs back.”

Dev: For a young person who avoids investing in stock markets (due to risks & volatility), what examples will you share to convince him to start investing?

Vishal: I don’t believe in convincing people, but inspiring them.
So, to such a person, I will try to inspire him/her by sharing my own experiences and the numerous stories of others who have created wealth for themselves using the power of compounding over long periods of time.

I will also gift him/her a few books like…

- **The Richest Man in Babylon** by George Samuel Clason
- **One Up on Wall Street** by Peter Lynch; and

- **Think and Grow Rich** by Napoleon Hill

These books have inspired me a lot when it comes to taking proper care of my money, and I am sure these will inspire the person I gift them to, if he/she were to read them diligently.

Dev: What's your final, two-minute advice for an investor?

Vishal: Nothing on investing, as I've already advised a lot. 😃

Just love your family more than the money. Be a good child, spouse, and parent.

Your best investment in life would not be any stock or bond or real estate or gold, but the time you spend with your family, and especially your child.

Life can pull you in a thousand directions, and you might ignore it especially when your child is little. But remember – Children don't stay little for long. So, slow down…take some time…give some time…invest some time.

And finally, please take care of your health. If you want to benefit from compounding, you need to be alive and in good health beyond 50 years of age. If you have great health and a loving family, there's no bigger wealth you can ask for in life.

Thank you!