



Sensible, successful investing is about making wise decisions today. But how does one deal with the continues onslaught of information and noise from all around, and in a world where not having an opinion is considered a sign of unsoundness? We are going to discuss all that, but first...

Three parts of the presentation –

1. How we behave and why we behave so (hint – it’s often not in our control)
2. Who hurts us the most in our investment decision making (hint – someone you know very closely)
3. How to seek wisdom in the age of noise and mis-information (hint – it’s a mountain to climb, but gets easy when you focus on just the next step)



Shark!

Reference – Barry Ritholtz’s presentation at EBI West 2017 -  
<http://ritholtz.com/2017/06/ebi-west-2017/>

## More Likely by Selfies

99



(2016 Data)



4

**Selfie-Related Deaths**

**Shark-Related Deaths**

[www.safalniveshak.com](http://www.safalniveshak.com)

60% of those selfie-related deaths occurred in India!

**Can You Spot the Dangerous Animal...**



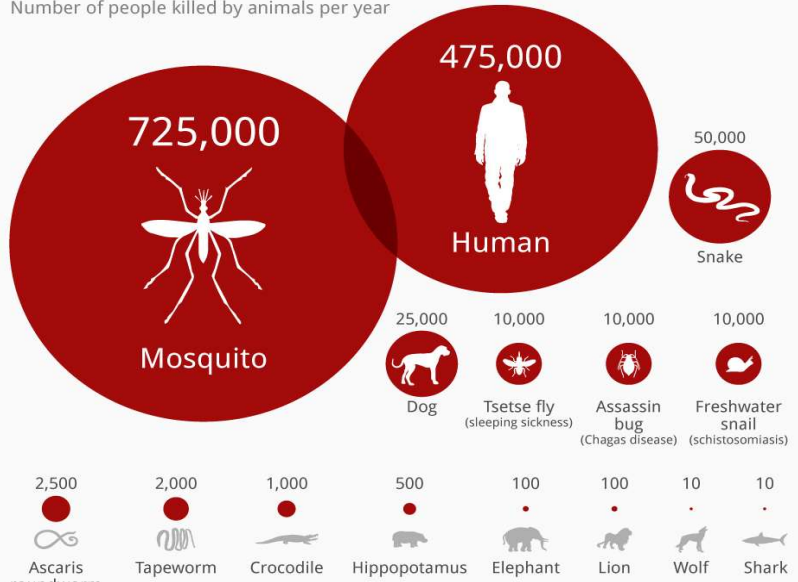
**...Swimming Next to the Shark?**

Things are not as obvious as made out to be or as we think.

# Which is the Deadliest Animal in the World?

## The World's Deadliest Animals

Number of people killed by animals per year



[www.safalniveshak.com](http://www.safalniveshak.com)

© StatistaCharts

Source: Gatesnotes

statista

Not shark, not man...but the mosquito!

<https://www.statista.com/chart/2203/the-worlds-deadliest-animals/>



Terror deaths worldwide in 2016 = 25,600 (includes 6,700 terrorists)

# What You Should Fear Instead

**Table B. Deaths and death rates for 2011 and age-adjusted death rates and percentage changes in age-adjusted rates from 2010 to 2011 for the 15 leading causes of death in 2011: United States, final 2010 and preliminary 2011**

[Data are based on a continuous file of records received from the states. Rates are per 100,000 population; age-adjusted rates per 100,000 U.S. standard population based on the year 2000 standard; see Technical Notes. For explanation of asterisks (\*) preceding cause-of-death codes, see Technical Notes. Figures for 2011 are based on weighted data rounded to the nearest individual, so categories may not add to totals]

Rank <sup>1</sup>	Cause of death (based on the <i>International Classification of Diseases, Tenth Revision, 2008 Edition, 2009</i> )	Number	Death rate	Age-adjusted death rate		
				2011	2010	Percent change
...	All causes	2,512,873	806.5	740.6	747.0	-0.9
1	Diseases of heart (I00-I09,I11,I13,I20-I51)	596,339	191.4	173.7	179.1	-3.0
2	Malignant neoplasms (C00-C97)	575,313	184.6	168.6	172.8	-2.4
3	Chronic lower respiratory diseases (J40-J47)	143,382	46.0	42.7	42.2	1.2
4	Cerebrovascular diseases (I60-I69)	128,931	41.4	37.9	39.1	-3.1
5	Accidents (unintentional injuries) (V01-X59,Y85-Y86) <sup>2,3</sup>	122,777	39.4	38.0	38.0	0.0
6	Alzheimer's disease (G30)	84,691	27.2	24.6	25.1	-2.0
7	Diabetes mellitus (E10-E14)	73,282	23.5	21.5	20.8	3.4
8	Influenza and pneumonia (J09-J18) <sup>4</sup>	53,667	17.2	15.7	15.1	4.0
9	Nephritis, nephrotic syndrome and nephrosis (N00-N07,N17-N19,N25-N27) <sup>5</sup>	45,731	14.7	13.4	15.3	-12.4
10	Intentional self-harm (suicide) (*U03,X60-X84,Y87.0) <sup>2</sup>	38,285	12.3	12.0	12.1	-0.8
11	Septicemia (A40-A41)	35,539	11.4	10.5	10.6	-0.9
12	Chronic liver disease and cirrhosis (K70,K73-K74)	33,539	10.8	9.7	9.4	3.2
13	Essential hypertension and hypertensive renal disease (I10,I12,I15)	27,477	8.8	8.0	8.0	0.0
14	Parkinson's disease (G20-G21) <sup>6</sup>	23,107	7.4	7.0	6.8	2.9
15	Pneumonitis due to solids and liquids (J69)	18,090	5.8	5.3	5.1	3.9
...	All other causes (residual)	512,723	164.6	...	...	...

You are 22x more likely to die of heart disease or cancer than a terror attack.

Reference – Barry Ritholtz’s presentation at EBI West 2017 - <http://ritholtz.com/2017/06/ebi-west-2017/>

## Hello, Mr. Trump!

### Number of Americans killed annually by:

Islamic jihadist immigrants <sup>1</sup> :	2
Far right-wing terrorists <sup>1</sup> :	5
All Islamic jihadist terrorists (including US citizens) <sup>1</sup> :	9
Armed toddlers <sup>2</sup> :	21
Lightning <sup>3</sup> :	31
Lawnmowers <sup>4</sup> :	69
Being hit by a bus <sup>4</sup> :	264
Falling out of bed <sup>4</sup> :	737
Being shot by another American <sup>5</sup> :	11,737



[www.safalniveshak.com](http://www.safalniveshak.com)

Reference – Barry Ritholtz’s presentation at EBI West 2017 -  
<http://ritholtz.com/2017/06/ebi-west-2017/>





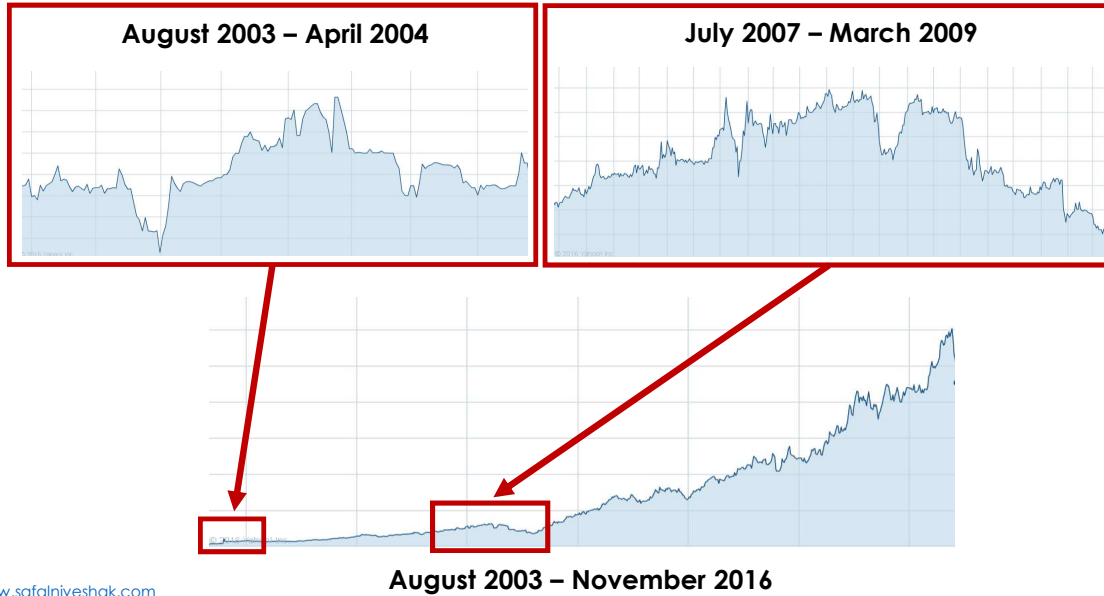
**Things are  
(often) not what  
they appear on  
media...**



[www.safalniveshak.com](http://www.safalniveshak.com)

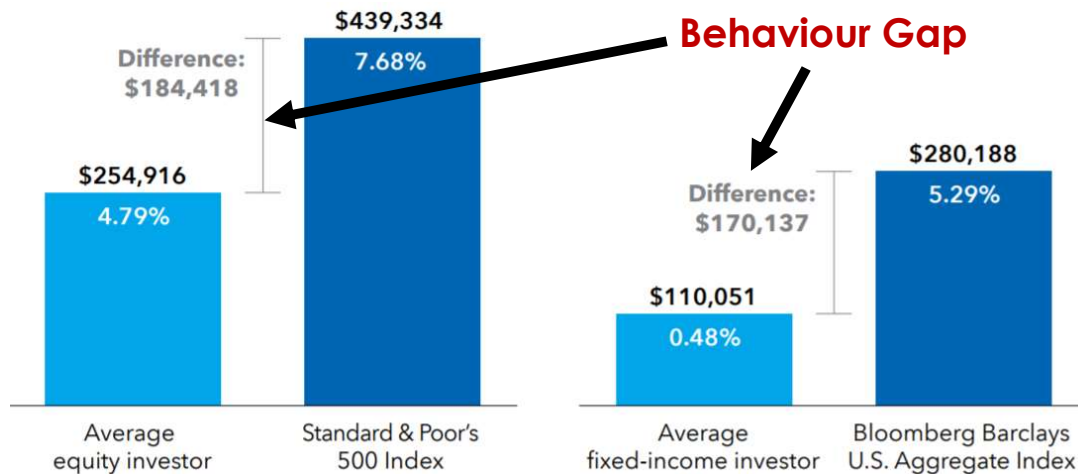
The media, especially business media, does not exist to help you become better at something, like investing. They don't have your profit motive in mind. Their incentives like in selling advertising. So the more sensational they make stuff, the more you will watch them, and the greater price they can command for their advertising slots.

## Which Is The Best Stock?



When we listen a lot to the media and other noise, we end up doing foolish things....like selling good quality businesses just because they are facing short term stock price volatility. Like in this example, if you were worried about the short term volatility in the stock, you would have missed out on a huge wealth creation long term. Of course, not many stocks will end up with such wealth creation, the point is that fear the wrong things that cause us to make dumb decisions.

## Growth of Hypothetical \$100,000 Investment (Dec. 1996 to Dec. 2016)



[www.safalniveshak.com](http://www.safalniveshak.com)

Source: DALBAR Investing Study

Often there is a big difference between “investment return” and “investor return”. And often that’s because investors cannot behave well, thus causing the “behaviour gap” of underperformance...even over a long period of time (like 20 years in the above chart)

So when you hear stories like an ABC stock or a XYZ stock being a 100 bagger, ask this question – But how many investors have made such 100 bagger returns in this stock? The answer, if you can get it, will surprise you. Most people would have sold the stock after it turned 2x or 5x or 10x fearing losing their paper returns, or when the stock initially dropped by 20% or 30%. Only the guys who continued to believe in the long term story of the stock stuck with it and made the kind of return that the investment made.

Behaviour Gap idea source - <https://www.behaviorgap.com/>

## “Time” Does Not Help. We Really Suck at Investing!

	Investor Returns <sup>1</sup>			Inflation	S&P 500	Barclays Aggregate Bond Index
	Equity Funds	Asset Allocation Funds	Fixed Income Funds			
30 Year	3.66	1.65	0.59	2.60	10.35	6.73
20 Year	4.67	2.11	0.51	2.20	8.19	5.34
10 Year	4.23	1.89	0.39	1.88	7.31	4.51
5 Year	6.92	3.28	0.10	1.58	12.57	3.25
3 Year	8.85	3.81	-1.76	1.07	15.13	1.44
12 Months	-2.28	-3.48	-3.11	0.95	1.38	0.55

<sup>1</sup>. Returns are for the period ending December 31, 2015. Average equity investor, average bond investor and average asset allocation investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions and exchanges for each period.

[www.safalniveshak.com](http://www.safalniveshak.com)

So, the behaviour gap exists even over longer periods of time. We really suck at investing! The earlier we accept this fact, the earlier we can try to become more sensible with our investment decision making. Sadly, however, most of us will never have that humility.

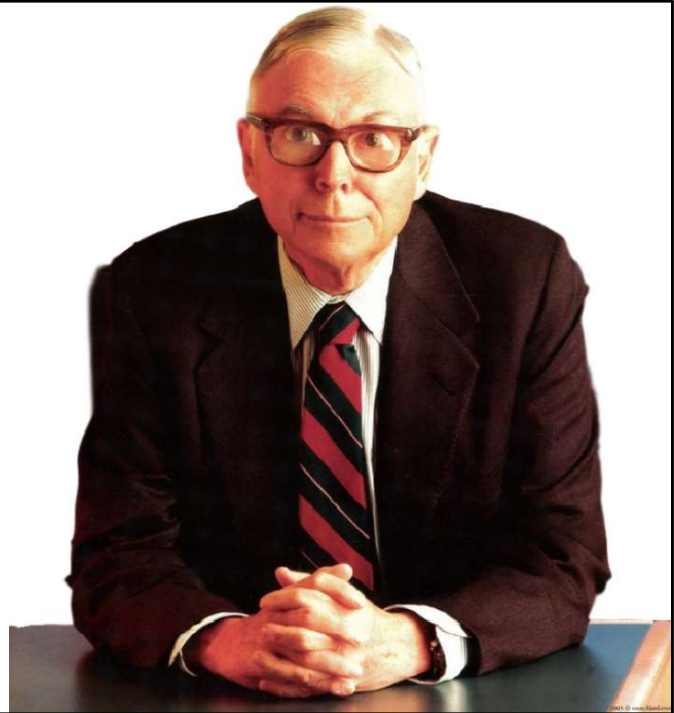
## **We Do Massively Stupid Things**

**The one thing that has surprised me all my life is how many people with high IQs do massively stupid things...**

**It happens everywhere but it's surprising how extreme the stupidity is and how talented the people who do them.**

~ Charlie Munger

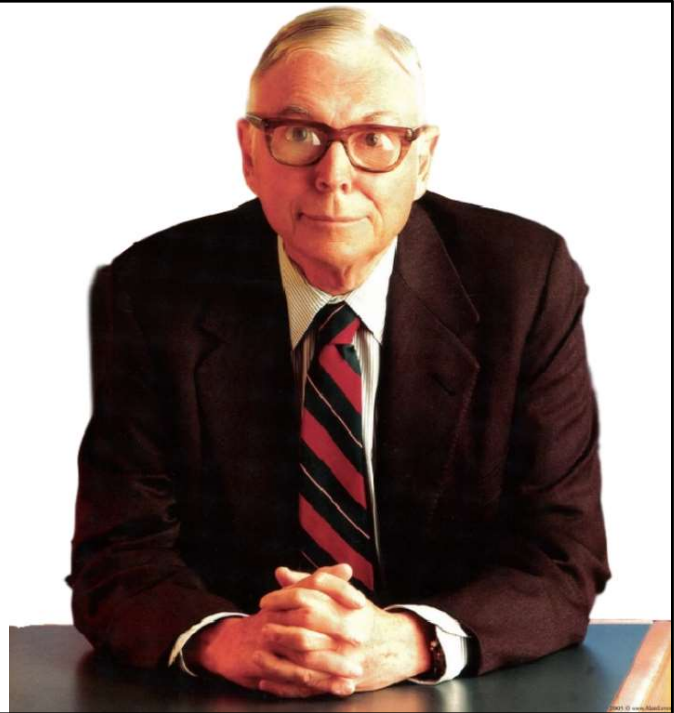
[www.safalniveshak.com](http://www.safalniveshak.com)



**“Lots of people are very, very smart in terms of passing tests and making rapid calculations, but they just make one asinine decision after another because in their quick-computing minds are these terrible streaks of nuttiness.”**

## **WHY Does This Happen?**

[www.safalniveshak.com](http://www.safalniveshak.com)





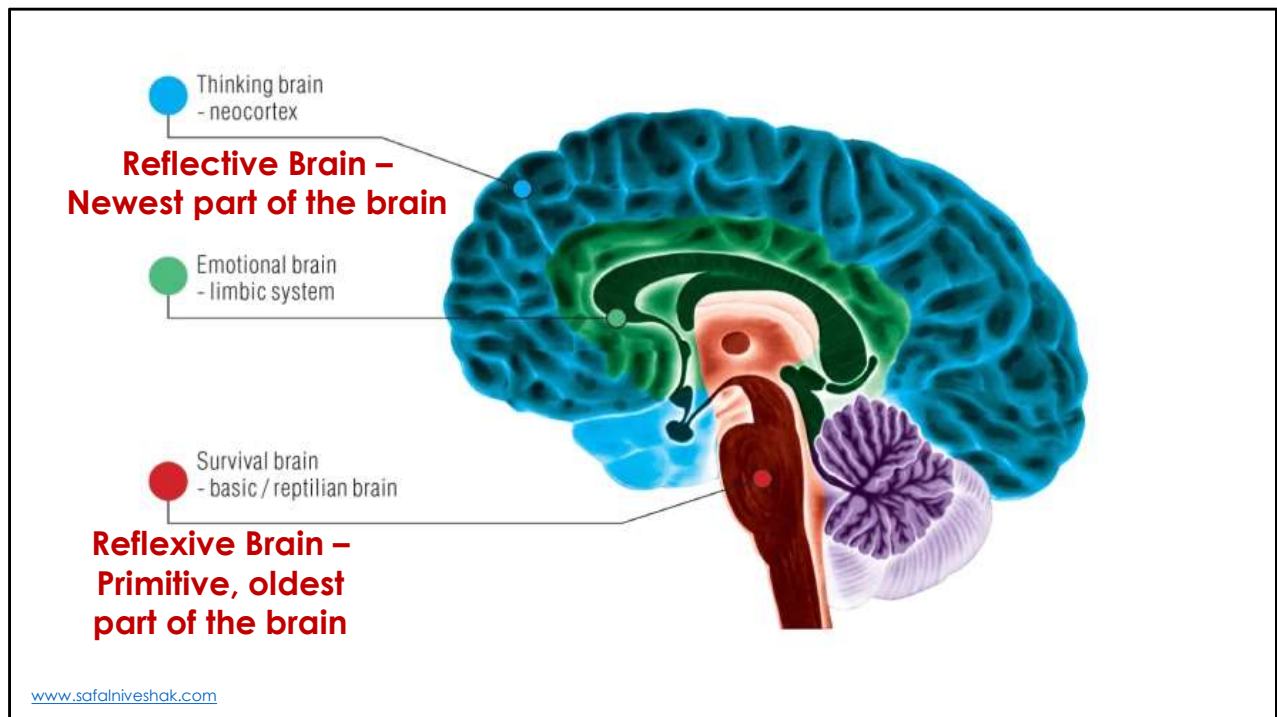
**Did you notice the mistake?**

[www.safalniveshak.com](http://www.safalniveshak.com)

The reason people get it wrong is because they jump to conclusions using the reflexive part of the brain.

Reference - <https://www.sanjaybakshi.net/bfbv-v14/> (Download and read all lessons carefully. They are goldmines!)





Understand what constitutes our brain –

**Neocortex (Reflective part of the brain)** – As the name implies, neocortex is the newest addition to our brain and is considered to be the crowning achievement of evolution and the biological substance of human mental prowess. It is responsible for the development of human language, abstract thought, imagination, and consciousness. It is flexible and has almost infinite learning abilities. The neocortex is also what has enabled human cultures to develop.

**Amygdala (Reflexive part of the brain)** – Most primitive part of the brain, which performs a primary role in the processing of memory, decision-making, and emotional reactions. Also called the reptilian brain, it controls the body's vital functions such as heart rate, breathing, body temperature and balance. It is mostly reliable but tends to be somewhat rigid and compulsive.

## Reflexive Brain – System 1 Thinking



**Fast-acting, uncontrolled, effortless, associative, and unconscious portion of our brain that we use for most activities requiring little thought**

[www.safalniveshak.com](http://www.safalniveshak.com)

When you instantly answer  $2 \times 2 = 4$ , you are using the reflexive brain.

Reflexive brain is active nearly all the time. We can't help that. That's why it's called the reflexive brain; it has been hard-wired through thousands of years of human existence to act automatically. It is this part of the brain that helped our ancestors survive the hazardous primeval world, enabling them to evade predators, find food and shelter, and eventually to plant crops in the right place at the right time of year. But even when this part of the brain was designed to keep us safe from tigers ... it wasn't designed to keep us safe from tigers every day.

The reflexive system runs the show when we are short on time and effort. This system is not great at filtering, so it is affected by any stimuli around it. Many efforts to change undesirable behaviors fail, because, they focus on the logical brain and forget about the reflexive one.

In his brilliant book *Thinking Fast and Slow*, Daniel Kahneman has associated the reflexive brain with what he calls the System 1 thinking.



When you take time to think and answer  $25 \times 29 = 725$ , you are using the reflective brain.

This part of the brain helps us reduce the number of cognitive errors

Kahneman associates the reflective brain with System 2 thinking.

## How to Know Which of Your Brains is Working?

<b>Reflexive Brain</b>	<b>Reflective Brain</b>
Automatic	Intentional, controlled
Effortless	Effortful
Emotional	Logical
Images, metaphors, narratives	Symbols, words, numbers
Rapid processing; immediate action	Slower processing; delayed action
Resistant to change; changes with repetitive or intense experiences	Changes easily; changes with strength of argument and new evidence
Gets the gist	Focuses on precision
Holistic	Analytic
Passive and subconscious	Active and conscious
Intuitive	Rational

[www.safalniveshak.com](http://www.safalniveshak.com)

Reference - <https://cognitiveinvesting.com/introduction-to-cognitive-investing/>

## Another Way to Differentiate

Factor	Reflexive Thinking	Reflective Thinking
Depth	Low	High
Speed	Fast	Slow
Sociability	Social	Alone
Accuracy	Good enough	High
Openness	Low	High
Argument	Win-lose debate	Win-win negotiation
Timescale	Short-term	Long-term
Arousal	High	Low

**This is why we over-react to short term stock price movements etc.**

**This is how wealth is created in investing**

[www.safalniveshak.com](http://www.safalniveshak.com)

Reference - [http://changingminds.org/explanations/preferences/reflective\\_reactive.htm](http://changingminds.org/explanations/preferences/reflective_reactive.htm)

# Stock Vs Business

## System 1 – Reflexive



## System 2 – Reflective

### Consolidated Statement of Profit and Loss

of Indiabulls Housing Finance Limited Group for the year ended March 31, 2016

Particulars	Note No.	For the Year ended March 31, 2016	For the Year ended March 31, 2015
(1) Revenue from Operations	25	82,899,274,280	64,492,979,513
(2) Other Income	26	9,356,322,043	8,030,493,052
(3) Total Revenue (1+2)		<b>92,255,596,323</b>	<b>72,523,472,565</b>
(4) EXPENSES			
Employee benefits expense	27	4,131,499,267	3,248,779,153
Finance costs	28	49,714,322,456	39,441,959,709
Depreciation and amortisation expense	14	203,606,711	187,606,604
Other expenses	29	6,917,512,566	4,919,850,328
Total Expenses		<b>60,966,941,000</b>	<b>47,798,195,794</b>
(5) Profit Before Tax (3-4)		31,288,655,323	24,725,276,771
(6) Tax expense			
Current tax expense		7,525,175,032	6,055,711,733
Less: MAT Credit Entitlement		550,564,762	978,922,426
Net Current Tax expense		6,974,610,270	5,076,789,307
Current tax (credit) relating to prior years		(832,285)	(220,696)
Deferred tax charge (Net)	7 & 17	785,899,711	636,349,922
Total Tax Expense		<b>7,760,679,686</b>	<b>6,313,019,627</b>

Just as an example, we get excited and often stop thinking when we see rising stock prices. This is when we are using reflexive thinking. On the other hand, reading financial statements is hard work, reflective thinking. And we often avoid it because that is hard work.

## What, Then, is System 1 Good For?

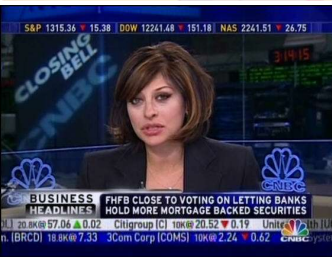


[www.safalniveshak.com](http://www.safalniveshak.com)

What, then, is System 1 good for? Rather a lot, it turns out. In a world that often demands swift judgment and rapid decision-making (fight or flight?), a creature who solely relied on deliberative thinking wouldn't last long. Moreover, System 1 generally works well. As Daniel Kahneman says, "most of our judgments and actions are appropriate most of the time."

He urges us to counteract what he considers to be mistakes of System 1 thinking, such as the "loss aversion" that deters people from accepting favourable gambles (such as a 50-50 chance to win \$200 or lose \$100). He also recommends checking the performance of an investment portfolio no more than once a quarter, to limit needless anguish over short-term fluctuations and the "useless churning" of shares.

## When System 1 Hurts Us



[www.safalniveshak.com](http://www.safalniveshak.com)

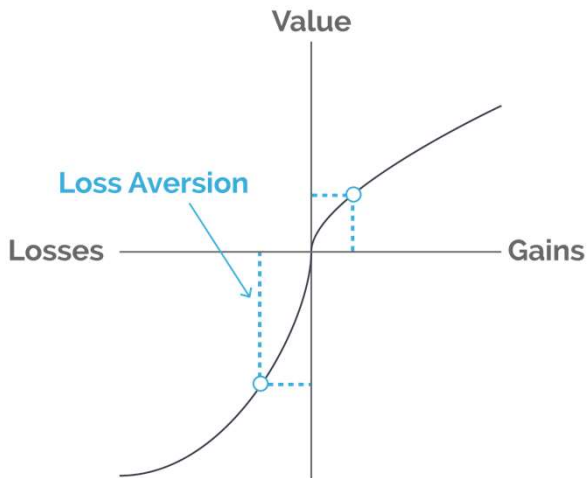
Open outcry  
auctions, online  
portfolios, beautiful  
anchors, etc.

T	TCS <small>NSE</small>	₹ 2,509.30	5.85 (0.23%)
T	ULTRACEMCO <small>NSE</small>	₹ 4,053.30	3.35 (0.08%)
T	GSKCONS <small>NSE</small>	₹ 5,459.95	1.95 (0.04%)
T	BHARTIARTL <small>NSE</small>	₹ 417.35	-0.10 (-0.02%)
T	ABB <small>NSE</small>	₹ 1,404.95	-0.95 (-0.07%)
T	ZEEL <small>NSE</small>	₹ 540.00	-0.65 (-0.12%)
T	MARICO <small>NSE</small>	₹ 334.00	-0.25 (-0.07%)

When we react instantly to stock price movements, what we hear on business tv (and whom we hear), and because we fear missing out in open outcry auctions (which stock markets are), we are using System 1 thinking (reflexive brain), which ultimately causes a lot of heartburn and losses.



# Loss Aversion is System 1



[www.safalniveshak.com](http://www.safalniveshak.com)

People are loss-averse: they are more likely to act to avert a loss than to achieve a gain. So we often act quickly and mindlessly – like holding on to our losers and selling our winners (due to fear of losing your paper profits).

## Symptoms of Bipolar Disorder

### People having a manic episode may:

- Feel very “up,” “high,” or elated
- Have a lot of energy
- Have increased activity levels
- Feel “jumpy” or “wired”
- Have trouble sleeping
- Become more active than usual
- Talk really fast about a lot of different things
- Be agitated, irritable, or “touchy”
- Feel like their thoughts are going very fast
- Think they can do a lot of things at once

### People having a depressive episode may:

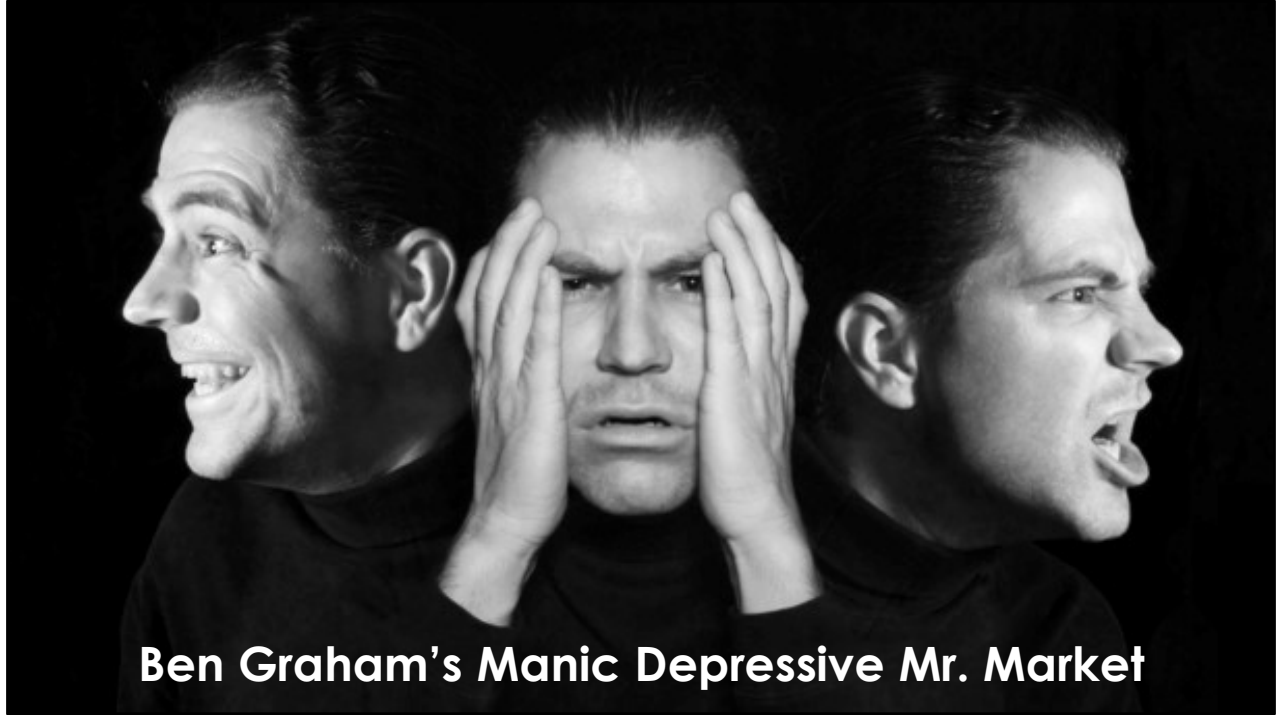
- Feel very sad, down, empty, or hopeless
- Have very little energy
- Have decreased activity levels
- Have trouble sleeping, they may sleep too little or too much
- Feel like they can't enjoy anything
- Feel worried and empty
- Have trouble concentrating
- Forget things a lot
- Eat too much or too little
- Feel tired or “slowed down”

[www.safalniveshak.com](http://www.safalniveshak.com)

Source: National Institute of Mental Health

National Institute of Mental Health, US, mentions these as the symptoms of Bipolar disorder. Also known as manic-depressive illness, it is a brain disorder that causes unusual shifts in mood, energy, activity levels, and the ability to carry out day-to-day tasks.

Reminds you of something else?



## **Ben Graham's Manic Depressive Mr. Market**

Isn't Mr. Market – Ben Graham's manic depressive guy, who he introduces in *The Intelligent Investor* – Bipolar too?

In fact, Graham wrote in his book – “Is Mr. Market Bipolar? You bet he is!”

**I'm selfish, impatient and a little insecure. I make mistakes, I am out of control and at times hard to handle. But if you can't handle me at my worst, then you sure as hell don't deserve me at my best.**

~ Marilyn Monroe

[www.safalniveshak.com](http://www.safalniveshak.com)



Monroe suffered from Bipolar, and here is how she wanted others to treat her.

Replace Monroe with Mr. Market, and the message doesn't change. If you can't handle the market and your stocks at their worst, then you sure as hell don't deserve them at their best.

**The investor's chief  
problem and even  
his worst enemy is  
likely to be himself.**

~ Benjamin Graham

[www.safalniveshak.com](http://www.safalniveshak.com)



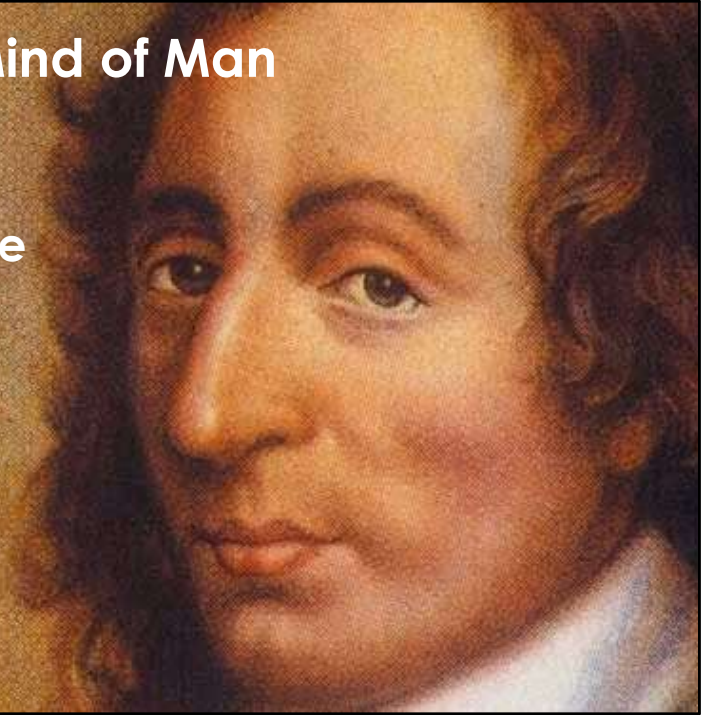
© Shane L. Johnson

“We have met the enemy and he is us.” – Walt Kelly, Pogo

## The Mind of Man

The mind of man at one and the same time is both the glory and the shame of the universe.

~ Blaise Pascal



And that's exactly right. Our mind has this enormous power. However, it also has these standard malfunctions that often cause it to reach wrong conclusions. It also makes man extraordinarily subject to manipulation by others.

For example, roughly half of the army of Adolf Hitler was composed of believing Catholics. Given enough clever psychological manipulation, what human beings will do is quite interesting.

With over 14+ years of managing my own money, I can say with confidence that this "psychological" stuff is very-very important as far as investing is concerned.

**Wavering Mind of Man  
+ Bipolar Mr. Market  
+ 24x7 Noise  
= Toxicity!**



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

This barrage of readily available information has also created an environment where one of the worst social sins is to appear uninformed. Ours is a culture where it's enormously embarrassing not to have an opinion on something, and in order to seem informed, we form our so-called opinions hastily, based on fragmentary bits of information and superficial impressions rather than true understanding.

**The short-term, dopamine-driven feedback loops that we have created are destroying how society works. No civil discourse, no cooperation, misinformation, mistruth.**

~ Chamath Palihapitiya, ex-VP of user growth at Facebook pre-2011



Like



Love



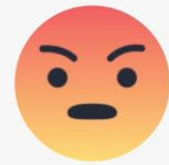
Haha



Wow



Sad



Angry

Here's some proof from a guy who has been at the forefront of creating noise for us through a platform he helped grow. These remarks were made at a Stanford Business School event in November. "This is not about Russian ads," he added. "This is a global problem. It is eroding the core foundations of how people behave by and between each other."



**Where is the wisdom  
we have lost in knowledge?**

**Where is the knowledge  
we have lost in information?**

~ T.S. Eliot

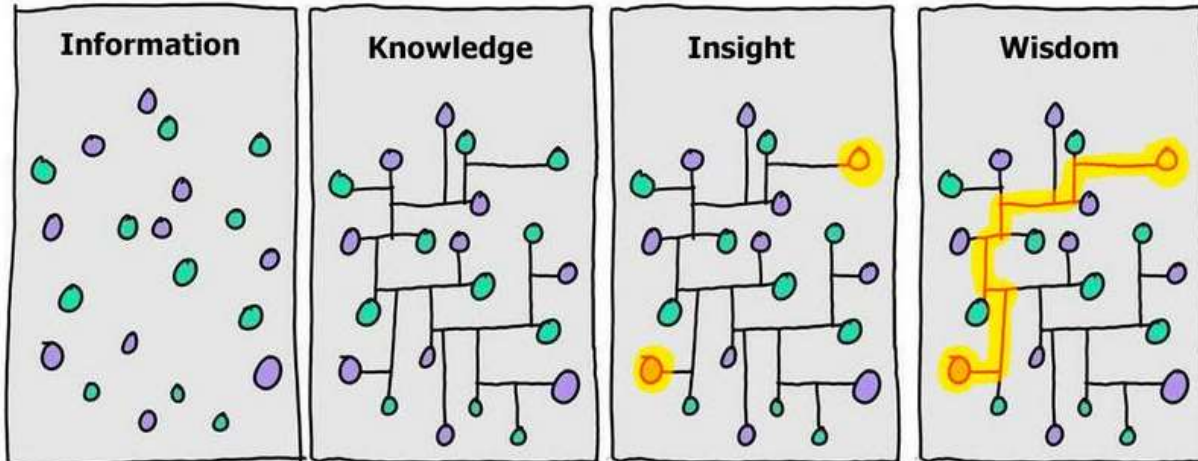
[www.safalniveshak.com](http://www.safalniveshak.com)



TS Eliot asked these questions fifty years ago. But they find much greater relevance today, in an age of accelerated information and information overload, when people are living larger parts of their lives consuming media, on Facebook and Twitter, than with their families and 'real' friends.

The rate and way in which we receive information has changed dramatically – from newspapers and television to constant news online. In fact, we have made our personal lives available to the world in tweetable and retweetable moments. Now, as much as we try to stop consuming the vast amounts of information coming at us, we wrestle against the paranoia of 'missing out' on important information or being out of the loop on something.

## Information is NOT Wisdom

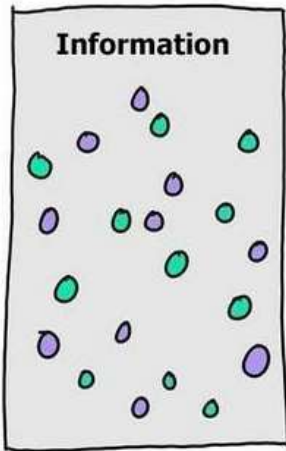


[www.safalniveshak.com](http://www.safalniveshak.com)

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

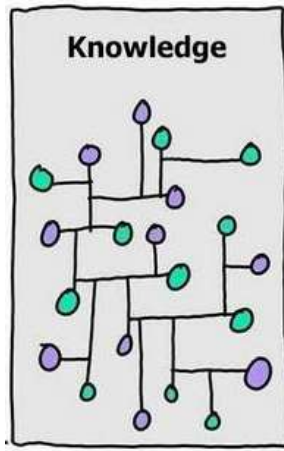
We are drowning in information while starving for wisdom...and sadly, we are not able to differentiate between the two.

# Information is NOT Wisdom

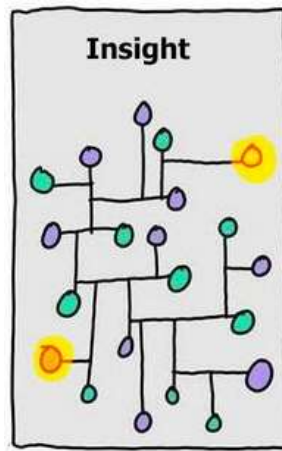


Suzlon's stock is trading at Rs 14

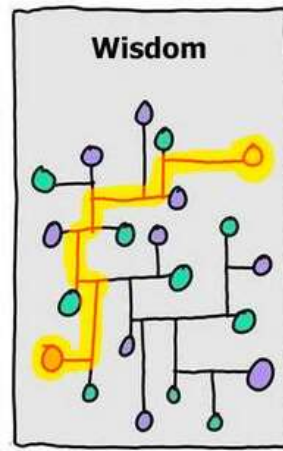
[www.safalniveshak.com](http://www.safalniveshak.com)



Suzlon's stock is down 97% from its all time high



A stock down 97% over 10-years tells me something



Suzlon is a gruesome business due to ...

Just as an example...

**...if the quantity of information by 2.5 quintillion bytes per day, the amount of useful information almost certainly isn't. Most of it is just noise, and the noise is increasing faster than the signal. There are so many hypotheses to test, so many data sets to mine – but a relatively constant amount of objective truth.**

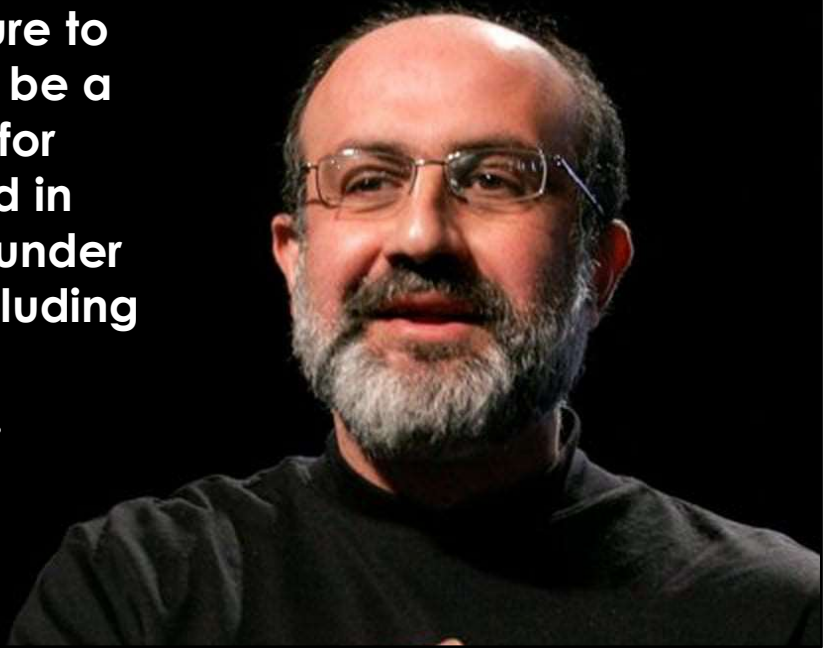
~ Nate Silver

[www.safalniveshak.com](http://www.safalniveshak.com)

*the signal and the  
and the noise and  
the noise and the  
noise and the no  
why so many and  
predictions fail –  
but some don't th  
and the noise and  
the noise and the  
nate silver noise  
noise and the no*

**...minimal exposure to the media should be a guiding principle for someone involved in decision making under uncertainty — including all participants in financial markets.**

~ Nassim Taleb



**Stuff we get  
excited about!**

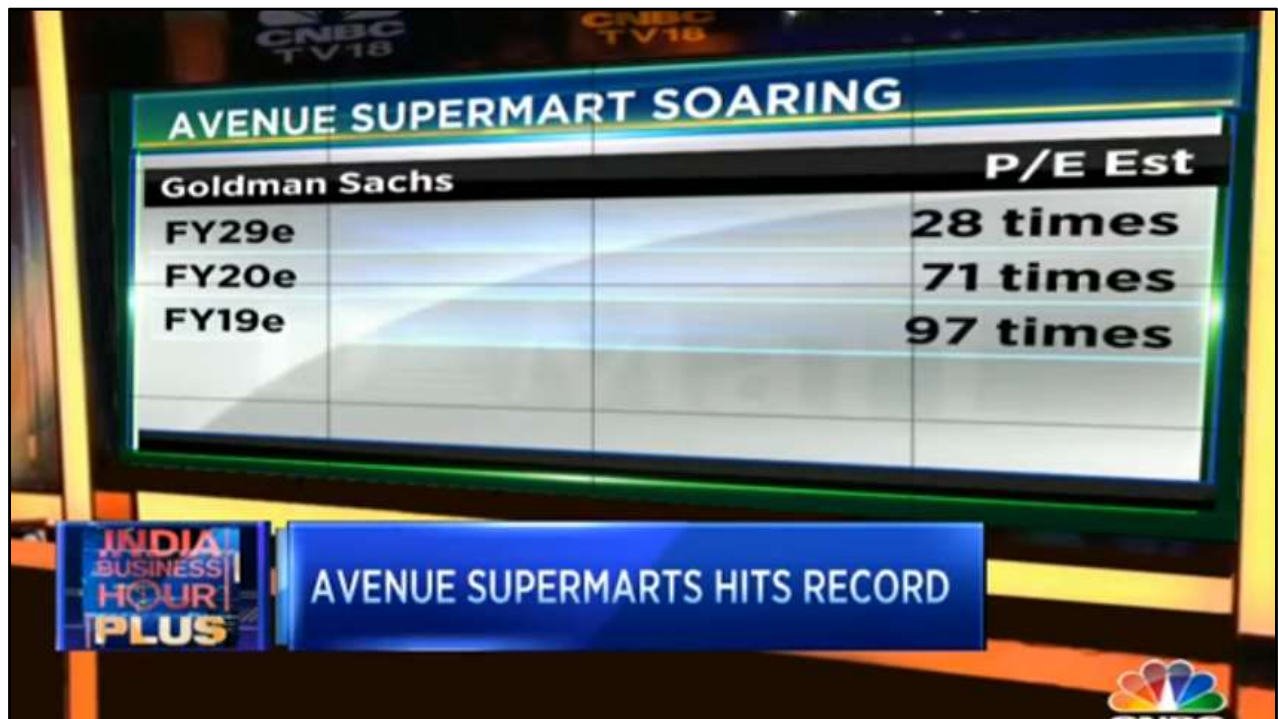


*Brown.*

*"Stock markets went down today on fears  
that they would go down."*

[www.safalniveshak.com](http://www.safalniveshak.com)

This is especially true when it comes to stock market information. As if the second-by-second changing stocks prices were not enough, we are seeing analysis of these changes at a similar pace if not faster. Every 0.01% move in the inflation is analyzed threadbare and trading strategies laid out to deal with the same. Every price movement is justified as if the analyst knew it coming. And we, as consumers of such information, believe every such spoken or written word as a gospel truth.



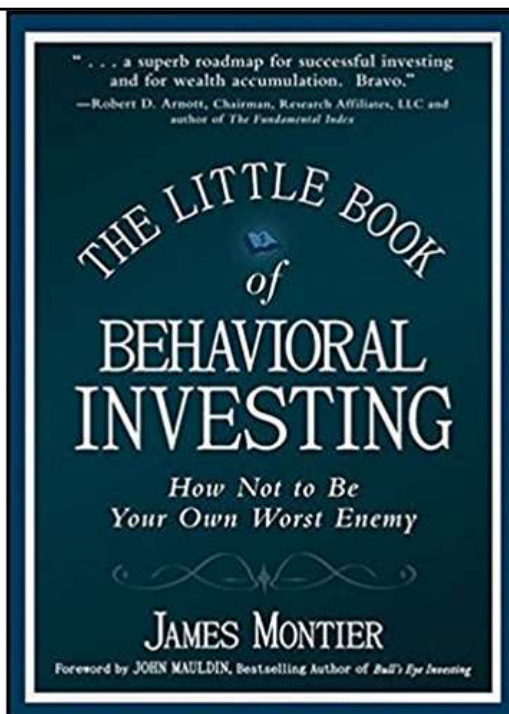
And things like these! (Just as an example)

**When it comes to investing, we seem to be addicted to information. The whole investment industry is obsessed with learning more and more about less and less, until we know absolutely everything about nothing.**

**Rarely, if ever, do we stop to consider how much information we actually need to know in order to make a decision.**

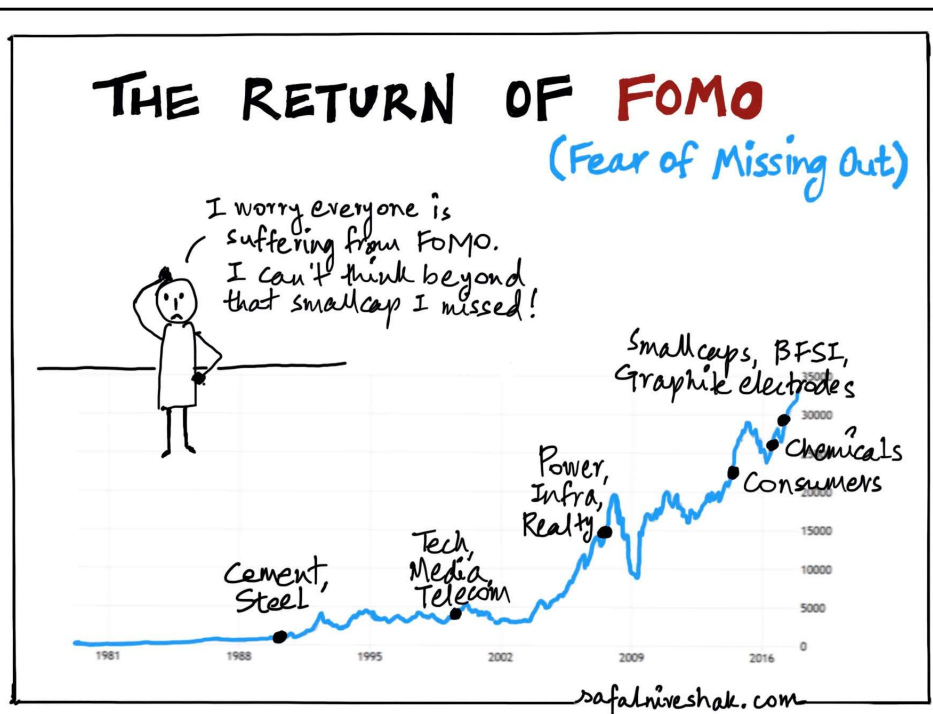
~ James Montier

[www.safalniveshak.com](http://www.safalniveshak.com)





## What Too Much Noise and Info Does to Our Investing Brain?

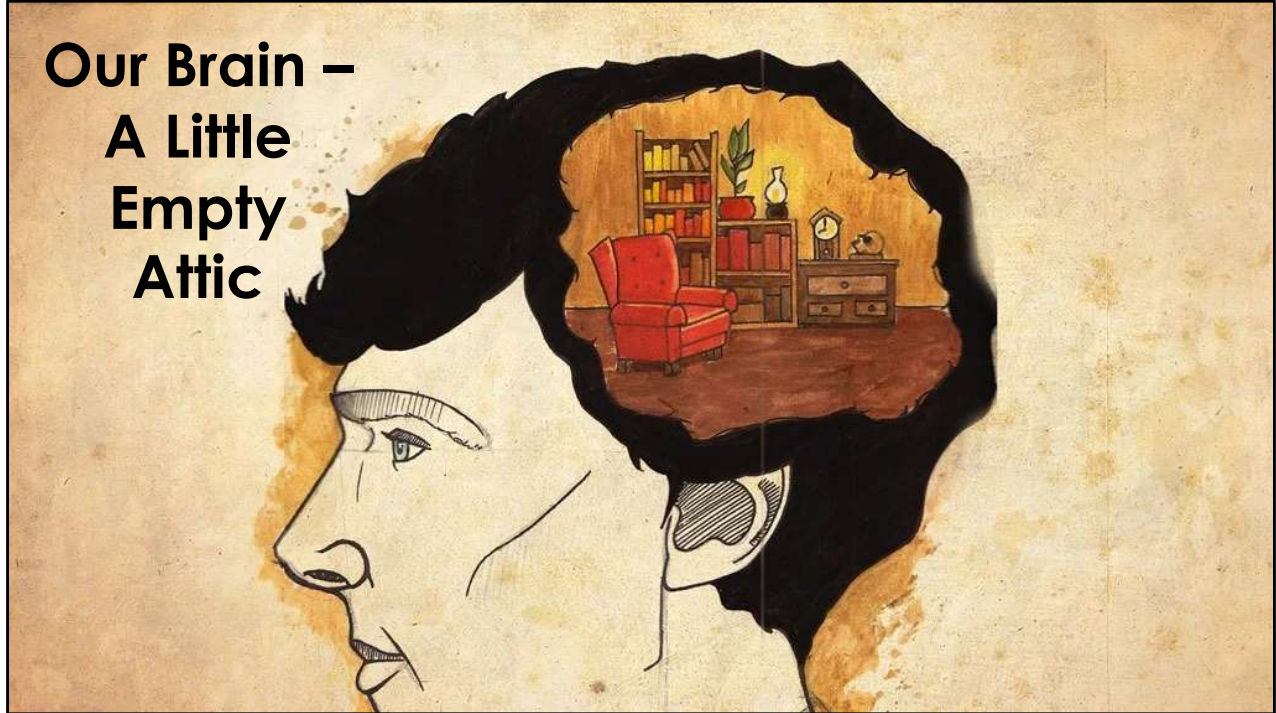


I have been guilty of buying a few stocks in my early investment career – the 2005-2007 period – under the influence of FOMO *plus* envy. I made some money on some of those stocks because we were then in a bull market. But, net-net, I suffered. And not just with me who started investing only in 2003, I am sure FOMO existed even with investors in 1983 and 1993. But we have now taken this fear far beyond, thanks to the supercomputers in our pockets, and amplified by our usage of social media. In fact, media and social media brings FOMO right to you, wherever you are, with a mere beep or vibration or with opening and closing bells.

FOMO isn't such a bad emotion to have in general, especially because it can help you avoid missing trains and flights. However, when it comes to investing, the dangerous side of FOMO comes to light when investors act under its influence and buy stuff they either don't need, or don't understand, or shouldn't touch.

Missing out on the glitter is fine guys. It's fine seeing your friends, especially the ones on Twitter and Facebook, get richer faster from the stocks they own that you don't. If you have been in the stock market for long, you may have witnessed people who had never invested before piling into stocks, unknown and unworthy, just out of the fear of missing out.

If yes, you also know how that ended.



I am reminded of what Sherlock Holmes told Watson in *A Study in Scarlet* –

*I consider that a man's brain originally is like a little empty attic, and you have to stock it with such furniture as you choose. A fool takes in all the lumber of every sort that he comes across, so that the knowledge which might be useful to him gets crowded out, or at best is jumbled up with a lot of other things so that he has a difficulty in laying his hands upon it.*

*Now the **skillful workman is very careful indeed as to what he takes into his brain-attic.** he will have nothing but the tools which may help him in doing his work, but of these he has a large assortment, and all in the most perfect order. It is a mistake to think that that little room has elastic walls and can distend to any extent. Depend upon it there comes a time when for every addition of knowledge you forget something that you knew before. It is of the highest importance, therefore, not to have useless facts elbowing out the useful ones.*

So be very careful of what you take in. But always remember to focus on the depth of what you take in than breadth...

## **My Rules of Dealing with Noise**

- **Don't watch the television, especially when it's on.**
- **Don't read newspapers.**
- **Don't get involved on online discussions, stock forums, etc.**
- **Don't maintain stock portfolio online, which helps me avoid extreme emotions that accompany changing stock prices.**

[www.safalniveshak.com](http://www.safalniveshak.com)

## **My Rules of Dealing with Noise**

- **Make my investment decisions through hard work, and not readymade reports or recommendations.**
- **Focus on 4-5 critical characteristics of a business, which helps me ask better questions – like how sustainable and profitable is the business going to be 10 years down the line, how does the balance sheet look like, what is the management doing with cash, and how seriously is the stock overvalued or undervalued.**

[www.safalniveshak.com](http://www.safalniveshak.com)

All this leaves me enough time to focus on learning the right things towards my pursuit of seeking wisdom.

## Learning the Art of Elementary Worldly Wisdom



Moving on from what *not* to do, let me talk about what to do in the pursuit of wisdom...

## Gorging Gene Theory Explains Our Never-Changing Instincts



The biggest obstacle to our learning process is our DNA, that often resists adaptability to change. In fact, the human DNA hasn't changed since pre-historic times. We behave and act very much like our distant ancestors. Like take this note on the Gorging Gene Theory from the book Sapiens –

*Today's affluent societies are in the throes of a plague of obesity, which is rapidly spreading to developing countries. It's a puzzle why we binge on the sweetest and greasiest food we can find, until we consider the eating habits of our forager forebears. In the savannahs and forests they inhabited, high-calorie sweets were extremely rare and food in general was in short supply. **A typical forager 30,000 years ago had access to only one type of sweet food – ripe fruit. If a Stone Age woman came across a tree groaning with figs, the most sensible thing to do was to eat as many of them as she could on the spot, before the local baboon band picked the tree bare. The instinct to gorge on high-calorie food was hard-wired into our genes. Today we may be living in high-rise apartments with over-stuffed refrigerators, but our DNA still thinks we are in the savannah. That's what makes us spoon down an entire tub of Ben & Jerry's when we find one in the freezer and wash it down with a jumbo Coke.***

## But Our Brains Are PLASTIC (Almost)

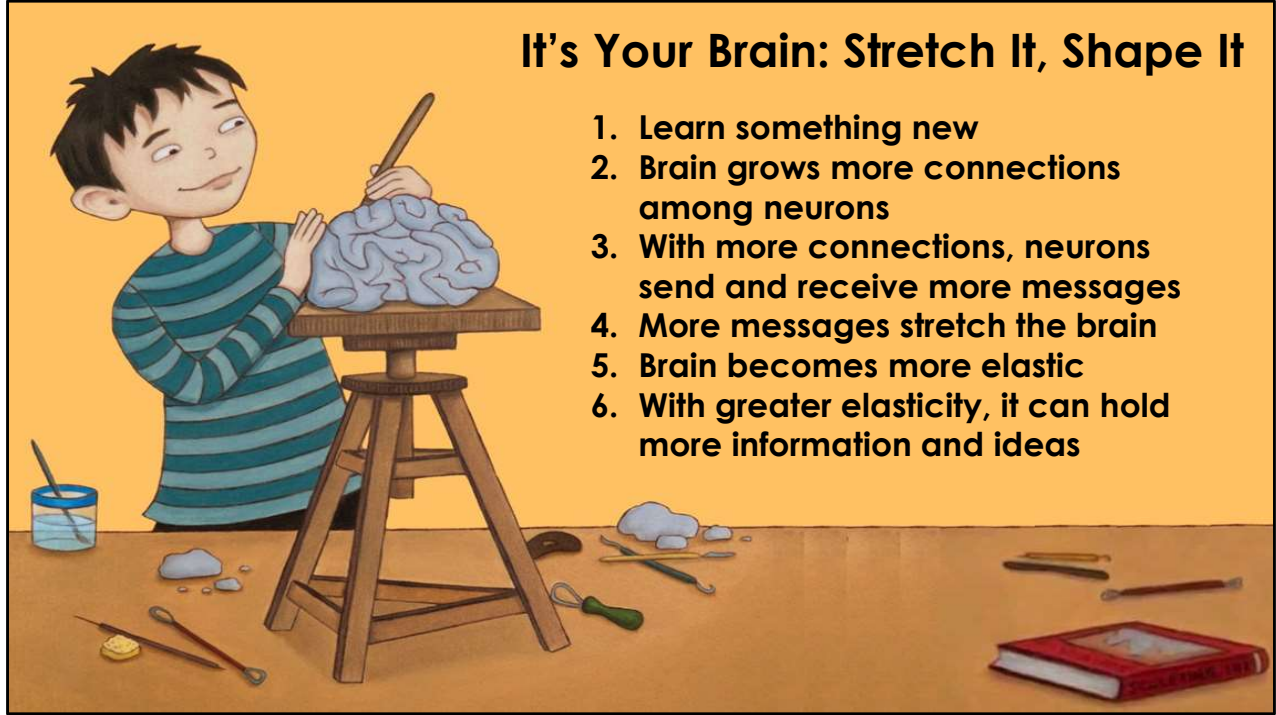
**Brain has the ability to modify its connections or re-wire itself.**



[www.safalniveshak.com](http://www.safalniveshak.com)

But despite the fact that the wiring of our brain hasn't changed over centuries, one important truth remains that our brain has the ability to reorganize itself by forming new neural connections throughout life. While it's true that your brain is much more plastic during the early years and capacity declines with age, plasticity happens all throughout your life.

Neuroplasticity makes your brain extremely resilient and is the process by which all permanent learning takes place in your brain, such as playing a musical instrument or mastering a different language. Neuroplasticity also enables people to recover from stroke, injury, and birth abnormalities, overcome autism, ADD and ADHD, learning disabilities and other brain deficits, pull out of depression and addictions, and reverse obsessive compulsive patterns.



## **It's Your Brain: Stretch It, Shape It**

- 1. Learn something new**
- 2. Brain grows more connections among neurons**
- 3. With more connections, neurons send and receive more messages**
- 4. More messages stretch the brain**
- 5. Brain becomes more elastic**
- 6. With greater elasticity, it can hold more information and ideas**

In short, we can mold the brain – stretch it and reshape it - as we want. It takes times, but it happens.

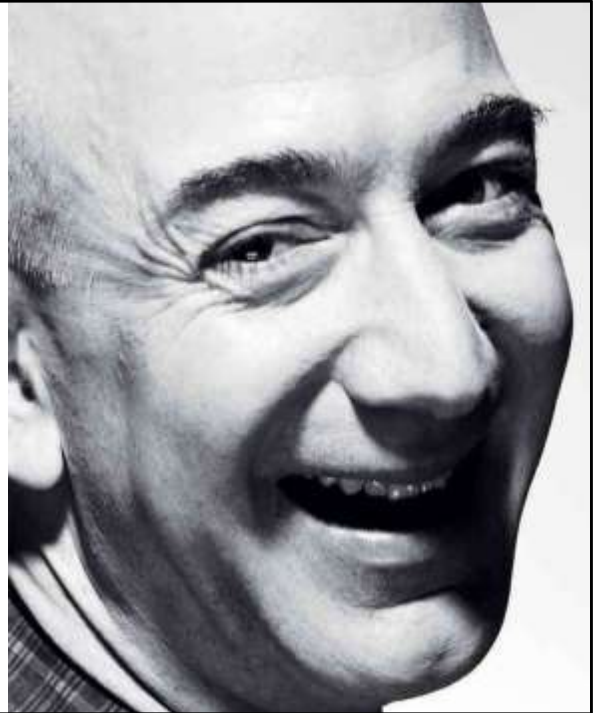


## How to Achieve Great Things in Life or Investing?

“Just lengthen your time horizon...”

~ Jeff Bezos

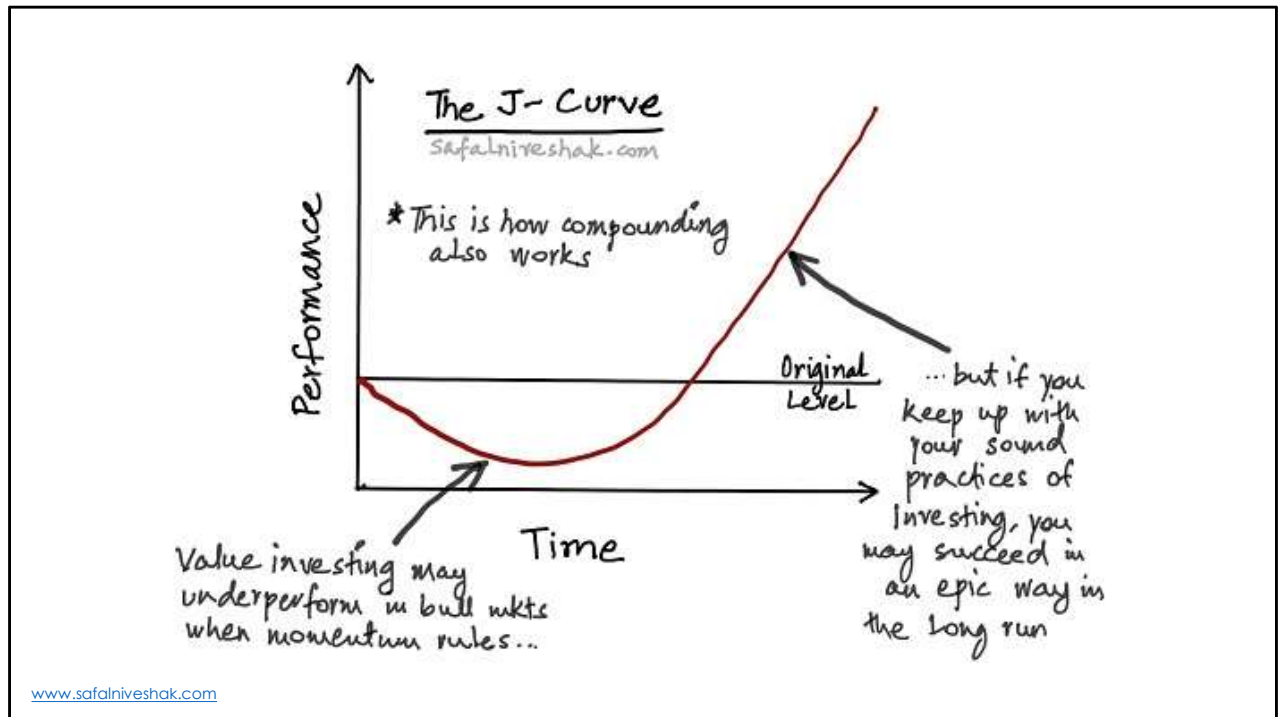
[www.safalniveshak.com](http://www.safalniveshak.com)



Jeff Bezos – *If everything you do needs to work on a three-year time horizon, then you’re competing against a lot of people. But if you’re willing to invest on a seven-year time horizon, you’re now competing against a fraction of those people, because very few companies are willing to do that. **Just by lengthening the time horizon, you can engage in endeavors that you could never otherwise pursue.***

*In some cases, things are inevitable. The hard part is that you don’t know how long it might take, but you know it will happen if you’re patient enough.*

*“Most people overestimate what they can do in 1 year and underestimate what they can do in 10 years.” ~ Bill Gates*



Learning to seek wisdom also follows the J Curve

## The “How to Get Smarter” Formula

“Read 500 pages...every week. **That’s how knowledge works. It builds up, like compound interest.** All of you can do it, but I guarantee not many of you will do it.”

~ Warren Buffett



[www.safalniveshak.com](http://www.safalniveshak.com)

- Bill Gates reads about 50 books per year, which breaks down to 1 per week.
- Mark Cuban reads more than 3 hours every day.
- Elon Musk is an avid reader and when asked how he learned to build rockets, he said “I read books.”
- Mark Zuckerberg resolved to read a book every 2 weeks throughout 2015.

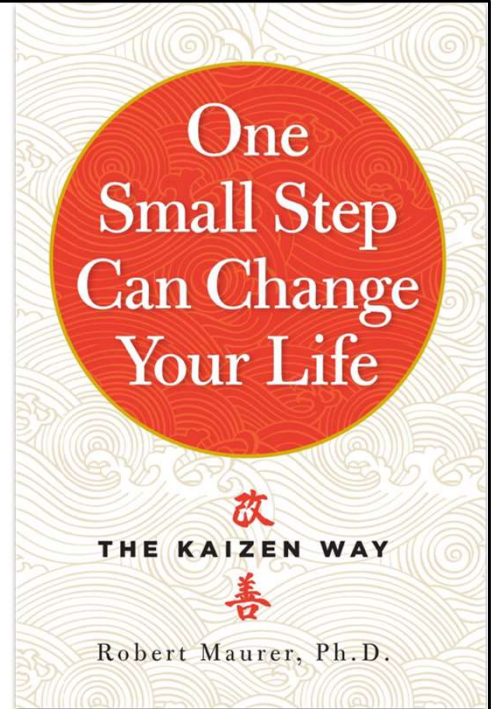
You don’t need to start reading 500 pages. Read just 25.

Read more here - <https://www.farnamstreetblog.com/2013/05/the-buffett-formula-how-to-get-smarter/>

**Q. How to read  
24 books in a year?**

**A. Read 25 pages  
EVERY day.**

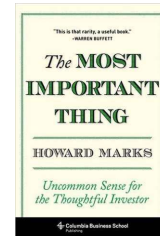
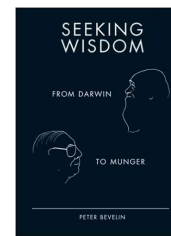
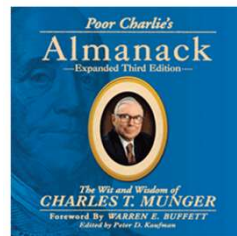
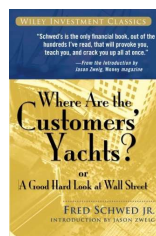
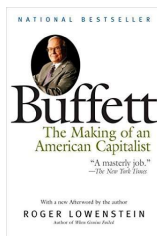
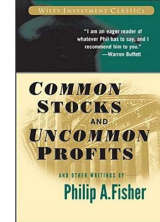
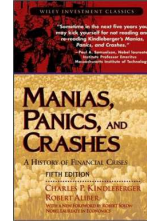
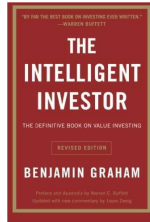
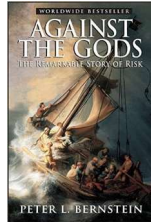
[www.safalniveshak.com](http://www.safalniveshak.com)



This book – One Small Step – shall help you understand the power of taking small steps, but regularly. It has helped me immensely.

# What to Read in Pursuit of Wisdom?

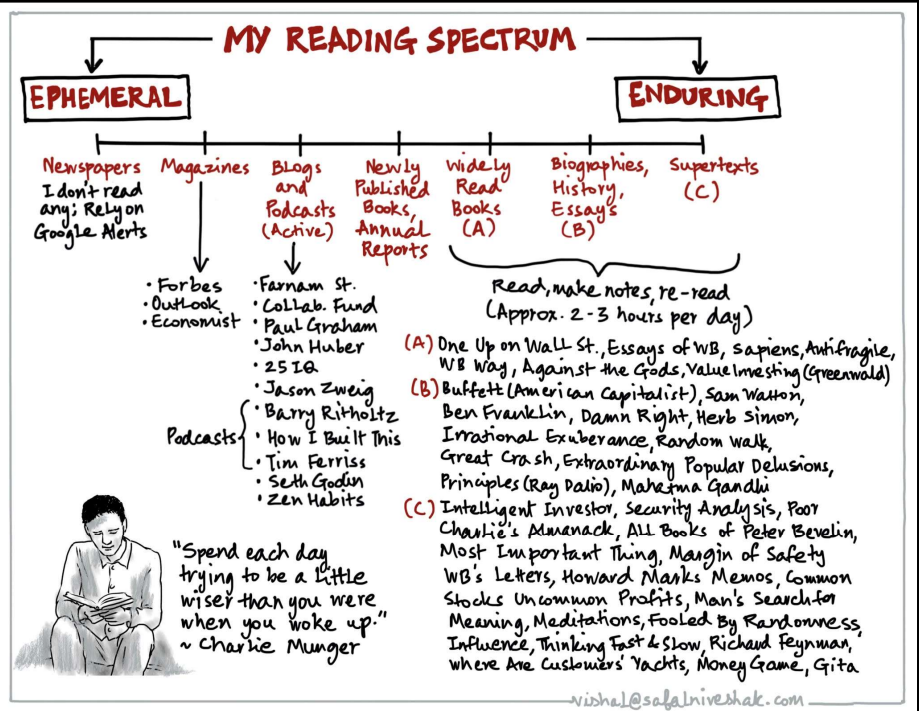
## Start with the Supertexts



[www.safalniveshak.com](http://www.safalniveshak.com)

## When Reading to Learn, Move from Ephemeral to Enduring

[www.safalniveshak.com](http://www.safalniveshak.com)



Knowledge follows the Lindy Effect, i.e., it has a half-life. The most useful knowledge is a broad-based multidisciplinary education of the basics. These ideas are ones that have lasted, and thus will last, for a long time.

If you were to look at a typical person's reading list, the vast majority of books would be crammed into the recent, low-value portion of the curve while many fewer books would occupy the much larger high-value, older section of the curve.

So your ROI on reading and understanding a concept from 500 years ago is highly likely to be exponentially greater in the long run than one presented only 5 years ago.

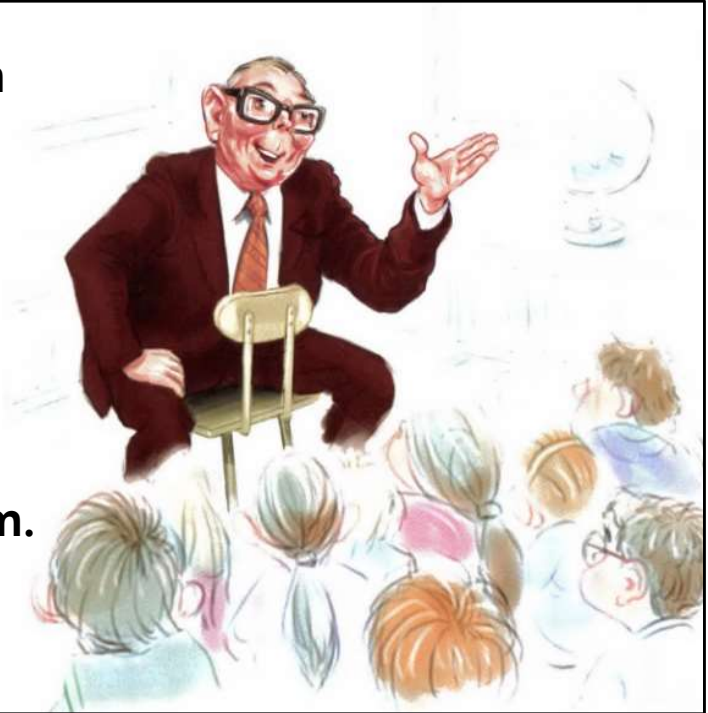
What I'm trying to get at is that the more fundamental or closer to the source that you move, the better the ROI in the long run.

**Acquire worldly wisdom  
and adjust your  
behaviour accordingly.  
If your new behaviour  
gives you a little  
temporary unpopularity  
with your peer group...**

**...then too hell with them.**

~ Charlie Munger

[www.safalniveshak.com](http://www.safalniveshak.com)



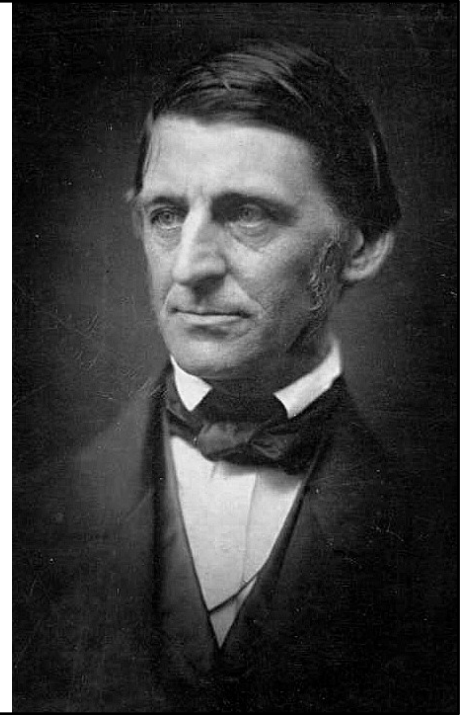
I believe that luck plays a significant role in defining the direction of our lives and for me it was a wonderful stroke of luck that I stumbled upon the teachings of Charlie Munger. I must confess that, after discovering him, I lost my right to blame luck for my failures. This is as far as luck could have taken me – to the doorsteps of school of worldly wisdom. Now it's up to me.

I hope you agree with me. And I hope you take the responsibility of acquiring worldly wisdom seriously, which is going to help you in your life, work, and investing.

**Knowledge is the knowing  
that we cannot know.**

~ Ralph Waldo Emerson

[www.safalniveshak.com](http://www.safalniveshak.com)





## Sub Specie Aeternitatis (*in view of eternity*)

~ Spinoza, Dutch philosopher

[www.safalniveshak.com](http://www.safalniveshak.com)



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

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

**But them, wisdom requires humility.** You must be teachable. You must be willing to live with understanding, with meaning, and with wisdom.

**But Are You  
Willing and  
Ready?**

[www.safalniveshak.com](http://www.safalniveshak.com)



Now, that was noise, wasn't it?

**Vishal Khandelwal** is the founder of [Safal Niveshak](#). He works with small investors to help them make well-thought-out investment decisions.

You can connect with him on –

- Twitter - [@safalniveshak](#)
- Website – [safalniveshak.com](#)



[www.safalniveshak.com](#)

Thank you!