SafalNiveshak.com
Wit. Wisdom. Value Investing

The Wisdom Of Intelligent Investors

Insights from Some of Today's Leading Investment Minds





A Collection Of Wisdom

Introduction

Dear Investor,

If the history of stock market is anything to go by, investors often make decisions that can undermine their ability to build long-term wealth. As such, it is often very valuable to look back in history and study closely the principles that have guided the investment decisions of some of the best minds and practitioners in this field through both good and bad markets. By studying these experienced investors, we can learn many important lessons about the mindset required to build long-term wealth.

With this goal in mind, the following pages offer the wisdom of some of the best investment minds of current times from India and abroad. Though each of these investors offers perspective on a distinct topic, the common thread that runs across is that a disciplined, patient, humble, and unemotional investment approach is required to reach your long-term financial goals.

We hope this collection of wisdom serves as a valuable guide as you navigate an ever-changing market environment and build long-term wealth.

With respect,
Vishal & Anshul

The wisdom shared in the next few pages has been distilled from the several interviews we've had for our premium newsletter – Value Investing Almanack – with some of today's best investing minds in India and abroad.

To read detailed interviews of the investors profiled in this document, and a lot of other ideas on value investing, behavioural finance, and business analysis, we invite you to subscribe to Value Investing Almanack.

Cover photos (left to right): Sanjay Bakshi, Ian Cassel, Huzaifa Husain, Samit Vartak, John Huber

The Wisdom Of Intelligent Investors

Insights from Some of Today's Leading Investment Minds

Let's start right away…

Believe In Long-Term Compounding

Amit Arora
(Co-founder & CIO, Eleven Dimension Funds)

In investing, you can end up on top simply by living a very long life, rather than focusing on finding fastest growing companies.

You can do well by compounding for a long term by avoiding mistakes. That is, by not focusing on breakthroughs, but by focus on elimination of mistakes.

Avoid Short-Term Thinking

Ian Cassel
(Founder, MicroCapClub.com)

If you want to be a better long-term investor, get rid of all distractions that promote short-term thinking. Listening to financial pundits, watching your positions every second of the trading day, and watching hundreds of other stocks that you would never own at any price are big distractions.

Focus on owning the best companies you can find. You will be amazed at how well you can focus by getting rid of these distractions. Don't let the daily price action in your positions influence your long-term resolve.

Retraining your mind to not care if a position is making a 52-week high or is down 10% in a day will make you a better investor. You know you are doing it right when your wife is telling you about what happened in the market at dinner.

READ & LEARN FROM BUSINESS HISTORY

Huzaifa Husain
(Head of Equities, PineBridge Investments)

It is dangerous to read books especially on investing without reading about business history. It may cloud one's view. Hence, read annual reports of companies for as far back as they can find. Read them across various companies over various time frames. You should be able to understand how companies have behaved over business cycles, how their valuations have changed, why did they succeed, why did they fail, etc.

Once a vast amount of business history is read and understood, all one needs to read are the letters of Warren Buffett and Poor Charlie's Almanack to build a framework.

Beyond that, remember what Vedas say on multidisciplinary thinking – आ नो भद्राः क्रतवो यन्तु विश्वतः (Let noble thoughts come to us from all sides).

Learn Deeply About Businesses

Prabhakar Kudva
(Co-founder, Samvitti Capital Pvt. Ltd)

Learn as much as you can about businesses. A lot of us have been guilty of reading way too much about how to become a better investor rather than spending time on learning businesses. I think it gives us some perverse pleasure to sit and hope that we'll become great investors one day but the number one thing to do is to learn about businesses and how they make money.

I would urge everyone including myself to, after a point, **spend more time on studying the businesses than on how to study the businesses.**

Empathize With Managements

Arpit Ranka
(Independent Investor)

My approach towards management is – you cannot do a good deal with a bad guy. Having said that, I am not looking for saints either but rather pragmatic entrepreneurs.

And depending on the attractiveness of other variables, the weight that I assign to management quality varies. I don't want to associate with crooks but then sometimes you have got to be lenient towards an entrepreneur committing a genuine mistake and trust him with your money. They are human beings and treating them like automatons would be a mistake on our part I think.

I am not bogged down by the idea of betting on a promoter and making a fool of myself in the process because eventually **learning to bet on people is also an integral part of the process.**

Have An Open Mind

Jayendra Kulkarni
(Independent Investor)

I don't think there is a better starting point in investing than having an open mind.

So, every stock I approach and look at, I try to clear my mind of any prejudices or biases I might have about the company, industry or management. I let the facts, as I get them, shape up my thinking. It is easier said than done and I continue to struggle.

Effectively, time is money, so **when one is investing time in studying a business, the effort must be to make it count in an unbiased manner.**

Find A Devil's Advocate

Samit Vartak
(CIO, SageOne Investment Advisors)

Once I am broadly excited about a business, my major analysis is on digging holes into my excitement. Once you like a stock, the natural tendency is to just jump in before the price runs up. When you take short cuts that's exactly when risk crops in.

As part of my analysis, I avoid talking to co-investors who already have vested interest and are also excited about the stock. Talk mainly to the company's competitors because they generally will give you a different point of view on the industry and about why certain strategy is inferior. Talk to analysts who have negative view on the company. **Find a strong devil's advocate who will try and destroy your hypothesis.**

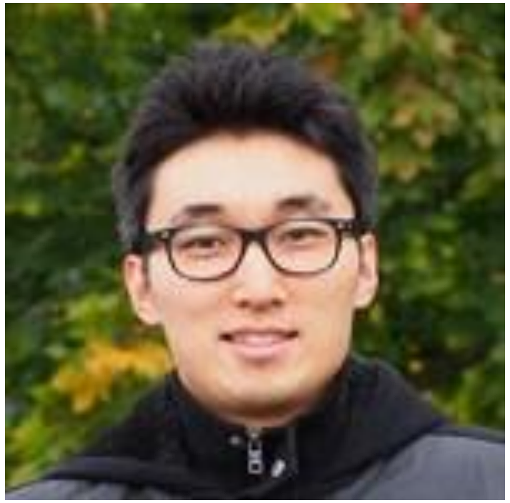
Focus On Avoiding Mistakes

John Huber
(Portfolio Manager, Saber Capital Management, LLC)

The great thing about investing is **you don't need many great ideas to do well over a career if you avoid catastrophic mistakes.**

Always focus on protecting your capital and try and avoid big errors. All investors make mistakes, and luckily, as Peter Lynch once said, you could do very well with only getting 6 out of 10 right if you keep your losses relatively small. I think focusing on avoiding mistakes is much more important than trying to hit the next "home run". **Identifying and investing in the well-managed, high quality businesses is one way of trying to reduce these mistakes.**

Size Your Positions Well



Jae Jun
(Founder, Old School Value)

If valuation is the biggest factor for an investment, position-sizing is second. When all my mistakes are boiled down, it fits into either category, but my biggest are a combination of both.

Every investment involves risk and the best way to mitigate risk is to make sure you buy it at an attractive price and limit damage with good position sizing. As small investors, we can't take over the board, change the behavior of management, influence how a product will be bought and sold.

These are external factors that certainly need to be analyzed, but the internal factors that can be controlled is via good valuation and allocation.

Always Be Disciplined

Swanand Kelkar
(Executive Director, Morgan Stanley)

Discipline is one of the most important attributes of an investor. One should have the ability to articulate one's investing philosophy, be clear in one's mind what type of stocks one will gravitate towards and what one will avoid and then just religiously stick to that philosophy through different market moods.

At times, your investing style will be in favour in the market and that part is easy, **the tough part is when the market does not reward your style. The temptation to jump ship is immense at these times and that's where your investing fortitude is really tested.**

Focus On Process Than Outcome

Gaurav Jalan
(CIO, Avant Garde Wealth Management)

I would suggest two ways to improve quality of decision making. First, a **focus on the process of investing rather than outcomes.** This will ensure that the right lessons are learnt from outcomes. Investing is about probabilities and following a good process will ensure good outcomes on average over time.

Second, an **emphasis on facts versus forecasting.** At any given time, the future can have a wide range of outcomes and therefore investments made on specific forecasts have a high probability of being wrong. It is better to focus on historical facts which are knowable and amenable to analysis to make intelligent guesses about a range of future outcomes.

Make Fewer Investment Decisions

Rajeev Thakkar
(Director and Fund Manager, PPFAS Mutual Fund)

Fewer investment decisions you make the better. You'll put that much more time and effort into arriving at that decision whereas **if you're making a decision every day or every hour then seriousness doesn't go into that decision.**

Most people get married once in their lifetime, and so you give a lot of thought to it – most people do. Marriage is an extreme example. Even when you take a job you plan to spend at least a few years in that company. People give serious thought to it. Why should it be different for stock investing? **You can't be on a train and some guy sitting next to you says that this stock looks good and you go out and buy it. It can't be that.**

Don't Ape Anyone

Neeraj Marathe
(Independent Investor)

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. For example, I think understanding Warren 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.

Instead of talking about and aspiring to be like Buffett, **spend time understanding about accounting and financial statements. Develop your own process and philosophy.**

Practice Inaction

Shyam Sekhar
(Founder, iThought)

Whatever I have read about great investors, is that the masterly *inaction* they practice had to do a lot with other activities that they did to keep themselves busy. It's not inaction. It's action outside of investing. There is so much action outside of investing – reading, understanding, and thinking. The intellectual pursuits basically dominated their work. That's why investing could be left only when it was required. They had to do it only when it was needed.

I am afraid that our community of investors is still learning. I don't think we are there. Therefore this is what makes people try to create new and new ideas and it's like punching that card 100 times. **When you punch a card 100 times, 10 times a year, you are bound to go wrong.**

Sit Tight On Great Businesses

Sanjay Bakshi
(Adjunct Prof, MDI Gurgaon)

The big lesson in common stock investing is to buy great businesses at reasonable valuations and then to sit on them for a long-long time. If you take a sample of 100 very successful investors who have compounded their capital at a high rate for a long-long time, you will find that an overwhelming majority of them simply did not sell the great businesses they had bought.

In particular, they did not overdo the excel modelling to keep calculating the future expected returns based on current stock price. Nor did they worry about selling a stock simply because it was not quoting at a P/E multiple which made the stock look expensive. Rather they followed **Philip Fisher's advice – *"If the job has been correctly done when a common stock is purchased, the time to sell it is-almost never."***

Learn To Say No

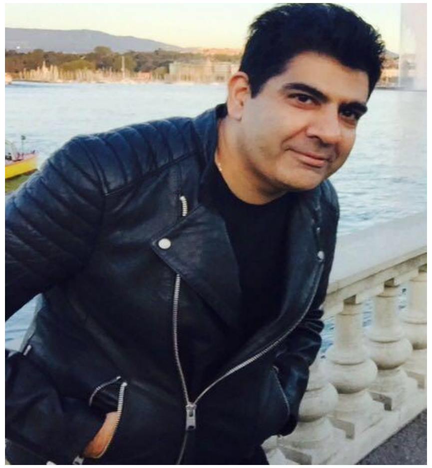
Ayaz Motiwala
(Founder, Amala Emerging Asia Fund)

Develop a mindset to say no and recognize the practical limitations of not being able to reach everywhere and uncover all businesses. This is just plain very difficult.

Once we have that framework and a sort of no regret mindset, life is far easier. **You are then putting in a certain self-imposed restriction on areas you would like to work on and improve understanding.**

This to my mind should help in improving decision making and result in better investment results over time.

Understand Risk Well



Safir Anand
(Independent Investor & Senior Partner, Anand and Anand)

Risk is an under-taught subject. In fact, it is surprising that it is not taught in schools and colleges as a subject and very few books on risk management are written. Risk is personal, of character or judgment as also of loss of opportunities from fear or social impact. It is wrongly perceived that the risk and reward are directly related i.e., higher the risk higher the reward and lower risk means low reward. On the contrary, **lower the risk is higher be the reward and vice versa.**

Risk also lies in being a non-believer and falling prey to mass sentiment in times of market fall or exuberance in market prices. Risk is also of watching TV for investment calls and reacting to announcements. Risk is also of poor capital allocation and resilience to decisions even if factors suggest that the basis of decision is turning against you.

'Hope' Is Not A Strategy

Ninad Kunder
(Independent Investor)

The most dangerous four letter word in investing is "hope". Hope partially driven out of loss aversion and partially out of innate human optimism is the quagmire in which lot of investing mistakes get sucked in.

Over the last few years I have learnt a lot from traders. I strongly recommend reading books by traders like Jesse Livermore or the Market Wizards series by Jack Schwager. A trader cannot afford to hope when his trade has gone wrong because the market delivers the bad news to his leveraged position immediately. In case of an investor, losses over hope play out over a longer period of time akin to a boiling frog syndrome.

You sell when you are wrong. Period. You don't hope.

Appreciate The Role Of Luck

Anonymous
(Old fashioned Graham style value investor who has taken a lot of knocks in his 30+ years investment experience)

People underestimate vastly the role of luck in investing. Everyone thinks that they strike it big because how smart they are.

As I look back, I realize how important it is to be lucky. You can make a series of errors and get away relatively unscathed like me. And I made so many errors that I could write a book on them!

If there is anything to wish for, if you're starting out as an investor, wish for good luck. And of course work hard and have humility.

Summary (1/7)

Believe In Long-Term Compounding

In investing, you can end up on top simply by living a very long life, rather than focusing on finding fastest growing companies.

Avoid Short-Term Thinking

If you want to be a better long-term investor, get rid of all distractions that promote short-term thinking.

Read & Learn From Business History

Read annual reports of companies for as far back as they can find. Read them across various companies over various time frames. You should be able to understand how companies have behaved over business cycles

Summary (2/7)

Learn Deeply About Businesses

Spend a lot of time studying about businesses and how they make money.

Empathize With Managements

Sometimes you have got to be lenient towards an entrepreneur committing a genuine mistake and trust him with your money. They are human beings and treating them like automatons would be a mistake on our part.

Have An Open Mind

When one is investing time in studying a business, the effort must be to make it count in an unbiased manner.

SUMMARY (3/7)

Find A Devil's Advocate

Once you are excited about a business, your major analysis should be on digging holes into your excitement. Once you like a stock, the natural tendency is to just jump in before the price runs up, and that's exactly when risk crops in.

Focus On Avoiding Mistakes

You don't need many great ideas to do well over a career if you avoid catastrophic mistakes.

Size Your Positions Well

Every investment involves risk and the best way to mitigate risk is to make sure you buy it at an attractive price and limit damage with good position sizing.

Summary (4/7)

Always Be Disciplined

At times, your investing style will be in favour in the market and that part is easy, the tough part is when the market does not reward your style. The temptation to jump ship is immense at these times and that's where your investing fortitude is really tested.

Focus On Process Than Outcome

Investing is about probabilities and following a good process will ensure good outcomes on average over time.

Make Fewer Investment Decisions

Fewer investment decisions you make the better. You'll put that much more time and effort into arriving at that decision.

Summary (5/7)

Don't Ape Anyone

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Practice Inaction

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Sit Tight On Great Businesses

The big lesson in common stock investing is to buy great businesses at reasonable valuations and then to sit on them for a long-long time.

Summary (6/7)

Learn To Say No

Develop a mindset to say no and recognize the practical limitations of not being able to reach everywhere and uncover all businesses. This is just plain very difficult.

Understand Risk Well

Lower the risk higher is the reward, and vice versa.

'Hope' Is Not A Strategy

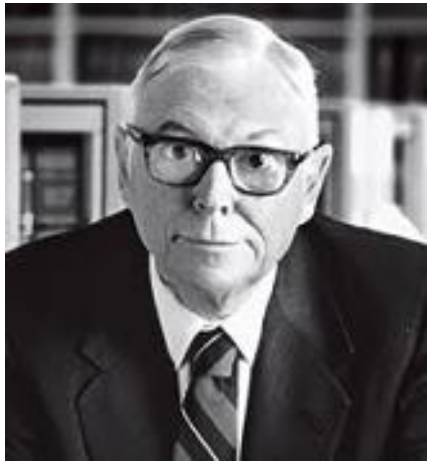
The most dangerous four letter word in investing is "hope". Hope partially driven out of loss aversion and partially out of innate human optimism is the quagmire in which lot of investing mistakes get sucked in.

Summary (7/7)

Appreciate The Role Of Luck

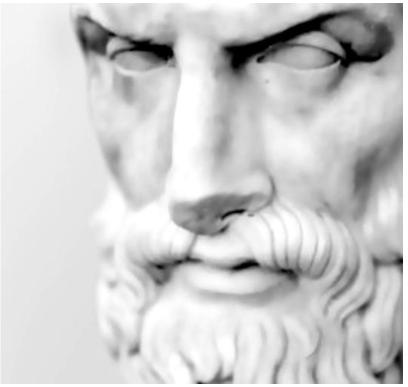
If there is anything to wish for, if you're starting out as an investor, wish for good luck. And of course work hard and have humility.

Keep Learning



"I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long run ahead of you."

~ Charlie Munger



"Let no one be slow to seek wisdom when he is young nor weary in the search of it when he has grown old. For no age is too early or too late for the health of the soul [and mind]."

~ Epicurus

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About Safal Niveshak

Safal Niveshak (Hindi phrase for 'successful investor') is a movement to help small investors become intelligent, independent, and successful in their stock market investing decisions.

Safal Niveshak was founded by **Vishal Khandelwal** in 2011. Through this platform, Vishal focuses on simplifying the art of investing and the causes of human misjudgment when it comes to investing. He also shares his experiences as an investor and lessons from some of the greatest investors of all time. You can connect with Vishal on Twitter.

Vishal is ably supported by **Anshul Khare**, who is an avid learner in various disciplines like psychology, philosophy, and spirituality with special interests in human behaviour and value investing. You can connect with Anshul on Twitter.

You can visit safalniveshak.com or write to us at vishal@safalniveshak.com or anshul@safalniveshak.com to know more about this initiative and how you can benefit from it and/or support it.

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About Value Investing Almanack

Value Investing Almanack (VIA) is a premium newsletter, which brings you the best and biggest ideas in value investing, human behaviour, and business analysis. It is a monthly newsletter, where we cover the following –

1. **Spotlight:** Big ideas from Value Investing and why applying them in your investment decision making will be a great deal
2. **StockTalk:** Thorough analysis of business models of listed Indian companies (without any recommendations)
3. **InvestorInsights:** Interviews with experienced and upcoming value investors
4. **Behaviouronomics:** Deep analysis of human behaviour and how it impacts investment decision making
5. **BookWorm:** Reviews of the best books on Value Investing and related subjects
6. **Life 2.0:** Practical and effective ideas on living a simple, sensible life
7. **What We're Reading:** Links to a great external sources we're reading

In short, there's a great amount of learning packed in just one newsletter!

Apart from monthly issues, **subscribers also receive one Special Report at the end of every month, plus free access to our Financial Statement Analysis for Smart People course.**

Click here to subscribe to VIA right away, **and access all the ideas we've shared so far.**

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What VIA Subscribers Say...

Prof. Sanjay Bakshi

"When I learnt from Vishal that he is starting VIA, I immediately subscribed. I recommend that you do it too.

Ashish Kila

"VIA in India is like OID in the US. Kudos to Safal Niveshak for filtering through all the noise to bring us pearls of wisdom.

Neeraj Marathe

"I recommend Value Investing Almanack for a well-rounded, holistic and continuous learning of the process of investing.

Hitesh Parmar

"VIA is a great tool for value investors. Selfless, informative, international standard product. Proud to be a subscriber!

Swaminathan K

"Without second thoughts, VIA is the best source in India on Value Investing, for both beginners and experts.

Ian Cassel

"VIA is thoroughly educational, inspirational, and enjoyable. I encourage anyone to subscribe.

Mehul Pathak

"VIA is unbiased, comprehensively researched, and well written. This is a huge gap that you have filled.

Carlos De Souza

"You are good. World class. I don't see any other Indian or foreign publication of any value comparatively speaking.

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Past performance is not a guarantee of future results. *There is no guarantee that an investor following the lessons / strategies outlined in this document will in fact build wealth.*