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WIT AND WISDOM ON VALUE INVESTING

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Inside this Issue

Contact: vishal@safalniveshak.com
Visit: almanack.safalniveshak.com

Spotlight: Investing Against the Herd *by Vishal Khandelwal*

In investing, what feels comfortable is rarely safe. Read why independence of thought and not blindly mimicking the herd is a more sensible and profitable strategy for investors.

What feels safe is often risky, and what feels risky is often safe.

If there was one of the most contradictory statements about the evolutionary instinct we possess, this must be it.

Since ages, human beings have tried to seek safety and avoid risk whenever possible (well, we're not talking about the stock market yet!).

A classic example has to be the instinct that (still) tells us we are safer staying with the group.

If members of the herd stray, they are easy targets for predators. Staying with the group has proved the best way to survive.

For generations, this principle was true at work, too. Many of our grandparents and parents had one job for many years, retired with a pension and lived happily ever after.

Things have changed...and all in a span of just one generation.

Seth Godin writes about the concepts of "safety zone" and "comfort zone" in his book, The Icarus Deception. Godin writes...

"For a long time, the two (safety and comfort zones) were one and the same. The mountain climber who knows when she's outside of her safety zone feel uncomfortable about it and stops – and lives to climb another day.

Your entire life has been about coordinating your comfort zone and your safety zone. Like the fox, we've been trained to stay inside the fence, because inside the fence is where it's safe – until it's too late.

We don't have time to re-evaluate the safety zone every time we make a decision, so over time, we begin to forget about the safety zone.

We assume that what makes us comfortable also makes us safe.

Look at investing. People who found *comfort* in Harshad Mehta stocks in the early 1990s, then dotcom stocks in 2000, and then real estate and infrastructure stocks in 2007, also found *safety* in them.

In all these instances, the need of the hour for most people was to make decision fast as they did not want to be left behind when others were making money. So, whatever looked comfortable (rising stocks) also looked safe.

Every time things turned upside down and the stocks crashed, those very people had to confront an obvious truth – **What looked most comfortable wasn't really safe.**

But the biggest irony in the stock market is that people easily forget the lessons from history. That's the reason they make the same mistakes again and again. If you consider the current times, you'll find a lot of people are finding comfort in *defensive* stocks – the so called businesses with *moats*. And that is what they see as extremely safe. Try arguing with someone willing to pay the sky for the most loved consumption stocks of today, and be ready to get a barrage of accusations.

But as they say, in the stock market, the history doesn't repeat, it rhymes. So, what may seem the most comfortable today may well be the most dangerous spaces to be invested in.

Now, of course, few decisions will feel riskier than making an investment choice that appears to contradict what everyone else is doing. Remember 2006 and 2007?

The herd was so confident that real estate and infrastructure stocks would only keep going up, it seemed crazy not to buy into that dream theme. Ironically, the very moment when it felt the safest, when everyone else was buying right at the top, was when it turned out to be the most dangerous. It demonstrates the fear and greed cycle perfectly.

The herd instinct is seen nowhere in more vigorously than in the fund management industry. Here is what Jason Zweig writes in his commentary for Chapter 9 of Benjamin Graham's The Intelligent Investor...

"...once a fund becomes successful, its managers tend to become timid and imitative. As a fund grows, its fees become more lucrative – making its managers reluctant to rock the boat. The very risks that the managers took to generate their initial high returns could not drive investors away – and jeopardize all that fat fee income.

So the biggest funds resemble a herd of identical and overfed sheep, all moving in sluggish lockstep, all saying "baaaa" at the same time."

In Exhibit 1 below, look at the top ten holdings data of some of the largest Indian mutual fund schemes with assets under management. All have a lot of stocks in common. And, by the way, one of the schemes is named "Contra"!

If this isn't herding, what is? By protecting their own fee income, fund managers compromise their ability to produce superior returns for their outside investor. They may have done well in the past, but their ability to do well in the future diminishes as they become more and more like the herd.

Pitfalls of Mimicking the Herd

Charlie Munger has "Independence" as an integral part of his Investing Principles Checklist. He says – *"Only in fairy tales are emperors told they are naked."* He then outlines his idea of *independence* as an investor this way...

Exhibit 1 - Top 10 Holdings (31st Dec. 2014)

HDFC Top 200	HDFC Equity Fund	Reliance Equity Opp.	SBI Contra Fund
SBI	SBI	HDFC Bank	HDFC Bank
Infosys	ICICI Bank	Divis Labs	Infosys
ICICI Bank	Infosys	SBI	ICICI Bank
Larsen	Larsen	Cummins	SBI
Reliance	Aurobindo Pharma	Trent	Tata Motors
Maruti Suzuki	Maruti Suzuki	Maruti Suzuki	ITC
Tata Motors (D)	Bank of Baroda	Indian Hotels	Axis Bank
Bank of Baroda	BPCL	Bharat Forge	TCS
HDFC	Tata Motors (D)	Infosys	BPCL
HDFC Bank	Bharti Airtel	HCL Tech	Kotak Mahindra

Source: Moneycontrol

- Objectivity and rationality require independence of thought
- Remember that just because other people agree or disagree with you doesn't make you right or wrong – the only thing that matters is the correctness of your analysis and judgment
- Mimicking the herd invites regression to the mean (merely average performance)

But then, Keynes said, "*Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.*"

That's where the biggest constraint of going against the crowd lies (what Keynes called unconventional). And that's why most investors and fund managers do – rather than going against the crowd and standing a chance to succeed unconventionally, it's good to go with the crowd and fail with them. After all, when everyone's wrong, no one's wrong.

Michael Mauboussin captures the essence of *independence* in a different light in his paper titled – Contrarian Investing: The Psychology of Going Against the Crowd. He writes...

"*...the goal is not to be a contrarian just to be a contrarian, but rather to feel comfortable betting against the crowd when the gap between fundamentals and expectations warrants it. This independence is difficult because the widest gap (like in 1999, or 2007) often coincides with the strongest urge to be part of the group. Independence also incorporates the notion of objectivity – an ability to assess the odds without being swayed by outside factors. After all, prices not only inform investors, they also influence investors.*"

He then adds...

"*Investing is inherently a probabilistic exercise, where process should be the focus versus short-term outcomes. Contrarian investors acknowledge that it may take some time for the market to revise expectations. This problem is compounded by myopic loss aversion, the idea that the more frequently you assess your portfolio, the more likely you are to see losses and hence suffer loss aversion.*"

So, two things worth nothing here –

1. Don't go against the crowd just for the sake of it. Rather, first be objective in your analysis and then decide whether to go contrarian.
2. Focus on the process instead of short-term results that are largely a result of luck. Don't watch your portfolio frequently, as that may lead you to act in the direction stock prices are heading.

But now, an interesting point worth considering is that most people believe that going with the herd is a dangerous thing to do, while not realizing that they may already be part of the herd.

Are You Part of the Herd Too?

You do not need a degree in psychology to understand that, in the short run, the price of a stock can deviate substantially from its basic value. This is because market participants may betray a herd instinct in their behaviour.

This is probably the most important concept that you need to know about market psychology. When people do not understand a company well, they follow the crowd. They chase the winners and dump the losers indiscriminately.

Because of this herd mentality, individual stocks – and the entire market – may go up or down dramatically.

Now, do you know whether you have the herding instinct? It's a good idea to find that out if you can.

The most common phenomenon I have observed is that people feel like buying a stock when its price has recently gone up or when the market has gone up. If you do so without evaluating the company, you are probably herding.

Do you evaluate the price increase in a logical manner? You are probably not herding if you estimate a stock's intrinsic value and factor in margin of safety before you make a buy or sell decision.

Investors often extrapolate evidence from recent trends and then decide to buy or sell. If it were easy to pick stocks based on recent price trends alone, most mutual fund managers would be able to beat the market indices. But most of them don't. For every trend that continues, there is probably another one that does not.

The best antidote to herding lies in knowledge and in focusing on the long run. Buffett's suggestion of buying only what you know may help you avoid following the herd. In addition, concentrate on fundamentals. Peter Lynch has captured this idea in the chapter "Earnings, Earnings, Earnings" in his book One Up on Wall Street.

He explains, "*What you're asking here is what makes a company valuable, and why it will be more valuable tomorrow than it is today. There are many theories, but to me, it always comes down to earnings and assets. Especially earnings.*"

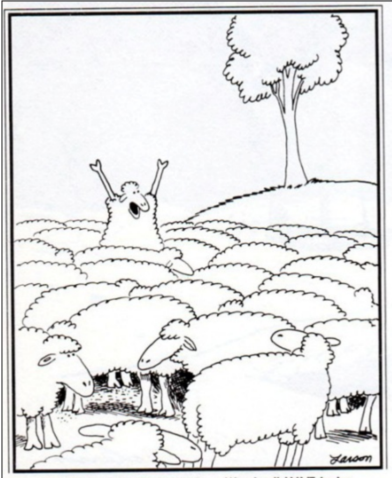
Reading Peter Lynch or Warren Buffett was a good start to me, but not enough. I understood them better only after I delved into learning behavioural finance and evaluating my decisions. And it took me several years to understand that I had a herd mentality. To avoid herding, I now try to zero in on the long term. I follow Plato's centuries-old wisdom – "Know thyself."

The Most Important Thing is...Contrarianism

Sir John Templeton said, "*To buy when others are despondently selling and to sell when others are* *euphorically buying takes the greatest courage, but provides the greatest profit."*

Then, this is what Warren Buffett says, *"The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs."* In other words, Buffett is urging us to do the opposite of what others do: to be contrarians.

"Buy low; sell high" is the time-honoured dictum, but investors who are swept up in market cycles too often do just the opposite. Here is what Howard Marks writes in The Most Important Thing –



"Wait! Wait! Listen to me! . . . We don't HAVE to be just sheep!"

"The proper response lies in contrarian behavior: buy when they hate 'em, and sell when they love 'em. "Once- in- a- lifetime" market extremes seem to occur once every decade or so— not often enough for an investor to build a career around capitalizing on them. But attempting to do so should be an important component of any investor's approach."

Now, of course, being a contrarian is not going to be a profitable strategy at all times. After all, much of the time there aren't great market excesses to bet against. And even when an excess does develop, it's important to remember that "overpriced" is incredibly different from "going down tomorrow."

What is more interesting, it can appear at times that "everyone" has reached the conclusion that the herd is wrong. What I mean is that contrarianism itself can appear to have become too popular, and thus contrarianism can be mistaken for herd behavior.

But then, the best investments I've witnessed for myself and others usually have these three characteristics – contrarian, challenging and uncomfortable (though being a true contrarian also feels comfortable). You have to catch falling knives. As Howard Marks writes in The Most Important Thing...

It's our job as contrarians to catch falling knives, hopefully with care and skill. That's why the concept of intrinsic value is so important. If we hold a view of value that enables us to buy when everyone else is selling – and if our view turns out to be right – that's the route to the greatest rewards earned with the least risk.

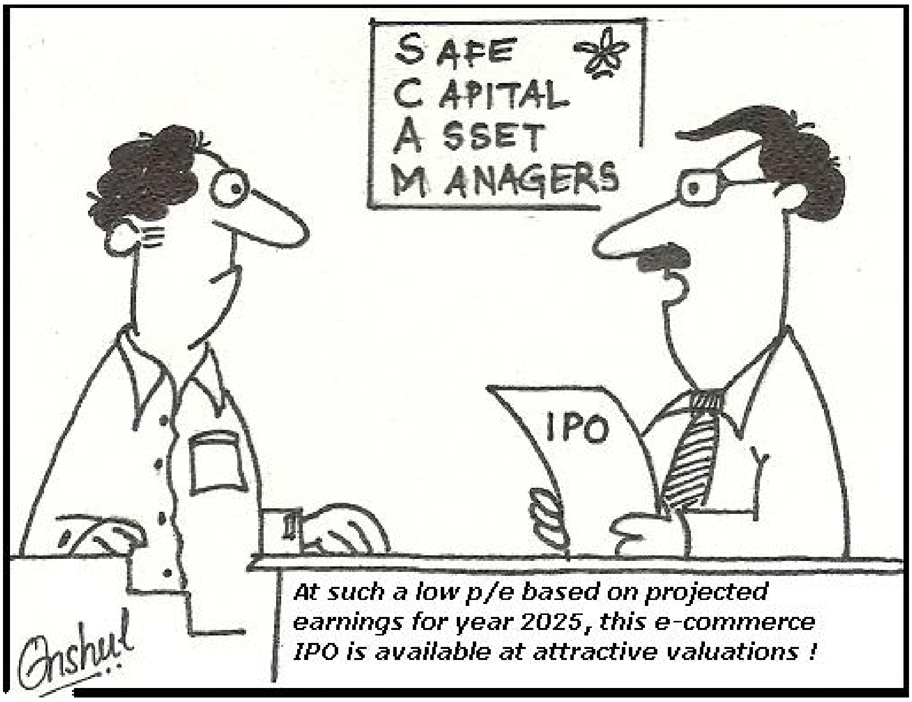
To put it finally, we can learn a lot by watching the people around us. It's how we evolved and reached the top of the food chain. But just maybe we should think very carefully about doing the same thing as everyone else.

In investing, what's comfortable is more often unsafe.

Further Reading

- Contrarian Investing: The Psychology of Going Against the Crowd (Michael Mauboussin)

FoolStop



Beware of IPOs!

As a thumb rule, avoid IPOs. Why? As history proves, IPOs are almost always bad investments. You are often sold a distant dream at an expensive price.

Warren Buffett says this on IPOs – *"It's almost a mathematical impossibility to imagine that, out of the thousands of things for sale on a given day, the most attractively priced is the one being sold by a knowledgeable seller (company insiders) to a less-knowledgeable buyer (investors)."*

You're way more likely to get incredible opportunities in the open market than through IPOs.

Behaviouronomics: Alternate History *by Anshul Khare*

The general belief is that if the outcome is good, the process and decisions made to arrive at that outcome must have been sound. Right? Not really. Read more to find out.

One peculiar but common way our brain works is that we often remember what's easily available to us, and see what's easily visible.

So, we conclude that the stock trader who is rich must know what he is doing. In the same way, an investor who uses leverage to increase his bets and in the process magnifies his returns is also considered a role model.

In business, a CEO who borrows a lot of money to make acquisitions and in process turns his business bigger in quick time, also seem to be doing the right things (at least when times are euphoric).

In effect, **the general belief is that if the outcome is good, the process and decisions made to arrive at that outcome must have been sound.** Right?

1879 -- Mrs. Edison vetoes the lightbulb

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Well, I hope if life were that easy and followed such straight patterns. But that's not the case especially when randomness and 'external factors' play a role and in investing they do play a significant role.

At least, if you were to believe what Nassim Taleb has to say about "alternative history" in his amazing book "Fooled by Randomness" –

"Imagine you are offered $10 million to play Russian roulette, i.e., to put a revolver containing one bullet in the six available chambers to your head and pull the trigger. Each realisation would count as one history, for a total of six possible histories of equal probabilities. Five out of these six histories would lead to enrichment; one would lead to a statistic, that is, an obituary with an embarrassing (but certainly original) cause of death."

Although, Russian roulette is a hypothetical situation - a thought experiment, but it highlights a big flaw that exists in how we perceive the reality. Taleb adds -

"The problem is that only one of the histories is observed in reality; and the winner of $10 million would elicit the admiration and praise...the public observes the external signs of wealth without even having a glimpse at the source."

So can you see how we are blind to alternative histories? The silent events i.e., the events which could have happened but didn't. In the language of behavioural finance this irrationality is known as 'survivorship bias'. The outcome which is visible, 'survived' and the ones which didn't survive are hidden.
Taleb notes –

"Reality is far more vicious than Russian roulette. First, it delivers the fatal bullet rather infrequently, like a revolver that would have hundreds, even thousands, of chambers instead of six. After a few dozen tries, one forgets about the existence of a bullet, under numbing false sense of security...

"...one is thus capable of unwittingly playing Russian roulette and calling it by some alternative "low risk" name. We see the wealth being generated...people lose sight of their risks. The game seems terribly easy and we play along carelessly."

What are these Russian roulette(ish) games in real life, you may ask. Using debt to buy things (more than one can handle) is one such game. Buying stocks on debt or on margin is another.

And then comes along somebody who warns investors not to play this simple looking (but risky) game, but his advice is ignored.

"Say you engage in a business of protecting investors from rare events and say nothing happens during the period. Some of them will complain "You wasted my money on insurance last year, the factory didn't burn, it was a stupid expense. You should only insure for events that happen."

Another unintended outcome of alternative history blindness is that we grow confident about our understanding of the game. We rationalize the causal link between the event and the associated outcome (also known as 'narrative fallacy' or 'hindsight bias'). Our thinking becomes outcome-centric.

In a wonderful book Everything is Obvious, the author Duncan J. Watts writes -

"In a variety of lab experiments, psychologists have asked participants to make predictions about future events and then re-interviewed them after the events in question had taken place. When recalling their previous predictions, subjects consistently report being more certain of their correct predictions, and less certain of their incorrect predictions, than they had reported at the time they made them."

An interesting experiment (you must read this) was designed to simulate parallel worlds and the results of this experiment proved that the role of randomness in success is bigger than we usually imagine.

Does it mean that we should ignore the past and stop making plans for the future? Of course not! It just means that we should have a healthy scepticism towards predictions and explanations that are served to us by others (including the ones served by our own lizard-brain).

You should first focus on the path/process that was followed to achieve the outcome. A good process ensures a good outcome over long term.

The matrix on the bottom-right of this page is helpful in understanding the importance of 'good process' in decision making.

As Taleb writes in his book –

"...in time, if the roulette-betting fool keeps playing the game, the bad histories will tend to catch up with him. Thus, if a twenty-five-year-old played Russian roulette, say, once a year, there would be a very slim possibility of him surviving until his fiftieth birthday - but, if there are enough players, say thousands of twenty-five-year-old players, we can expect to see a handful of (extremely rich) survivors (and a very large cemetery).

"If you draw a parallel to this in the stock market, in a field populated by thousands of traders, speculators, and people buying stocks on leverage, at the end of a say 10-15 years, you may still find a very few lucky survivors, but there will also be a very large cemetery (of those who destroyed wealth using the same routes)."

Sometimes, people are indeed aware of the risks inherent in Russian roulette kind of investing, and they still do it. However, the quality of money earned this way (a stressful process) is not the same as the one earned by non-fatal means like sensible, patient, long-term investing without borrowing other people's money (stress-free process).

Of course, in the end, you may earn a similar amount of money either ways – through day trading, speculation, and leverage OR patient, long-term investing - but the former's dependence on randomness is greater than the latter's.

To the accountant, they would be identical; to your next door neighbour too. Yet, deep down, you know that they are qualitatively different.

As an investor, you may want to minimize the heart-wrenching rides that you may experience during the course of investing period. This is how Prof. Sanjay Bakshi concluded in his article on "Return per unit of stress" –

"My advice to those who ignore the stress part of the equation but focus only on returns per unit of risk: You cannot take it away with you, so what's the point of all that stress, just for the money?"

The legendary Howard Marks wrote this in one of his memos to shareholders in 2006 –

"In the investing world, one can live for years off one great coup or one extreme but eventually accurate forecast. But what's proved by one success? When markets are booming, the best results often go to those who take the most risk. Were they smart to anticipate good times and bulk up on beta, or just congenitally aggressive types who were bailed out by events? Most simply put, how often in our business are people right for the wrong reason?

"These are the people Nassim Nicholas Taleb calls "lucky idiots," and in the short run it's certainly hard to tell them from skilled investors."

Warren Buffett's appendix to the fourth revised edition of *The Intelligent Investor* describes a contest in which each of the 225 million Americans starts with US$ 1 and flips a coin once a day. The people who get it right on day one collect a dollar from those who were wrong and go on to flip again on day two, and so forth. Ten days later, 220,000 people have called it right ten times in a row and won US$ 1,000.

Buffett writes, *"They may try to be modest, but at cocktail parties they will occasionally admit to attractive members of the opposite sex what their technique is, and what marvelous insights they bring to the field of flipping."*

After another ten days, we're down to 215 survivors who've been right 20 times in a row and have each won US$ 1 million. They write books titled like *How I Turned a Dollar into a Million in Twenty Days Working Thirty Seconds a Morning* and sell tickets to seminars.

"Worse yet," Buffett writes, "they'll probably start jetting around the country attending seminars on efficient coin-flipping and tackling skeptical professors with, "If it can't be done, why are there 215 of us?"

Here is what Marks wrote in a 2002 memo –

I find that I agree with essentially all of Taleb's important points.

- *Investors are right (and wrong) all the time for the*

		Process used to make the decision	
		Good	**Bad**
Outcome	**Good**	Deserved Success	Dumb Luck (Short term)
	Bad	Bad Break (Short Term)	Inevitable

"wrong reason." Someone buys a stock because he or she expects a certain development; it doesn't occur; the market takes the stock up anyway; the investor looks good (and invariably accepts credit).

- *The correctness of a decision can't be judged from the outcome. Nevertheless, that's how people assess it. A good decision is one that's optimal at the time it's made, when the future is by definition unknown. Thus, correct decisions are often unsuccessful, and vice versa.*

- *Randomness alone can produce just about any outcome in the short run. In portfolios that are allowed to reflect them fully, market movements can easily swamp the skillfulness of the manager (or lack thereof). But certainly market movements cannot be credited to the manager (unless he or she is the rare market timer who's capable of getting it right repeatedly).*

- *For these reasons, investors often receive credit they don't deserve. One good coup can be enough to build a reputation, but clearly a coup can arise out of randomness alone. Few of these "geniuses" are right more than once or twice in a row.*

- *Thus, it's essential to have a large number of observations - lots of years of data - before judging a given manager's ability.*

Anyways, let me end this discussion with a nice little hack related to the concept of alternative history. I frequently use this imagination trick to increase the quality of my day to day life.

Right now I am sitting on a comfortable chair, writing these words on a laptop while sipping an organic tea. But there is another possible path that history could have taken.

In that alternative path, I imagine being born in a poor African country where (forget internet or even electricity) one had to walk 5 miles every day to fetch drinking water.

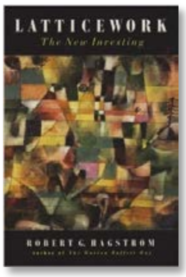
Thinking about this alternative history forces my mind to be grateful for all the blessings that are present in my life right now. After all alternative histories aren't just about Russian roulettes and investing.

But the core idea is to focus on the process more than the outcome.

If you can do that in your investment decision making, you'll probably thank me a few years down the line.

BookWorm: Latticework *by Anshul Khare*

If you're a serious investor with at least the discipline and patience than you demand of your own children, following this book's counsel should help you to make more money with greater safety.



"Latticework", written by Robert Hagstrom, is unlike most other investment books I have ever read. I won't advise you to read this book if all you are looking for is magic formulas or readymade rules of sound investing.

This is a powerful book arguing for the importance of a multidisciplinary approach to investing. So if you are one amongst the many investors who have been searching out companies to invest in for a number of years and all you have learned is to plug basic financial information into excel models, this book may be worth a read.

The term *latticework* is attributed to Charlie Munger, the inimitable vice chairman of Berkshire Hathaway. Charlie views a latticework of mental models as an interlocking structure of ideas that is clearly multidisciplinary in nature.

Drawing from this multidisciplinary focus, Hagstrom takes us through some key principles or laws from a number of disciplines such as psychology, physics, biology, and philosophy, among others. He then applies these theories to investing and the stock market.

Hagstrom argues that a successful stock picker must be ready to shift models and look at the markets from different vantage points with the passage of time. Instead of working like an analyst - using just factual information to plug into excel models - investors need to regard the insights or models from other disciplines too.

The task of the investor, Hagstrom argues in the book, is to be well-read and always looking for and open to a new perspective of the world.

Anyways, before talking about this book, let me share with you a quote from Charlie Munger –

"You must know the big ideas in the big disciplines, and use them routinely…if the facts don't hang together on a latticework of theory, you don't have them in a usable form. You've got to have models in your head. And you've got to array your experience - both vicarious and direct - on this latticework of models."

In my secondary school, when I learnt to solve a mathematical problem in one way, nobody encouraged me further to solve the same problem in another way. You know why? Because in our traditional education system we have been trained to think in a limited way.

Charlie Munger calls this "a man with a hammer syndrome" - To a man with hammer, every problem looks like a nail. So how do you overcome this handicap? The answer lies in developing a sound thinking process and that's where multidisciplinary learning comes into picture.

But the sheer amount of knowledge available in different subject areas is scary. Where do you start? Well, you could start with *Latticework*.

If you want to know the history of development of some of the challenging ideas from different disciplines and their applicability to the field of investing, then Latticework is the book you should read next.

What is Latticework?

"Latticework" is a metaphor used to describe an interlocking structure of big ideas (Mental Models) from different disciplines. This metaphor was made famous by Charlie Munger.

Robert suggests that the first step to effective learning is developing the habit of discovering the connections that exist between different bodies of knowledge -

"…inventors were led to a discovery by first observing the similarities that existed between a previous invention (source) and that which the inventor wished to build (target)"

For example, the idea of carburettor in automobiles came from perfume sprayer. The electric pistol initially created to test the purity of air eventually became the spark plug for automobile engines. Similarly automobile gears are direct descendants of water wheel.

But before you can start thinking about connections between different disciplines, you need to learn the important ideas from these disciplines.

In this book, Robert covers few important concepts from the fields of Physics, Biology, Social Science, Psychology, Philosophy and Literature. Let's delve into these ideas one by one. Unless specified, everything in italics below will be quotes from the book.

Big Ideas from Physics

The first great insight from this book is - unlike common belief, most of the big ideas don't originate like a flash in a human mind, but these ideas build with one thought at a time involving multiple people.

For example, some of the important discoveries made by Isaac Newton in the field of Physics were inspired by prior ideas developed by Kepler, Galileo and Descartes. Newton himself says - *"If I have seen further it is by standing on the shoulders of giants"*

One important mental model from physics that you should know is - Equilibrium.

"...equilibrium is not only the backbone for classical economics but it also serves as the foundation for modern portfolio theory."

A weighing scale with equal weights on both sides is at static equilibrium but earth circling around sun is in state of dynamic equilibrium. The theory of "supply and demand" in economics draws its inspiration from the concept of equilibrium.

When the stock prices rise beyond what the business fundamentals can support (because of extreme greed), a dis-equilibrium sets in the market. A temporary market correction may bring back the balance or a crash can send the market to other extreme (bear markets).

But Physics alone cannot explain everything. We need to turn to the subject of Biology for another perspective.

Biology of Capital Markets

Hagstrom suggests that the big idea to learn from biology is "Theory of Evolution" or "Natural Selection", which was first proposed by Charles Darwin. According to this theory, the species which is most adaptive to environmental change, survives.

"The common trait found in financial systems, just as in biological systems, is evolution - adaptation."

Both biological ecosystems and capital markets behave as complex adaptive systems. Any small change can produce large (non-linear) results and vice versa.

"Complex systems must be studied as a whole, not in individual parts, because the behaviour of the system is greater than the sum of the parts."

However, the biological interpretation of economy and stock markets still has several missing pieces.

"...innovation in financial markets is rapid, compared to the slow random-variation process in biological systems."

So let's explore other disciplines and see if we can find some insights there.

Big Ideas from Social Sciences

Some may agree that one of the most uninteresting subject during school education was social studies, and ironically it was relatively easy to get good grades in it. But it's also the origin of many mental models which are immensely relevant in stock market investing.

Social science is the study of how people behave in a society. What better place to apply this study, than stock market. Markets being a group of people need to be understood using concepts from social science. One such idea is the theory of "Self-organization" -

"The concept of self-organization can be explained with an example of a growing city in which the population tends to segregate itself based on people's ethnicity, language, race, culture etc."

Markets and economies also display this behaviour -

"...equity and debt markets have no central controller, and both are excellent examples of self-organizing, self-reinforcing systems."

Another idea from this discipline is the "Theory of Emergence". Robert has explained this beautifully with the example of ant colonies. If you think about it, Benjamin Graham's mental model of Mr. Market is nothing but the personification of collective behaviour of all the participants in market (or society).

Psychology is Powerful

How important is knowledge of psychology in stock market investing? Well, without a basic understanding of human behavioural biases, you are like a one-legged man in an ass kicking contest.

Image Source: Poor Charlie's Almanack

Because of evolutionary changes human mind is wired in such a way that it's prone to certain irrational behaviour in a predictable manner. These are also known as behavioural biases, such as mental accounting, loss aversion, overconfidence etc.

"Benjamin Graham recognized the link between investing and psychology when he first pointed out the difference between investing and speculating using the metaphor of Mr. Market. Individuals when associate with a crowd, their behaviour can get affected by crowd psychology."

The discussion on "noise vs signal" and why people fall for forecasting is something which you shouldn't miss in this section of the book.

Philosophy is a Thinking Tool

This is one subject where you won't find any pre-packaged theoretical concepts or absolute answers. The purpose of Philosophy is to learn "how to think".

There are various branches of Philosophy and all of them teach you how to question the conventional wisdom. In

"Metaphysics" you learn to think about abstract ideas like God and afterlife. "Ethics" deals with the question of morality. Politics is the investigation of the idea of right and wrong at the societal level.

Another big idea from philosophy is of Pragmatism which states that truth changes with circumstance and as new discoveries are made.

In investing, when your initial assumptions are proven wrong, it's important that you accept your mistake and take the loss instead of denying the new reality. The famous British economist John Maynard Keynes said –

"When the facts change, I change my mind. What do you do, sir?"

Literature: Read for Thought

How many times you find a book that you have read before but can't even write a four line review for the book? The culprit is our shallow reading habit. When we read a book we allow the book contents to flow over us like a warm water bath.

The big idea from literature is that you become a better thinker by learning to read critically and thoughtfully. What is critical reading?

Don't just read a book passively. Own the book. Use a marker to highlight the text which you liked, use a pencil to write down your own thoughts on the page margins. Question the author, try to refute his arguments, act as if you are debating with him face to face.

One of my favourite authors Nassim Taleb says, *"Any book worth reading, is worth reading twice."*

As you would have realized by now that "Latticework" isn't a book on "how to pick stocks or manage your portfolio". However, it gives you a new way to *think* about investing.

In the end I want to leave you with this thought - Purpose of reading is to assist you in independent thinking and no amount of reading can be a substitute for your own thoughtful reflection. So read some, think some and then think some more. And when you go back to what you had read, I can guarantee that you will find some refreshing insights.

InvestorInsights: Neeraj Marathe

Neeraj Marathe shares his thoughts on value investing and his process of identifying stocks for the long run.

Neeraj is a value investor based in Pune, Maharashtra. Investing is his passion and investing in equity is what excites him most. He has built his core competency around investing in Indian listed companies, specifically mid-caps and small-caps, using fundamental analysis and value investing principles.

By nature, Neeraj is conservative and risk-averse, and it spills over in his approach towards investing too. He is an avid reader and likes books based on value investing, behavioural finance and psychology.

While I have met Neeraj just a few times, I have come to respect his investing acumen via whatever little discussions we've had.

In this interview with Safal Niveshak, Neeraj lays out his investment philosophy and suggestions for how investors can do better in their investment decision making.

Over to Neeraj!

Safal Niveshak (SN): *What's your broad investment philosophy? What are the most important things for you as an investor?*

Neeraj Marathe (NM): My whole philosophy rests on doing things that (I think) I understand. I do not think I can call myself as a 'value investor' per say, since I do not think there is a difference between value investing and growth investing. If you pay reasonably for growth, its value too! I try not to have any mind-block or stick to one type of investing and am willing to do whatever makes sense. So I am not averse to playing cyclicals which are short term (for me, 3-5 quarters is short term) or participating in special situations. I am a concentrated investor and don't diversify much. My portfolio consists of maximum 8-10 positions.

For me, the most important things as an investor are:

- Doing things I understand and ignoring the rest, howsoever appealing they might be
- Being ethical in all aspects of investing
- Being independent in thought process and decision making
- Always recognising and acknowledging the role of luck in investing and being as grounded and humble as possible

SN: *Value investors often talk about the importance of stacking the odds in their favour. How do you personally try to do that?*

NM: Stacking odds in our favour is largely a function of our understanding. Most of the times, we realise only in hindsight that the odds were in our favour and we missed the opportunity. Hence, only hard work and in-depth understanding can help in this respect.

I generally look for 'value with a catalyst'. In many cases, these catalysts, which the market has not recognised help stack the odds in our favour. Also, valuations help capture these odds, if they are in our favour.

There is also the concept of 'positioning yourself for luck', which I believe in. In these cases, you invest if you think there is low downside and there exist the chances of positive things happening. E.g. industry cycle turning, corporate actions happening, etc. In these cases, the odds are substantially in your favour. If nothing happens, you don't lose much, if you get lucky and something happens, you earn well!

SN: *How do you generally approach valuations? How do you differentiate between paying up for quality and overpaying?*

NM: This is one thing I have struggled with the most. I have lost many opportunities because I thought the valuations were very high. I have recognised that my mental makeup is not suitable for 'paying up for quality', because in most cases I think I am overpaying!! Maybe I am too conservative or downright stingy!

Valuation is more of an art. One cannot generalise it, since a lot of qualitative factors such as type of business, quality of management, accounting policies, etc affect valuations. So, 'always buying at less than 8 PE' is not my thing. Valuations should always be taken in the context of that specific company's present position and future prospects. In a lot of cases, low valuations exist for a reason, which needs to be studied and found out.

SN: *How can an investor improve the quality of his/her decision making?*

NM: This is one area where I think investors suffer the most. I suggest a very simple technique which can be helpful; whenever you take a decision (buy or sell), take your pen and paper and write down at least 5 points as to why you are taking that decision.

Believe me, it will be extremely hard to do! When you start writing down things you will realise that you have not thought much about it at all!! Also, in future, do revisit whatever you had written and analyse where you went wrong/right. When you write things down, you cannot escape or justify yourself later and are forced to face yourself. This will surely improve decision making.

Another thing which can be helpful is developing a checklist. It need not be very complex or technical, but it will surely give good structure to the decision making process.

SN: *What's that one thing that has helped you in most of your successes as an investor? What can other investors do to make that their own success mantra?*

NM: I think the thing that has helped me the most is avoiding mistakes. The flipside of that is that I have ended up missing a lot of opportunities, but avoiding mistakes has really helped me generate respectable returns over the years.

For other investors to adopt this, always keep emotions in check, avoid greed, don't fall for the 'next big thing' if it makes no sense to you. It is ok to let go of a lot of opportunities (which actually made money later), as long as you can latch on to those few you can properly understand.

SN: *Share with us an investment mistake you often make? If you can pull out form you memory, what causes you to make this mistake often?*

NM: Selling early! I have always made that mistake and continue to make it. I tend to get uncomfortable with valuations and end up selling early.

This mistake happens because either I am not updated with new information and data about the company (improving performance) or I have not judged that the stock is catching market fancy ('re-rating'!). While it's in my hands to avoid the first cause, I don't think I can ever get my head around the second!

SN: *What's your two-minute advice to someone wanting to become a value investor? What should he/she do, and what he/she must avoid?*

NM: Here's what I suggest...

- First, understand yourself well. Do you really want to be a value investor? Or you are doing it just because it's currently the most happening thing in investing? ☺

- Don't ape anyone, because even if you ape someone's investing style, how will you ape his conviction? If there is no conviction, you will never be able to make the best out of it. Be yourself, it will be more than enough. E.g. I think understanding Buffett is very easy, but implementing his style is virtually impossible. That's why there is only one Buffett. Also, one should think whether it really necessary to invest like Buffett? Do we have his compulsions of size? If you read his partnership letters (when his size was much smaller), you will discover a very-very different Buffett.

- Avoid the latest fads! E.g. I honestly think that slowly, 'moats', 'quality' and 'paying up for quality' are becoming fads. It's fancy to say that 'this company has a moat' and it's fashionable to 'pay up for quality'. One really needs to introspect whether one really understand what these concepts mean! Every bull-run has its buzzwords and phrases and most of them end really badly!

- There is no shortcut! There is no alternative to hard work and spending time in the market. So don't expect that you will read 4-5 'recommended' books and immediately become a 'value investor'.

- I see a lot of investors talking about Buffett and aspiring to be like him, but not having any understanding about even basic accounting and financial statements. So, while you develop your process and philosophy, don't ignore these technical aspects. Knowledge of financial statements, laws and regulations go hand-in-hand with sensible investing.

- Enjoy the process! If you find that you are forcing yourself to be a value investor, you will never become one! All you will become is miserable, and poorer! ☺

SN: *Your recommendation for top 3 books on investing and related subjects? What is that one big idea you've learned from each of these three books?*

NM: While there are so many books I find delightful, if I want to list the top 3 books for someone who is starting off in investing, I would recommend –

1. **The Intelligent Investor** – I think this can be the best base for your overall investing philosophy and thought process. Though it's not enough, this book can serve as a strong foundation on which a good investment process can be built.

2. **The Most Important Thing** – This is a collection of 'memos to clients' and contains varied topics. Each one is different and serves to improve your thought process and understanding about various aspects of investing.

3. **Fooled by Randomness** – Anytime you start feeling confident and happy because of good returns and performance, read this book! Helps you to be grounded!

SN: *What other things do you do apart from investing?*

NM: Well, it is very important to do other things too. Too much proximity to the market promotes activity, and in most cases, unnecessary activity! I read a lot, have a huge movies collection and do a lot of motorcycling. For me, that's the best way to unwind and collect your thoughts.

StockTalk: AIA Engineering Ltd. *by Vishal Khandelwal*

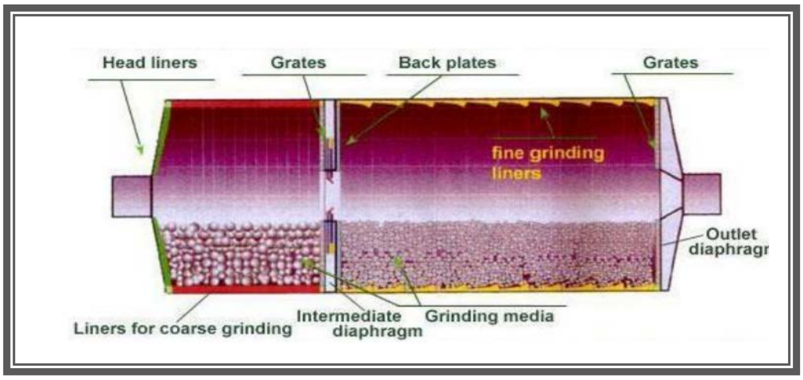
Comprehensive analysis of the business model of AIA Engineering and the opportunities and threats the company faces in the long run.

***Statutory Warning:** This is not an investment advice to buy or sell shares. Please make your own decision, as blindly acting on anyone else's research and opinions can be injurious to your wealth. I own the stock, and thus my analysis is bound to be biased due to liking tendency, endowment and commitment biases. And, of course, my analysis could be wrong. I have been wrong many times in the past.*

About AIA

AIA Engineering (AIA) is the second largest manufacturer of high chrome metallurgy products in the world, behind Magotteaux from Belgium. Together, these two companies account for over 80% of the market share and the rest is controlled mainly by Chinese manufacturers. The company was set up in 1979 as Ahmedabad Induction Alloys (thus the acronym AIA). In 1992, it formed a joint venture with Magotteaux, which lasted till 2001.

The products AIA manufactures include grinding media, liners, diaphragms, and vertical mill parts, all manufactured in high chrome metallurgy (collectively referred to as "mill internals").



These products are used in the process of grinding and crushing of limestone, coal and ore at cement, mining and thermal power plants, which is a very crucial part of the production process, given that it has a direct bearing on cost and quality of the final output.

Unlike conventional grinding media, AIA manufactures high-chrome grinding media, which, as the company says, is technologically more advanced and helps in relatively higher output for the user industry. Also, high chrome metallurgy offers a lower wear rate, compared to conventionally used parts of manganese steel, hyper steel and forgings.

AIA's products form a small component of grinding cost for its customers, but are essential for continuous production. What is more, given that failure or non-availability of such products can lead to complete halt of grinding operations, its user companies must have continuous, long-term relationships with established suppliers. And AIA, as I mentioned, is the second largest in the world and with a dominant position in the Indian market.

The global market for Mill Internals for mining and cement sectors is estimated at 3 million tonne (valued at around Rs 125 billion) and growing at 4-5% per annum. Apart from new demand, a large part of the growth of high chrome products is also coming from the replacement market.

In fact, a significant portion of AIA's business is derived from replacement demand as over a period of time, mill internals witness substantial wear out. While mill internals like diaphragms and liners take something like 2-3 years to wear out, parts like grinding media wear out continuously thereby necessitating regular replacements. With increasing wear out, the grinding operations become less efficient thereby adversely affecting the final output. A replacement of mill internals is thus required.

AIA currently has a capacity of 260,000 MT and is pursuing capacity expansion program to reach 440,000 MT by March 2016, which will make it the largest player in the industry, surpassing Magotteaux. A large part of its growth is focused on the mining segment where the company has found success in taking away market share from Magotteaux.

As per its FY14 annual report, the addressable market opportunity in the replacement demand of mill internals is around 1.5 million tonne annually. Against that, not more than 20% has been converted into the high chrome use, which suggests great headroom to grow for AIA.

Even when it seems that the era of super-cycle for commodities has come to an end, and that capacity addition plans for many companies are being put on hold, AIA's prospects are more closely linked to the capacity utilization of the mines and the subsequent replacement demand which has held up well.

In FY14, India formed around 25% of the company's total sales, with the rest 75% coming from the international markets. Let me now analyse AIA's business using a set of question to test the underlying business and management quality.

1. Is the Business a Monopoly or Commodity?

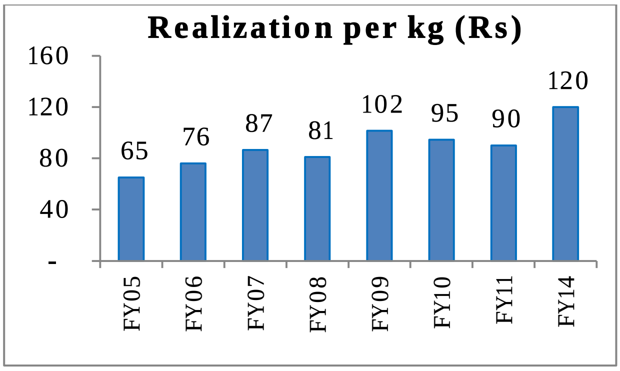
While trying to identify great businesses, it's important to seek out companies that have no or less competition, either due to a patent or brand name or similar intangible that makes the product unique.

While AIA may look like any other capital goods company that caters to a specific niche market, it's important to understand that the business operates in an oligopoly market, i.e., a market or industry dominated by a small number of sellers (here, just about two of them). The pricing power of an oligopoly is not as strong as a monopoly, it's not weak as well. AIA enjoys a strong bargaining power against its clients, given its high-end products and their critical nature to clients' operations.

The benefit of this is seen from a continuous rise in AIA's gross margins over the past few years, with the same improving from around 37% prior to FY08 to 44% in FY14. While I do not have comparable margin performance for Magotteaux, AIA seems to be scoring better here owing to its low cost of operations.

2. Does the company have pricing power?

AIA has raised prices in the past, but the rise has just about matched the inflation rate, or around 7% annually between FY05 and FY14.



Given the oligopoly structure of the industry and the fact that mill internals are a small portion of the user company's total cost of operations (around 2% for a cement company and 6% for a mining company), AIA is in a sweet spot to raise prices in the future, at least to keep pace with inflation in material prices.

It's also important to note that, over the past 2-3 years, AIA has made deep inroads into Magotteaux's market share in the mining industry through competitive pricing, which has hurt its margins a bit. With a firm presence in the industry now, and given the critical nature of its products, margins have a good probability of rising even further.

3. Has the earnings growth been strong?

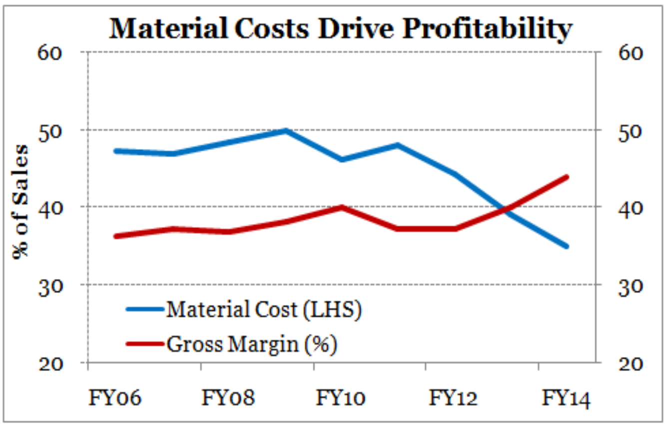
Rising earnings serve as a good catalyst for stock prices. So it's important to seek companies with strong, consistent, and expanding earnings (profits). AIA has grown its gross and net profits at an average annual rate of 36% each over the past ten years. While growth slowed down during the period FY10 to FY12, it has picked up pace again over the last two years, especially after the company has moved aggressively in the mining sector. With new capacity coming on stream, and a great move towards high chrome components, the probability of growth remaining good in the future seems high.

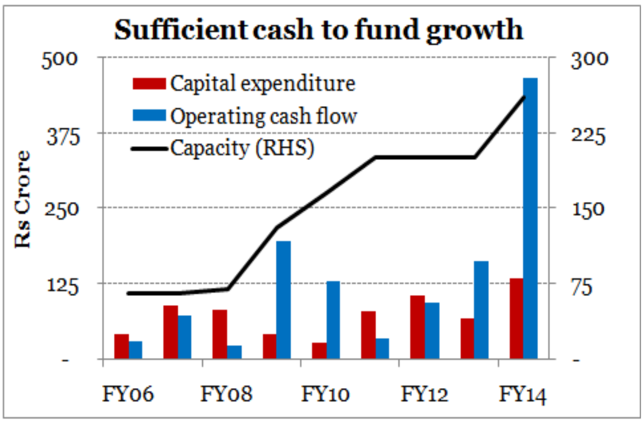
4. How profitably have retained earnings reinvested?

Apart from seeking a company that has been growing its earnings well, it's also important to study if the company is investing its retained earnings (earnings after dividends) profitably. A great way to assess this is by assessing the return on equity. AIA's average ROE over the past eight years has been around 21%. While this has reduced to an average of 18% over the past five years, rising pricing from the mining products business, subsequently improved margins, and lower incremental capex will ensure a stable to higher ROE in the future. The best part is that AIA's ROE is driven largely by its net margins and not financial leverage (remember the Du Pont ratio?), which talks a lot about the management's good capital allocation record.

4. Is the company conservatively financed?

It's important 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. AIA stands good on this front, with negligible borrowings (Rs 75 crore, as against equity of around Rs 1,945 crore) and strong free cash flow generation (Rs 330 crore in FY14). Also, as far as its ongoing capacity addition plan is concerned, almost the entire requirement of Rs 650 crore is being funded through internal cash generation (the company generated Rs 465 crore cash from operations just in FY14).





5. Does the company stick with what it knows?

Like you as an investor must stick to your circle of competence, a company should ideally invest its capital only in businesses within its circle of competence. AIA stands good on this factor as well. The company is spending its entire energy in making deep inroads in the mining sector's requirement for high chrome mill internals, which has paid great dividends in recent years. As I mentioned above, the company has strong cash flows, which are easy to waste away if the management has loose hands. This is not in case of AIA, as the management has been extremely prudent in managing its cash and spending it wisely on things it knows best.

6. Does the company need to constantly reinvest in capital?

Companies that consistently need capital to grow their sales and profits are like bank savings account, and thus bad for an investor's long term portfolio. While searching for potential wealth creators, it's important to seek companies that don't need high capital investments consistently. AIA is one such company. Apart from its investments in capacity expansion from time to time, the company has fared decently on the working capital part as well. Its receivable days have dropped from 100+ four years back to 75 in FY14, while inventory days have dropped from 75 to 62. The declining need for incremental capital is again reflected in its clean balance sheet and rising free cash flow generation.

7. How has the management fared?

Extremely well. While AIA's ROE in the last 3-4 years has taken a hit due to slowdown in the cement industry and competitive pricing as an entry strategy in mining, the long term track record of the management on the capital allocation front has been respectable. What is more, for all the value he has helped create over the years, the company's founder and managing director earns an annual salary of just Rs 85 lac which is lower than what an experienced stock analyst working with a brokerage and writing a report on this company would earn. The management has remained focused on AIA's core competency of mill internals, which also talks a lot about their mindset.

8. What are the risks to the business?

While AIA seems to be in a sweet spot to capture higher market share in the mill internals business and also has a good growth opportunity ahead, there are some risks that the company faces, though not all of its own creations.

One of them in foreign exchange volatility that has hit the company in the past as well, given that a large part its revenues come from international markets.

For instance, in FY13 and FY14, the company had to incur loss on forex fluctuation of around 3-4% of its sales, which is a big number. As revenues from international business grow larger in the future, and if the currency markets remain volatile, this loss figure can also widen thereby hurting the company's profitability.

Valuations

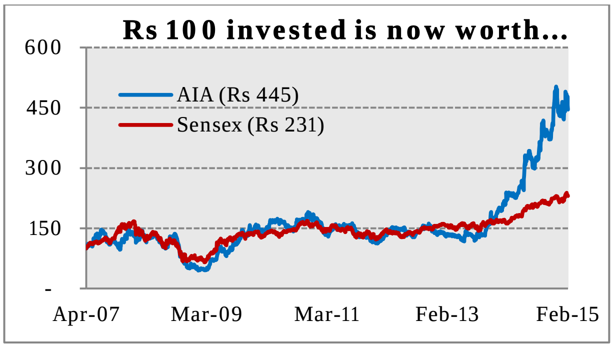
At the current price of Rs 1,040, the stock is trading at a price-to-earnings multiple of around 22x its trailing 12-months EPS of Rs 46.4 per share. This is higher as compared to its average P/E of around 18x over the past three years. If I were to do a reverse DCF calculation, it seems that Mr. Market is assuming around 30% annual growth in cash flows over the next 10 years to justify the current stock price.

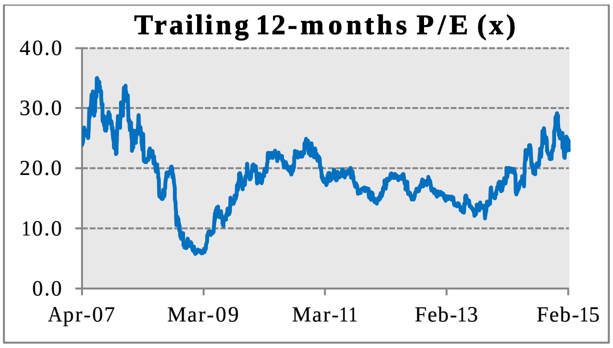
So the valuations don't seem mouth watering at the current levels, though this is rarely expected of a high quality business like AIA's.

In all, AIA is a great business, no doubt about that. The management also has a record of clean governance and good capital allocation. Considering this, and your own analysis of the business and its future prospects, it's up to you to decide how much you would want to pay for the stock, which should also factor in adequate margin of safety. The idea should be to understand the business first, and then value the stock using simple variables, possibly without using complex calculations. The ultimate idea should be to focus on the decision you'll be taking and not on the output of mathematical models.

P.S. Click here to download the past few years' annual reports of AIA Engineering.

Statutory Warning: *This is not an investment advice to buy or sell shares. Please make your own decision, as blindly acting on anyone else's research and opinions can be injurious to your wealth. I own the stock, and thus my analysis is bound to be biased due to liking tendency, endowment and commitment biases. And, of course, my analysis could be wrong. I have been wrong many times in the past.*





AIA Engineering Ltd.: Key Financial Snapshot

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Operational								
Earnings Per Share (Rs)	10.0	14.1	18.4	18.1	19.4	19.1	22.4	34.5
Book Value Per Share (Rs)	52.1	64.7	81.9	95.6	111.5	131.0	150.3	184.4
Dividend Pay Out Ratio (%)	7.0%	5.6%	13.6%	13.8%	15.4%	15.7%	17.9%	17.4%
Profitability								
Gross Margin (%)	37.3%	36.9%	38.1%	40.1%	37.2%	37.3%	40.1%	43.9%
EBITDA Margin (%)	23.8%	23.7%	24.1%	24.1%	21.5%	19.3%	17.7%	24.1%
EBIT Margin (%)	25.3%	26.3%	24.3%	25.1%	21.4%	18.2%	17.0%	23.9%
Net Profit Margin (%)	18.0%	19.3%	17.0%	18.0%	15.8%	12.7%	12.0%	15.6%
Performance								
Return on Equity (%)	24.6%	24.2%	25.1%	20.4%	18.8%	15.8%	15.9%	20.6%
ROCE (%)	21.5%	22.4%	21.0%	18.8%	17.5%	15.1%	14.5%	19.2%
ROIC (%)	30.7%	27.0%	33.6%	30.8%	24.1%	18.6%	19.5%	32.6%
Sales/Working Capital (x)	1.4	1.6	1.7	1.4	1.5	1.6	1.6	1.5
Efficiency								
Receivable Days	99	92	66	82	111	96	71	76
Inventory Days	69	72	50	59	74	78	84	62
Payable Days	49	33	27	36	41	25	23	23
Growth								
Net Sales Growth (%)	28.5%	32.1%	48.0%	-7.2%	22.2%	22.1%	23.6%	18.8%
EBITDA Growth (%)	52.6%	31.7%	50.6%	-7.2%	8.9%	9.7%	13.5%	61.9%
PBIT Growth (%)	56.3%	37.3%	36.5%	-4.0%	4.2%	3.5%	15.5%	67.4%
PAT Growth (%)	80.1%	41.3%	30.2%	-1.6%	7.4%	-1.6%	16.8%	54.1%
Financial Stability								
Total Debt/Equity (x)	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1
Current Ratio (x)	3.0	3.0	3.0	2.8	4.7	4.9	4.8	4.6
Quick Ratio (x)	2.5	2.4	2.5	2.4	3.6	3.5	3.4	3.7

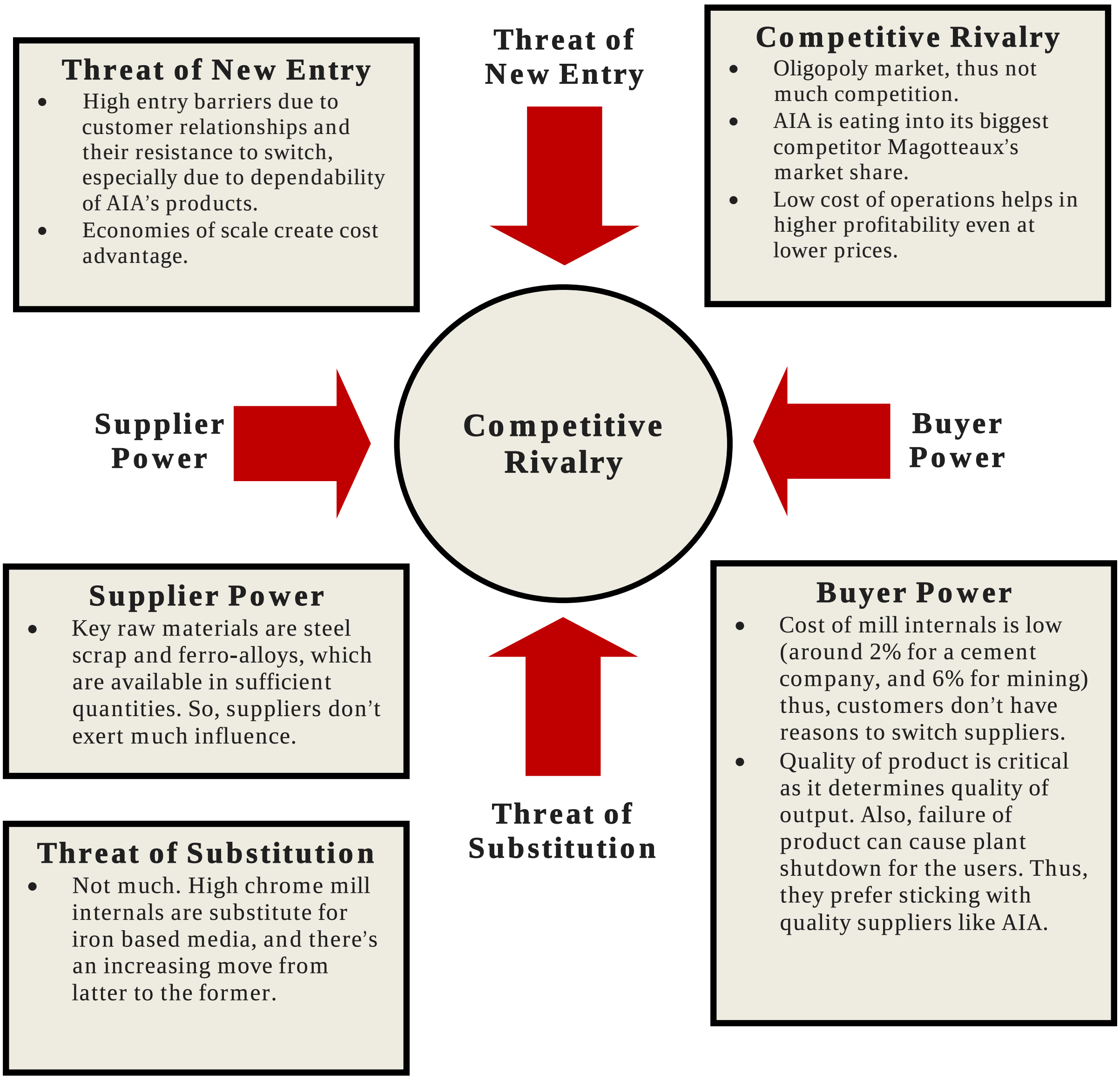
Data Source: AIA's Annual Reports

Peer Comparison

Company Name	Net Sales (Rs Cr)	Net Profit (Rs Cr)	EBITDA Margin (%)	Net Margin (%)	ROCE (%)	ROE (%)	D/E (x)	CMP (Rs)	TTM P/E
Engineers India	1,824	480	39.1	26.3	29.8	20.4	-	212.1	23.7
Thermax	4,302	253	11.0	5.9	20.8	13.0	0.1	1,205.6	44.6
Alstom India	2,605	231	10.3	8.9	37.6	26.8	-	727.8	36.5
Triveni Turbine	506	68	22.7	13.5	61.8	42.4	0.0	122.6	48.6
AIA Engg.	1,783	285	27.4	16.0	31.8	23.8	0.1	1,045.0	22.2

Data Source: Ace Equity

AIA Engineering Ltd.: Porter's Five Forces Analysis



Corporate Governance: When Words Speak Loud

by Vishal Khandelwal

We discuss the quality of language used by companies in their annual reports and other investor communication, and suggest why this may be a result and indicator of governance or mis-governance.

In August 1998, the US stock market regulator, Securities and Exchange Commission (SEC) released a book called A Plain English Handbook.

Now, you may wonder, "What business does a stock market regulator has to focus on plain English?"

The SEC released this handbook to show corporate managers, especially CEOs, how they could use well-established techniques for writing in plain English to create clearer and more informative disclosure documents like annual reports, while meeting all legal requirements.

The preface of the handbook was written by none other than Warren Buffett - the man who writes the world's best shareholders letters - and this is what he wrote –

"For more than forty years, I've studied the documents that public companies file. Too often, I've been unable to decipher just what is being said or, worse yet, had to conclude that nothing was being said.

"There are several possible explanations as to why I and others sometimes stumble over an accounting note or indenture description. Maybe we simply don't have the technical knowledge to grasp what the writer wishes to convey. Or perhaps the writer doesn't understand what he or she is talking about.

"In some cases, moreover, I suspect that a less-than scrupulous issuer doesn't want us to understand a subject it feels legally obligated to touch upon. Perhaps the most common problem, however, is that a well-intentioned and informed writer simply fails to get the message across to an intelligent, interested reader. In that case, stilted jargon and complex constructions are usually the villains."

Buffett closed his preface with a writing tip to CEOs –

"One unoriginal but useful tip: Write with a specific person in mind. When writing Berkshire Hathaway's annual report, I pretend that I'm talking to my sisters. I have no trouble picturing them: Though highly intelligent, they are not experts in accounting or finance. They will understand plain English, but jargon may puzzle them. My goal is simply to give them the information I would wish them to supply me if our positions were reversed. To succeed, I don't need to be Shakespeare; I must, though, have a sincere desire to inform. No siblings to write to? Borrow mine: Just begin with "Dear Doris and Bertie.""

If you have read annual reports in the past, like me, you must have wondered what the top managers were smoking while approving the same.

Despite the fact that most investors are neither lawyers, accountants nor investment bankers, most annual reports – even excluding the legal stuff in them – is written in anything but plain English.

Contrast this with what Buffett wrote in his 1979 letter to shareholders and has repeated several times –

"...perhaps 90% of our shares are owned by investors for whom Berkshire is their largest security holding, very often far and away the largest. Many of these owners are willing to spend a significant amount of time with the annual report, and we attempt to provide them with the same information we would find useful if the roles were reversed."

Most likely, CEOs of a large majority of other companies that produce complex text in their annual reports do not even consider this situation of reversing the roles with their shareholders.

Here's Buffett in his 1983 letter (emphasis is mine) –

"We will be candid in our reporting to you, emphasizing the pluses and minuses important in appraising business value. Our guideline is to tell you the business facts that we would want to know if our positions were reversed. We owe you no less. Moreover, as a company with a major communications business, it would be inexcusable for us to apply lesser standards of accuracy, balance and incisiveness when reporting on ourselves than we would expect our news people to apply when reporting on others.

"We also believe candor benefits us as managers: the CEO who misleads others in public may eventually mislead himself in private."

Decoding CEO Communications

LJ Rittenhouse has written an amazing book titled Investing Between the Lines: How to Make Smarter Decisions By Decoding CEO Communications. It introduces several methods for evaluating the financial integrity of a company through a reading of its publicly available information.

Rittenhouse writes that you don't need special access to "insider" information or a degree in accounting to figure it out. In fact, the secret is right in front of you - in black and white - in the words of every shareholder letter, annual report, and corporate correspondence you receive.

In the chapter on Executive Communications and Performance, Rittenhouse writes –

"Anyone looking for information in shareholder letters knows how difficult this can be. Many are littered with jargons and platitudes. ***But when investors tell me they can't understand what a CEO is trying to say, they have already gained vital information.*** *If the communication doesn't make sense or is full of spin, ask yourself: Does the CEO not understand the business, or is he hiding something? Did the board of directors and the executive team read the letter? If so, why didn't anyone tell the CEO it needed a critical review?"*

The question that arises here is that if you as an investor cannot make sense of a company's communication, why should you trust its management, let alone its accounting numbers?

Of course, actions speak louder than words. But when it comes to a company's communication with shareholders, the kind of words CEOs and their cohorts use speaks out loud about their intentions.

Now, it's not just that much of the stuff CEOs write in their letters and other communication is difficult to understand; it is written not to be understood.
Mark Twain once observed that he would never "write 'metropolis' for seven cents when I can write 'city' and get paid the same."

Unlike Twain, the authors of most of today's financial documents often choose the equivalent of "metropolis" and then add a disclaimer saying that they could have used "city" or "municipality" or "settlement" or even "organized location where large numbers of homo sapiens congregate or live."

Like, take a look below at the extracts from the Chairman's letter from Suzlon's FY14 annual report.

The quality of English used in this is proof that this was written by a public relations firm and not the Chairman himself. And then, just check some of the terms used.

How many of the readers of this annual report would understand terms like "greens shoots", "liability management", "buoyancy", "unlocking", "rebalancing", "non-core assets"?

When they can write "repayment of debt" or repayment of borrowings", why do they write "liability management"? And I have always gotten confused by this term "non-core assets"! All assets are core (sorry, important) to a company's business. And if they are truly not that important, why do they find mention in a Chairman's report?

Then, "rebalancing" is one of the most misused word you would hear from the CEO/Chairman of a company that has made blunders in the past and now wants to get back on track (that's the meaning of rebalancing) to make

Dear Shareholder,

We are now witnessing buoyancy in the business environment after years of challenging times. As the global economy recovers and demand for energy rebounds, the renewable sector is now poised for a new phase of higher growth. The Indian wind market is also headed on a growth trajectory with the reinstatement of Accelerated Depreciation (AD) by the new government. Furthermore, the successful restructuring efforts by the wind turbine equipment manufacturers have led to improvements in margins and cash flow. With these green shoots, we are in a comfortable situation to say that the worst is clearly behind us and for the industry as a whole.

Following the macro trend, Suzlon is back on the path to recovery. We have successfully completed our comprehensive liability management efforts during FY14 and have made good progress on the capital rebalancing front. Overall, the performance during FY14 has been encouraging for Suzlon and we hope to capitalize on the buoyant market environment.

2 | Suzlon Energy Limited, Annual Report 2013-14

Building on our Edge

Our priority for FY15 will be to further strengthen our order book by unlocking and expanding our share in the growing offshore and emerging markets. We will enhance our global competitiveness by leveraging our technology edge and investing in development of new products with high yields.

Looking Ahead

We will bolster our balance sheet further by rebalancing our capital structure and monetizing non-core assets, thereby reducing our Indian Rupee debt burden and interest costs. During the last two years we have been transformed into a more leaner, flexible and scalable company and today are much better prepared for the future challenges the more such blunders in the future (so, the rebalancing is perpetual).

The worst part is that you would never read a word "sorry" from such CEOs for the faux pas (oh sorry, read 'mistake') they committed in the past.

Most annual reports and other such financial disclosures are written not to inform readers but to protect the provider of the information. That's because most issuers of equities, debt and other investment instruments are deeply afraid that if they wrote plainly, someone might actually understand what was at stake.

Not just companies, even the language financial advisors use can tell a lot about their real intentions. Arthur Levitt wrote this in an article in Wall Street Journal -

When someone has to tell you about the riskiness of a financial product, his or her impulse is always to dull the senses and reduce the likelihood of alarm. There's a legal and psychological urge to keep people from knowing that the huge sums they are about to invest are subject to sudden disappearance, so that possibility is buried in an avalanche of impenetrable verbiage. The truth would be too shocking.

Imagine what would happen if an investment banker said or an IPO prospectus read: "You could lose your shirt if you buy this."

Are All Guilty?

While most CEOs are guilty of .....there are some who are not of fooling investors with complex language and words.

Take the example of Hawkins Cookers and its Chairman Brahma Vasudeva who has been using plain English while talking to the company's shareholders over the past many years. His AGM speeches are a treat to read.

Here is something he said during in his speech to shareholders in 2009, while laying down first of the seven strands of the DNA of Hawkins...

Principle No. One: Follow the Golden Rule: *"Do unto others as you would that they do unto you". Since we want to be treated fairly and reasonably by all who deal with us, this rule obliges us to deal equally fairly and reasonably with all who come into contact with us. This includes employees at all levels, vendors of goods and services, dealers and consumers. We do it because we believe it is the right thing to do. It also tends to build positive relationships and trust in all who deal with our company and with our brands.*

How simpler can that get?

Then, in his latest AGM speech in 2014, here is what he said (the emphasis is mine)...

...in the current year, in the first five months, our sales are increasing at a rate which is almost 2.5 times higher than the sales increase in 2013-14. At the same time, I would like to remind shareholders of what we wrote in the Director's Report for the year 2013-14: ***"The higher magnitude of first quarter increases in the current financial year is partially because of the low base effect of the corresponding quarter in the previous years and are unlikely to be sustained through the coming quarters of the current year.*** *Nevertheless, we believe that the good start in the first quarter of the current year augurs well for the results that we expect in the year 2014-15." Nothing has happened since then to change our assessment.*

How more honestly can a Chairman speak about his company's business?

So yes, there are CEOs and Chairmen who talk and write in plain English because they have nothing to hide behind complex language. But to differentiate such managers from others, it's important for you as an investor to read annual reports and other communication that companies share from time to time.

Plain Words are Your Friends

Before I end, let me share an advice from American humorist Will Rogers – *"I love words but I don't like strange ones. You don't understand them, and they don't understand you. Old words is like old friends—you know 'em the minute you see 'em."*

Then, here's an advice for CEOs from the legendary Irish poet WB Yeats - *"Think like a wise man but communicate in the language of the people."*

I'm sure you would not buy an investment from a stranger. So why buy one covered in strange language?

- Companies make or lose money. They are never "buoyant".
- Companies improve or worsen their balance sheets. They never "rebalance."
- Companies borrow and lend money. They never do "liability management".

As an investor, plain words are your old, familiar friends. It's time you seek them from the companies whose stocks you own, or are looking to own.

P.S. If you are a CEO, analyst, blogger, or just someone who wished to learn how to write in a way people would understand, you must read the book Elements of Style by Strunk & White.

Ethical Analyst: Ethics in Investment Business

by Vishal Khandelwal

Honesty and ethical practices are of utmost importance in any business, and especially in the investment business that remains clouded under mistrust. What's wrong and what must be righted is what we discuss here.

Gordon Gekko, the fictional stock broker from the 1987 movie Wall Street, said these famous words –

"The richest one percent of this country owns half our country's wealth, five trillion dollars. One third of that comes from hard work, two thirds comes from inheritance, interest on interest accumulating to widows and idiot sons and what I do, stock and real estate speculation. It's bullshit. You got ninety percent of the American public out there with little or no net worth. I create nothing. I own. We make the rules, pal. The news, war, peace, famine, upheaval, the price per paper clip. We pick that rabbit out of the hat while everybody sits out there wondering how the hell we did it. Now you're not naive enough to think we're living in a democracy, are you buddy? It's the free market. And you're a part of it. You've got that killer instinct. Stick around pal, I've still got a lot to teach you."

Thanks to this role, Gekko became a symbol in popular culture for unrestrained greed with his signature dialogue in the movie...

"Greed, for lack of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures, the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, knowledge, has marked the upward surge of mankind..."

What Gekko blurted out almost three decades ago, remains true as far as the investment industry is concerned. Greed has been at the forefront of how the industry has been operating over these years, while ethical conduct has remained mostly in the shadows.

Investment professionals, across the length and breadth of the industry, have sworn by the need to uphold the trust shown in them by their clients. But the promise, like assured profits for clients, has mostly remained on paper.

The proof lies in the document on Code of Ethics prepared by the CFA Institute, which starts thus...

Ethics can be defined as a set of moral principles or rules of conduct that provide guidance for our behavior when it affects others. Widely acknowledged fundamental ethical principles include honesty, fairness, diligence, and care and respect for others.

Ethical conduct follows those principles and balances self-interest with both the direct and the indirect consequences of that behavior for other people.

Not only does unethical behavior by individuals have serious personal consequences – ranging from job loss and reputational damage to fines and even jail – but unethical conduct from market participants, investment professionals, and those who service investors can damage investor trust and thereby impair the sustainability of the global capital markets as a whole.

Unfortunately, there seems to be an unending parade of stories bringing to light accounting frauds and manipulations, Ponzi schemes, insider-trading scandals, and other misdeeds. Not surprisingly, this has led to erosion in public confidence in investment professionals.

Empirical evidence from numerous surveys documents the low standing in the eyes of the investing public of banks and financial services firms – the very institutions that are entrusted with the economic well-being and retirement security of society.

I have been part of the direct working of the investment industry for eight years (2003 to 2011) and have been a witness, though indirectly, of unethical behaviour by individuals and institutions that formed part of the haloed industry.

The suggestion to write on this subject of ethics in the investment industry came from someone I respect a lot, both for his immense wisdom and the high levels of integrity he brings on the table. But the moment I look at most other practitioners in this industry – investment analysts, money managers, brokers, investment bankers, and financial advisors – it pains me to see the way the industry works, and the way trust is destroyed at every step of the client relationship.

Not surprisingly, the highest body in the investment analysis space, the CFA Institute, is worried about the *unending parade of frauds and manipulations* that has caused the erosion of public confidence in investment professionals.

There are several areas of soul-searching that investment professionals must indulge in. I will write about them in the subsequent issues.

Whether you are an investment professional yourself, or an *outsider*, I will try to take you into the inner sanctum of what I see in this industry, and try to open a new door to a new world in the same way a new world opened up to me when I took my first job as a stock market analyst in 2003, and soon started seeing things that have pained me ever since.

I then thought that the investment industry had nothing to do with manipulation and everything to do with balanced, rational thinking. For me, the stock market was rational, analytical, and cool. Fooling people was not part of this equation. But this is what I thought then.

What I think now of the industry is what you will read in the subsequent issues of this newsletter. But lest you lose faith in the entire investment community as a whole, let me tell you that hope surely exists.

This piece of the newsletter will be specifically focused on sharing my thoughts and suggestions with investment professionals with the purpose of bringing back trust and sanctity in the profession – something that Benjamin Graham had proposed while framing his standards for the industry almost 70 years ago.

In the book Benjamin Graham: Building a Profession, editor Jason Zweig quotes Graham's definition of a "qualified analyst" as one who would:

- Possess "good character"
- "Observe rules of ethical conduct"
- Pass an exam to demonstrate "knowledge of his field"
- Obtain required experience to show "professional competence"
- Be devoted to "advancing the standards of his calling"

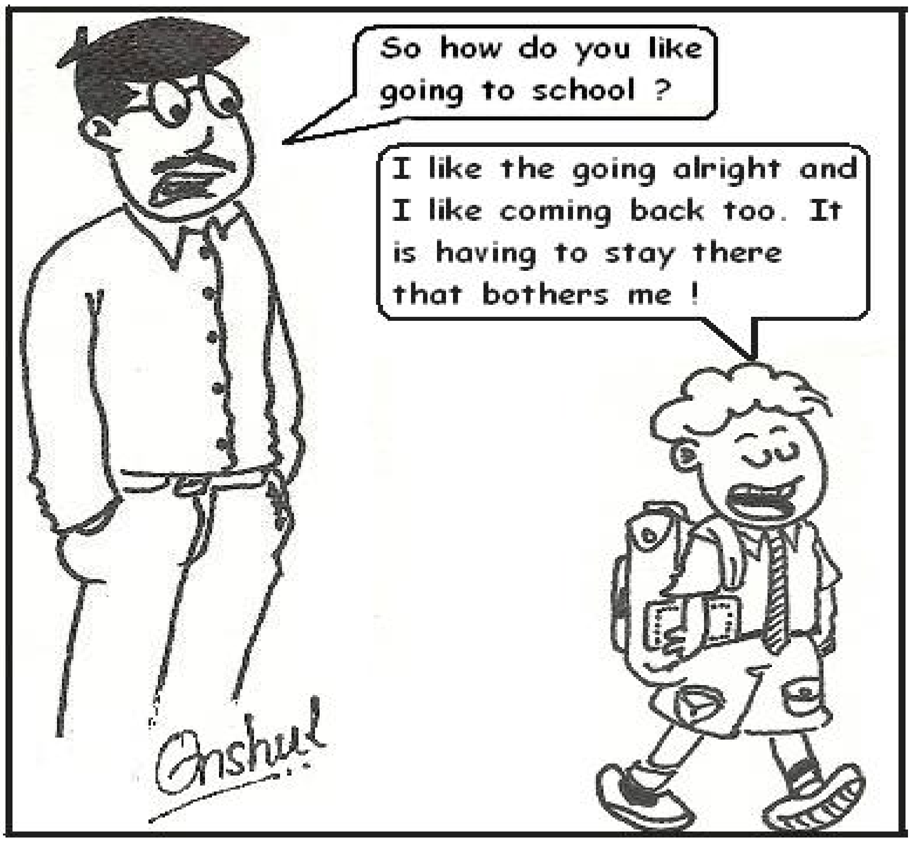
It is striking how Graham emphasizes the element of "good character" and "ethical conduct", which he placed even before "sound competence."

Graham was very critical of investment professionals for putting their selfish interests ahead of the interests of the common investor. He was an early proponent for investor rights, and also believed that the stock specific advice (even when not selfish) offered to investors was foolish and speculative.

Given that things haven't changed at all ever - in fact, they have worsened - since Graham first laid focus on ethics in the investment business, my idea through this piece of the *Value Investing Almanack* will be to bring Graham's philosophy on ethical conduct in the investment industry back to where it belongs.

Of course, there's too much cleaning up to do. But then, it all starts with an idea.

FoolStop



It's the "Staying" that Counts!

Isn't what this cartoon depicts also true with a large majority of investors? They like the action of buying and selling stocks. It's the holding or owning part that bothers them.

But the history of stock market provides ample proof that fortunes are made by buying right and holding on, not by trading in and out of stocks.

Buy a business, don't rent stocks," Warren Buffett has been advising for years. And then he adds, "An investor should ordinarily hold a small piece of an outstanding business with the same tenacity that an owner would exhibit if he owned all of that business."

Snapshot: VST Tillers Tractors Ltd. *by Vishal Khandelwal*

We present a quick snapshot of the business of VST Tillers, and suggest what makes the business good.

Stock Summary

Current Price (Rs)	1,508
52-Week High (Rs)	1,998
52-Week Low (Rs)	790
Market Cap. (Rs Cr)	1,303
TTM EPS (Rs)	87.2
TTP P/E (x)	17.3
P/BV (x)	3.6
1-Year Return (%)	87.0
Dividend Yield (%)	1.0
Promoter Holding (%)	53.9

VST Tillers Tractors is a leader in the power tiller industry in India with around 47% of the market. The company also has presence in smaller capacity tractors (under 25 horse power), and holds a significant market share in this category in Maharashtra and Gujarat.

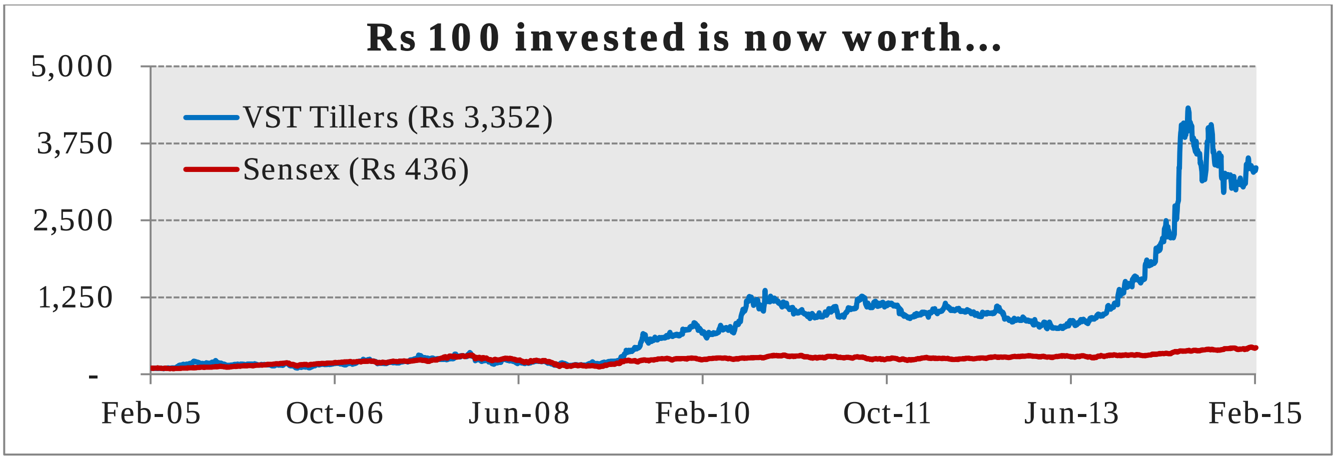
VST has grown its net sales and profits at average annual rates of 21% and 34% respectively during the last ten years. The balance sheet has remained virtually debt free. Return on equity has averaged around 27% during this period.

Rising competition from bigger players is one key risk for the company. Apart from this, the fact that agriculture is a weather-dependent and government-dependent industry adds to the risks. Low penetration of power tillers and low capacity tractors is the opportunity the company is vying for.

Financial Highlights

Description	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Net Sales (Rs Cr)	130	162	189	274	345	427	531	482	624
YoY Growth	17.8%	24.8%	16.2%	45.4%	25.7%	24.0%	24.2%	-9.2%	29.6%
Pre-Tax Margin	8.9%	12.1%	11.8%	16.1%	17.9%	16.6%	13.8%	14.4%	19.5%
Net Profit (Rs Cr)	7.42	12.55	14.4	28.91	42.33	46.19	49.93	48.57	82.94
YoY Growth	26.6%	69.1%	14.7%	100.8%	46.4%	9.1%	8.1%	-2.7%	70.8%
Net Profit Margin	5.7%	7.7%	7.6%	10.5%	12.3%	10.8%	9.4%	10.1%	13.3%
Debt to Equity (x)	0.1	0.1	0.1	0.1	0.1	-	0.1	-	-
Current Ratio (x)	2.0	2.2	2.1	2.1	2.5	2.3	2.6	3.5	2.7
Return on Equity	17.2%	24.9%	23.5%	36.6%	39.0%	31.9%	27.2%	21.7%	29.9%
Return on Capital Employed	24.9%	36.1%	33.4%	52.0%	53.4%	48.0%	38.8%	30.6%	44.6%
Asset Turnover (x)	1.6	1.8	1.7	2.0	2.0	1.9	1.9	1.5	1.6
Receivable Days	56.86	48.12	52.54	44.19	54.86	55.28	63.70	83.40	58.25
Inventory Days	58.30	53.95	57.93	56.25	50.60	42.36	41.48	56.25	49.45
Dividend Yield	3.0%	3.2%	4.0%	5.8%	2.5%	2.0%	2.0%	2.5%	1.6%
Average P/E (x)	7.8	5.7	4.9	2.6	6.2	8.3	7.9	6.3	9.8

Data Source: Ace Equity



Red Alert: GMR Infrastructure Ltd. *by Vishal Khandelwal*

We present a quick snapshot of the business of GMR Infra, and suggest what makes the business gruesome.

Stock Summary

Current Price (Rs)	18
52-Week High (Rs)	38
52-Week Low (Rs)	15
Market Cap. (Rs Cr)	8,003
TTM EPS (Rs)	0.2
TTP P/E (x)	78.2
P/BV (x)	0.9
1-Year Return (%)	-5.4
Dividend Yield (%)	0.5
Promoter Holding (%)	64.8

GMR Infra is one of India's largest infrastructure and construction companies, known especially for its airports in New Delhi and Hyderabad. The company also has presence in power generation, highway construction, and urban infrastructure.

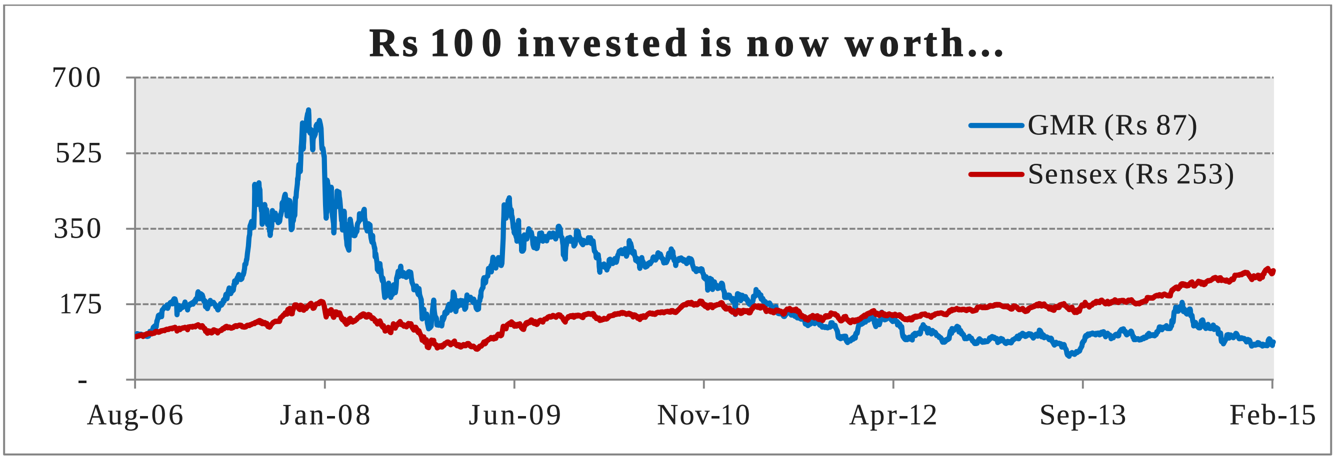
GMR has grown its net sales at an average annual rate of 27% over the past ten years. Despite this, net profits have shrunk at an average rate of 19% per annum, suggesting how lousy a business it is. As for the balance sheet, it has been mired in debt. While high debt is the nature of most infrastructure company, GMR's balance sheet has been excessively mismanaged. Average return on equity has been just under 3% over ten years.

GMR is a clear-cut example of what Warren Buffett defines as 'gruesome' business – highly capital intensive, and burning more cash than it is generating year after year. Not surprisingly, the stock has destroyed shareholder wealth in the past.

Financial Highlights

Description	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Net Sales (Rs Cr)	1,062	1,697	2,295	4,019	4,567	5,814	7,642	8,305	8,710
YoY Growth	6.9%	59.8%	35.2%	75.1%	13.6%	27.3%	31.4%	8.7%	4.9%
Pre-Tax Margin	9.8%	14.2%	11.7%	7.3%	3.7%	-15.8%	-10.0%	3.9%	2.6%
Net Profit (Rs Cr)	71	174	210	279	158	-930	-603	88	10
YoY Growth	2.2%	147.2%	20.4%	33.0%	-43.3%	-686.9%	NA	-114.6%	-88.6%
Net Profit Margin	6.6%	10.3%	9.2%	7.0%	3.5%	-16.0%	-7.9%	1.1%	0.1%
Debt to Equity (x)	5.2	1.9	1.3	1.9	3.1	2.5	4.0	4.8	5.4
Current Ratio (x)	3.4	2.9	4.9	3.3	3.7	0.9	0.5	0.5	0.5
Return on Equity	18.5%	18.9%	6.5%	4.4%	3.4%	-14.7%	-14.4%	1.9%	1.7%
Return on Capital Employed	8.0%	9.3%	5.4%	4.8%	4.4%	0.7%	2.1%	5.2%	6.2%
Asset Turnover (x)	0.28	0.35	0.23	0.23	0.19	0.18	0.17	0.17	0.17
Receivable Days	71.12	57.00	54.49	44.04	53.87	40.73	49.14	62.19	56.46
Inventory Days	11.26	6.06	4.57	6.86	8.75	8.48	9.56	9.69	10.78
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.5%

Data Source: Ace Equity



Life 2.0: Habits of Life *by Anshul Khare*

The key to bringing lasting change in your life is by way of great habits. And the best way to build great habits is by starting small and building up.

You would agree with me that life isn't all about stock market investing or for that matter just about money. Making money is only a means to a greater end i.e., living a happy life.

It's true that for many people stock market investing is a passion and they don't do it just for money. However, it circles back to the logic that the activity of investing in stock market makes them happy. So investing is just a tool to achieve something more important – personal happiness.

The age old wisdom suggests that happiness is brought about by the right balance of financial, mental, physical and spiritual health. What financial abundance does is that it gives you an option to stop worrying about money all the time and focus your energy towards other happiness factors.

But you don't have to wait till you are financially free to start your work on other areas of life. You can start today.

Let's pick up one area, say health and see how you can bring a change in this part of your life.

Everybody knows that to be healthier and fitter, you need to exercise and eat well. It is a common knowledge and part of everybody's New Year resolutions. The problem is that these resolutions are short-lived and motivation to carry on the new activity dies down rapidly after few days. Why do these resolutions and personal goals fail? It's because of our over-reliance on willpower and motivation.

Every time you try to do something new or something unpleasant (even if it is good for you in long run) your brain requires willpower to execute the task. And the research in psychology suggests that daily quota of will power is limited for everybody.

So when you force yourself to get up at 6 am and go for a jog, it consumes some amount from your daily quota of willpower. And then later in the day with lesser willpower available, you find it difficult to say no to junk food.

However, there are certain tasks (even unpleasant ones) which don't require any willpower and we still do them every day. Like brushing your teeth every morning or taking bath. We also call them *habits*.

These are the activities which happen mostly on autopilot mode. They don't require any conscious attention or willpower.

People who are experienced drivers would agree that most of the act of driving is controlled by your subconscious mind. You don't have to consciously think before you shift the gear or apply the brakes. It just happens.

Another characteristic of a habitual activity is that there is no goal attached to it. You don't brush your teeth with a specific goal of getting 30% more whiteness in next 10 days. However, you know that with regular brushing over a longer term, you are going to end up with a good oral health.

So habitual activities are not associated with a goal but they are more like a system. A system is something you do on a regular basis that increases your odds of happiness in the long run.

Drawing an analogy in investing – buying undervalued companies and holding them for long term is a system. On the other hand, buying a stock and expecting it to go up by 20% next year is a goal.

So the key to bringing a lasting change is to forget the goal and build a system – a system that focuses on the activity rather than the goal.

Walking everyday for 2 km is a goal. However, putting on your walking shoes and just stepping outside the house is a system. Some days you may hit the goal of 2 km, some days you may just stroll for 5 minutes and come back.

Following your system is easier and doesn't require much willpower. Very soon the system installs the new habit and you find yourself following the healthy routine effortlessly.

Warren Buffett says, *"Chains of habit are too light to be felt until they are too heavy to be broken."* It's good news as well bad news.

It's good news because to build a heavy chain of habit, you just need to follow a simple system of taking small steps. But if you don't consciously follow a system, life will create a different chain of habits (usually bad ones) for you.

I would like to leave you with this powerful thought from Aristotle – *"We are what we repeatedly do. Excellence, then, is not an act, but a habit."*

What We're Reading

Here are a few great resources we're reading on value investing, human behaviour and related subjects.

- Legendary investor Seth Klarman talks about what he has learnt from Warren Buffett. A quick 10 point list.
- Rohit Chauhan speaks about common emotions that a small investor goes through in stock market.
- My friend and long time tribe member Jana Vembunarayanan has written a wonderful post on the power of habit. Read this post, and subscribe to Jana's blog. You'll thank me in the future!
- Brilliant article on principle of inversion, and how it can bring success in investing. It's based on the idea of "unforced errors" by amateur players.
- A brilliant article one of value investing's greatest minds, Chris Browne, managing partner at the legendary firm Tweety Browne.
- A very good primer on behavioural biases (the science of human irrationality). The language is little technical but worth reading especially for beginners.
- In an animated video, founder of investment firm Bridgewaters associates, Ray Dalio explains the role of debt in economic cycles.
- Here's a famous experiment by psychologist Stanley Milgram, which explains how good people end up doing bad things because of authority bias.
- Inspired by Warren Buffett's annual letters, Mohnish Pabrai's reports for Dakshana Foundation, his NGO, is worth emulating by Indian corporates.
- Rajeev Thakkar, fund manager at PPFAS Mutual Fund, shares his experience of attending Berkshire's Annual Meeting in Omaha.

About The Authors

Vishal Khandelwal has 11+ years experience as a stock market analyst and investor, and 3+ years as an investing coach. He is the founder of Safal Niveshak, a website dedicated to helping small investors become smart, independent, and successful in their stock market investing. Safal Niveshak, which Vishal started in 2011, is now a community of 15,000+ dedicated readers, and was recently ranked among the best value investing blogs worldwide. You can connect with Vishal on Twitter @safalniveshak

Anshul Khare works as a Software Architect in IT industry in Bangalore. He studied chemical engineering at IIT Bombay. He is an avid reader of books from various disciplines including investing, personal finance, psychology, philosophy, spirituality with special interests in the area of human behaviour and value investing. In the next life, he wants to take birth as Calvin (Calvin & Hobbes fame). You can connect with Anshul on Twitter @anshul81

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