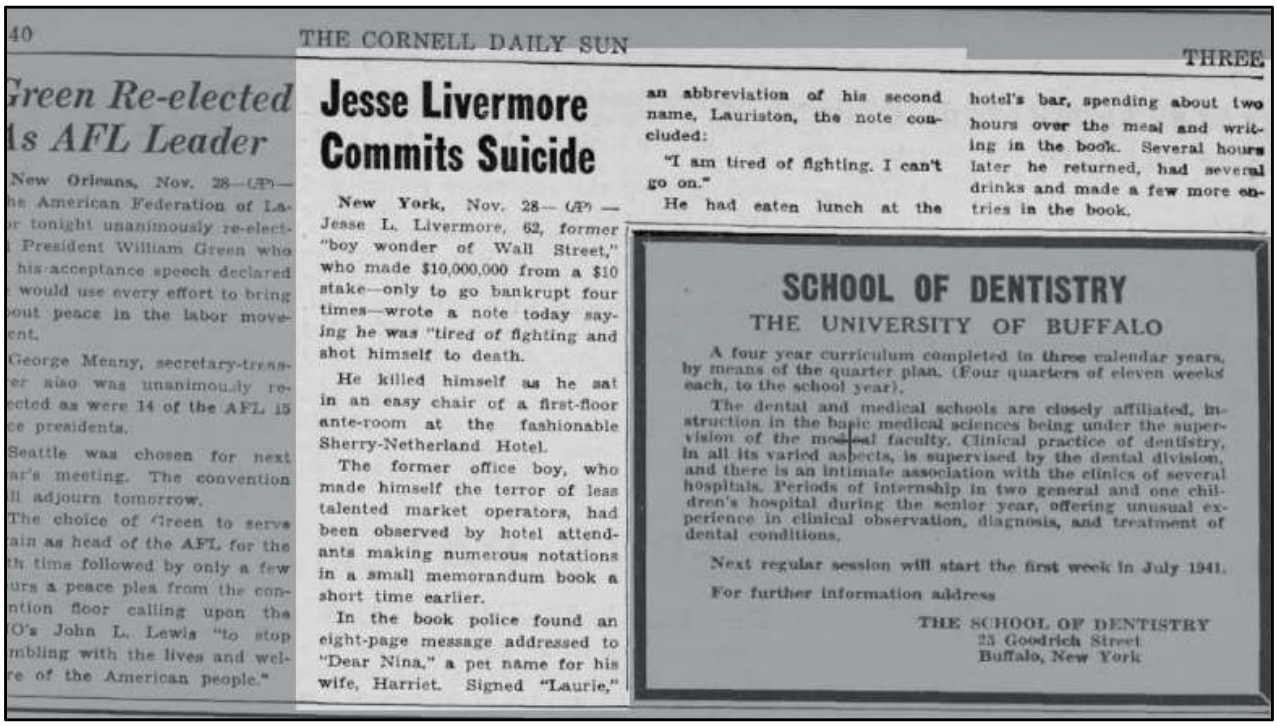
SURVIVING THE INVESTING GAME

(And a Few Other Lessons on Money and the Pursuit of Seeking Wisdom)

Vishal Khandelwal | safalniveshak.com

IIM Lucknow | December 2018



40 THE CORNELL DAILY SUN THREE

Green Re-elected
As AFL Leader

New Orleans, Nov. 28—(AP)—he American Federation of La-r tonight unanimously re-elect-President William Green who his acceptance speech declared would use every effort to bring out peace in the labor move-ent.

George Meany, secretary-treas-er also was unanimously re-ected as were 14 of the AFL 15 ce presidents.

Seattle was chosen for next ar's meeting. The convention ll adjourn tomorrow.

The choice of Green to serve ain as head of the AFL for the th time followed by only a few urs a peace plea from the con-ntion floor calling upon the O's John L. Lewis "to stop mbling with the lives and wel-re of the American people."

Jesse Livermore Commits Suicide

New York, Nov. 28—(AP)—Jesse L. Livermore, 62, former "boy wonder of Wall Street," who made $10,000,000 from a $10 stake—only to go bankrupt four times—wrote a note today saying he was "tired of fighting and shot himself to death.

He killed himself as he sat in an easy chair of a first-floor ante-room at the fashionable Sherry-Netherland Hotel.

The former office boy, who made himself the terror of less talented market operators, had been observed by hotel attendants making numerous notations in a small memorandum book a short time earlier.

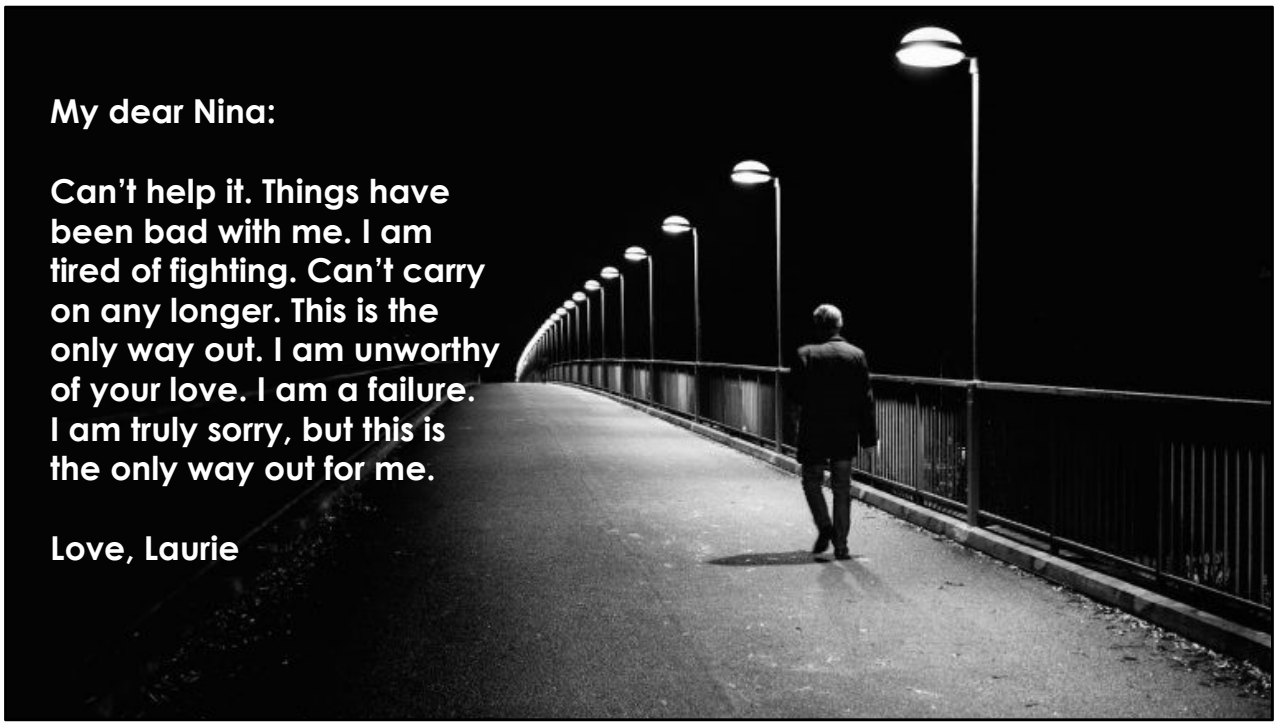
In the book police found an eight-page message addressed to "Dear Nina," a pet name for his wife, Harriet. Signed "Laurie," an abbreviation of his second name, Lauriston, the note concluded:

"I am tired of fighting. I can't go on."

He had eaten lunch at the hotel's bar, spending about two hours over the meal and writing in the book. Several hours later he returned, had several drinks and made a few more entries in the book.

The Nov. 29, 1940 edition of the Cornell Daily Sun newspaper in the United States reported a suicide that happened the previous day. A Wall Street speculator, who had gone bankrupt, had killed himself.

The man left a suicide note addressed to his wife that read…



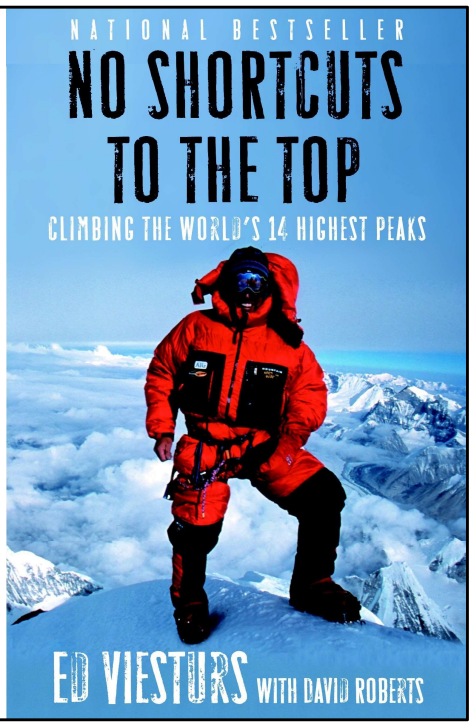
This man had hinted about his death just a day before at a club party when a photographer asked if he minded if he took his photo. The man replied, "*Not at all but it's the last picture you'll take because tomorrow I'm going away for a long, long time.*"

It was indeed his last picture.

At the time of his death at 63 years of age, the estate of Jesse Lauriston Livermore, the man the world knows as the greatest stock market speculator of all time, was valued at $10,000 in assets and $361,010 in liabilities, (as per his biography *Jesse Livermore: World's Greatest Stock Trader*). This was far from the $100 million profit he had made in the crash of 1929 by shorting stocks, becoming one of the richest in the industry.

Getting to the top is optional.
Getting down is mandatory.

~ Ed Viesturs



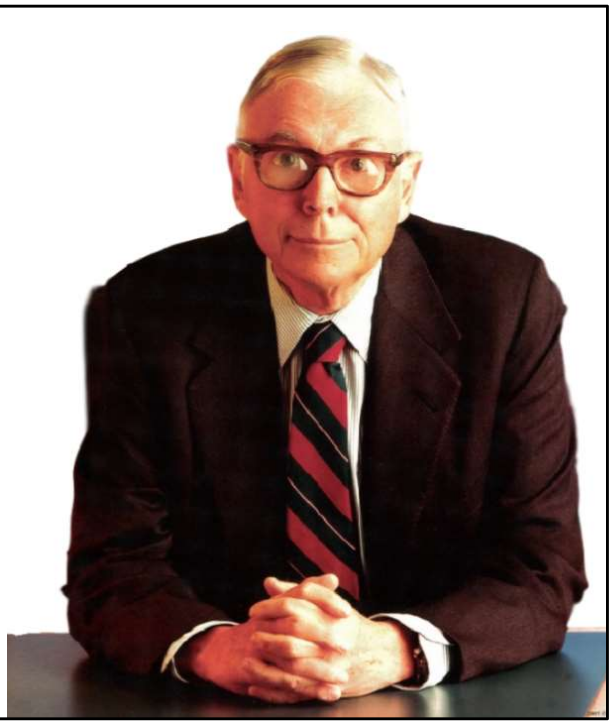
One of the best books I read this year was *No Shortcuts to the Top.* This is an autobiography of Edmund Viesturs, wherein he documents his 16-year journey summitting all 14 of the world's eight-thousander mountain peaks (more than 8,000 meters above sea level), and his strategies to manage risk in extreme environments.

In once scene, while describing the deaths of a couple of his friends, Scott Fischer and Rob Hall, who made the grave mistake of reaching the summit of Everest in the evening, Ed warned, "**Getting to the top is optional. Getting down is mandatory.**"

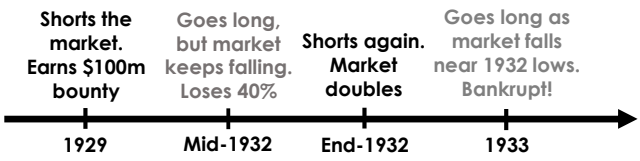
This lesson comes through most forcefully when Ed recounts how he once attempted to reach the summit at Everest but backed out just 300 feet from the top because it just didn't feel right. He noticed a change in the weather. Conditions were ripe for a potential avalanche. He realized that if the team pressed on to the top of the mountain, they wouldn't have time to make it down. So, he and his team turned around and went back to the base. They lived to scale Everest another day.

All I want to know is where I'm going to die, so I'll <u>never</u> go there.

~ Charlie Munger

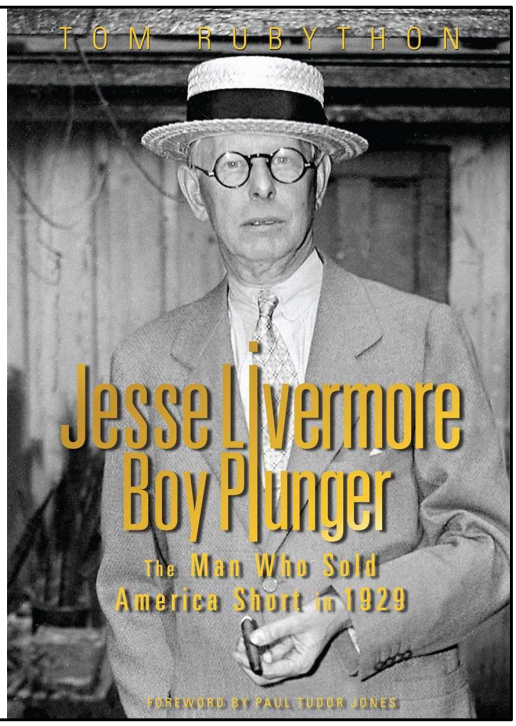


This is one of the biggest lessons one can learn as an investor, or in life. Ed Viesturs may have never heard of Munger, but he understood this idea well, avoided what could have killed him, and survived. Jesse Livermore possibly didn't care about this warning (though Munger was just 16 years of age when Livermore killed himself), did what could have killed him, and died.



…it was a period of total inconsistency and illogicality during which, by his own rules, he should have been out of the market sitting on his money. But he wasn't. Having conquered the world, he wanted to climb the mountain again.

~ Tom Rubython



Livermore betrayed his own trading principles and lost 40 percent of his profit in 18 months following the 1929 crash. He went long on the stock market as it slipped to its lows by mid-1932. Then, in 1932, he shorted the market again, and this time the market doubled. The final blows were caused in 1933 when he went long the market just as it fell back near its 1932 lows.

Call it extreme bad luck, but Livermore had set himself up in a way for such luck to find him. Of course, you can make out from the readings on his life that he was prone to depression caused by extreme stress of his work i.e., stock trading and speculation. He once said of his profession:

"…a man must give his entire mind to his business if he wishes to succeed in stock speculation."

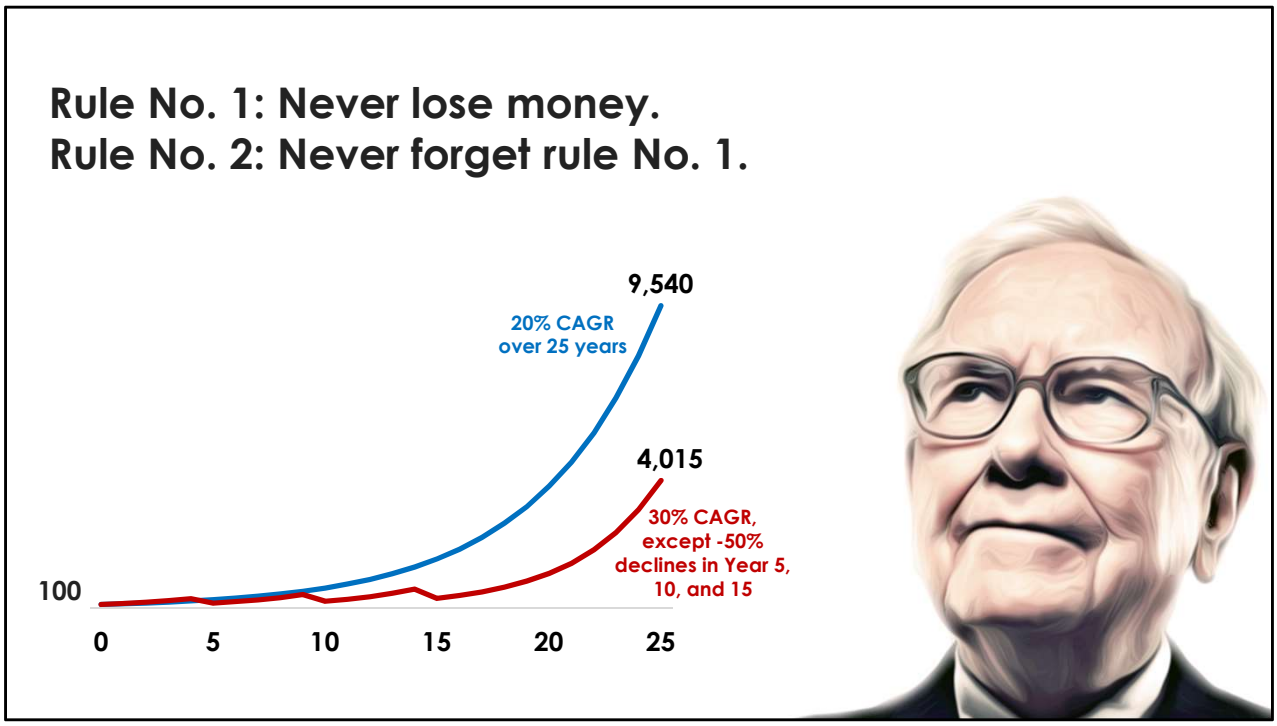
He probably took his advice too seriously and gave his entire mind to his business. It was seemingly during one of these depressive moments that he took his own life. There is, however, no doubt that upping the game, and getting rich in the process, had gone to Livermore's head.

Jesse Livermore, after his third bankruptcy –

…no price is too high for a speculator to pay to learn that which will keep him from getting the swelled head.

A great many smashes by brilliant men can be traced directly to the swelled head -- an expensive disease everywhere to everybody, but particularly in Wall Street to a speculator.

The swelled head is an expensive disease everywhere to everybody, but particularly to a stock market speculator. I would add the 'investor' to this too. A swelled head doesn't care about Munger's advice—*"All I want to know is where I'm going to die, so I'll never go there"*—or Ed Viesturs'—*"Getting to the top is optional. Getting down is mandatory."*



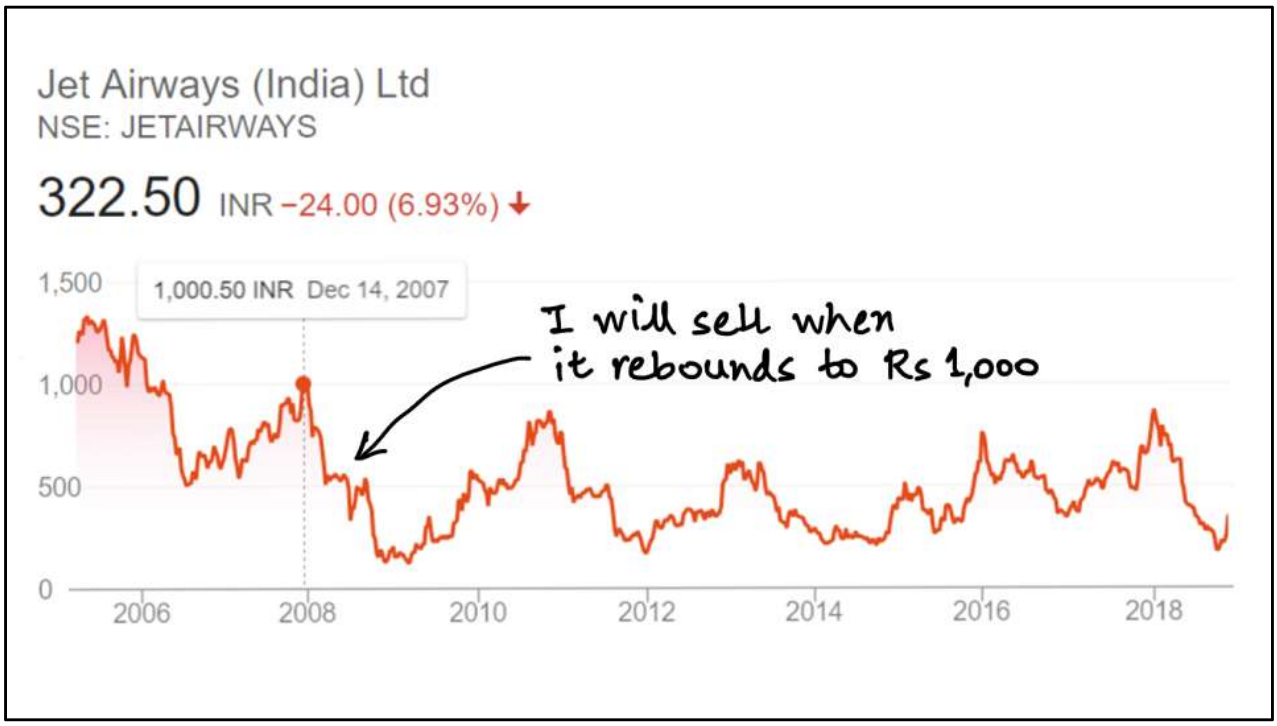
Warren Buffett knows about the swelled head very well, given his most important lesson for investors. But the swelled head—during and just after a heady run in the market—does not bother about this rule too, for losing money doesn't seem to be a part of the equation.

Takeaway: Please do your homework, even if you're cloning the best investors out there.

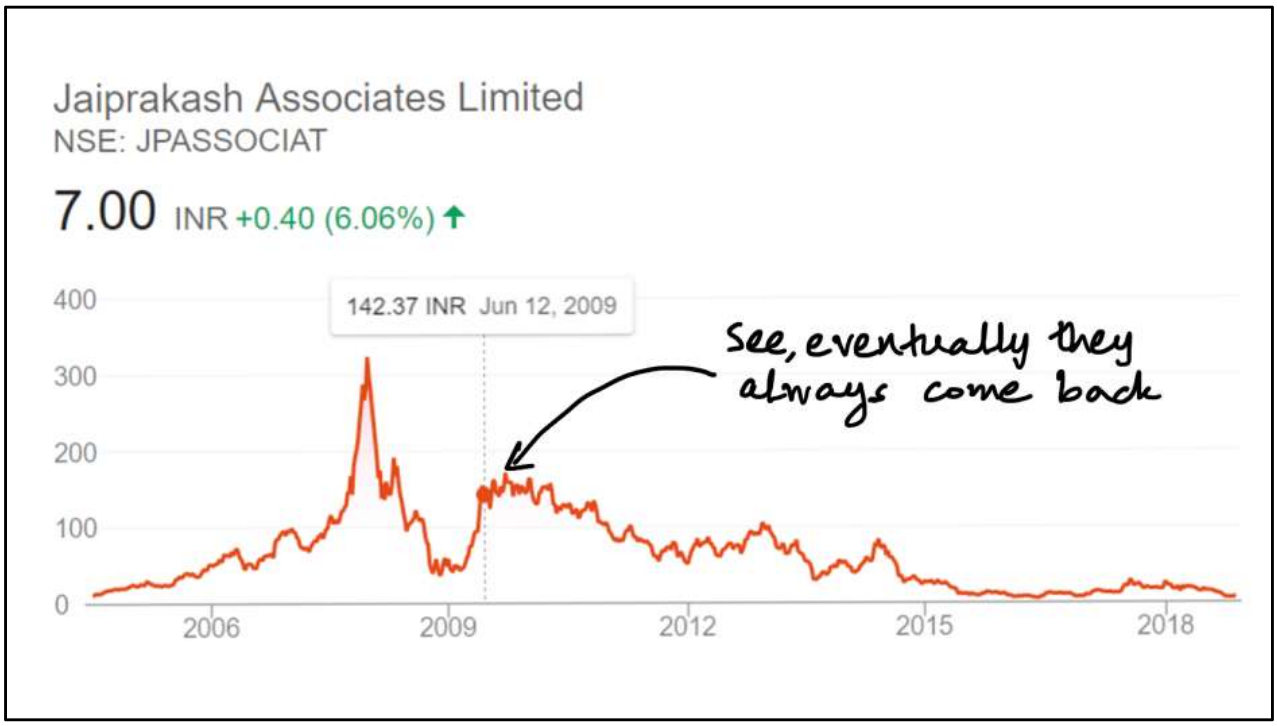
Takeaway: No time is different in the stock market. History does not repeat here, it rhymes. If you take undue risks, you will be penalized. There's no getting away from this.

Takeaway: Trying to the catch the "next something" can be disastrous. Consider each business on its merit.

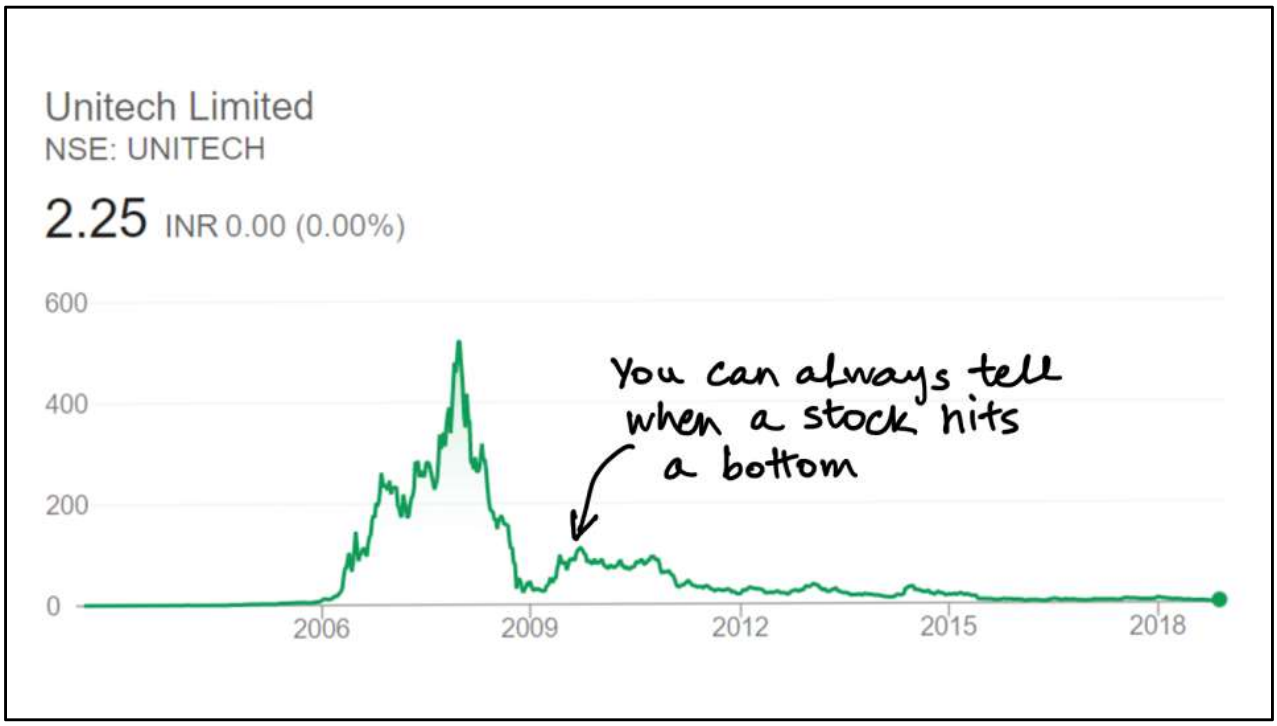
Takeaway: One, a stock that falls 95%, first falls 90%, and then 50%.
Two, *cheapness* in stock price does not mean *value* in the underlying business.
Whether a stock costs Rs 1,000 or Rs 10, you still lose everything if it goes to zero.



Takeaway: Don't look at a stock's price while making a decision. Look at the underlying business.



Takeaway: This is a lazy and weak argument to hold on to your mistakes and/or losing businesses. Accept reality, especially when it's painful.



Takeaway: You can never tell when a stock hits a bottom, till it goes to zero.

Takeaway: One, never try to make money the way you lost it. And two, if you find yourself in a hole, stop digging.

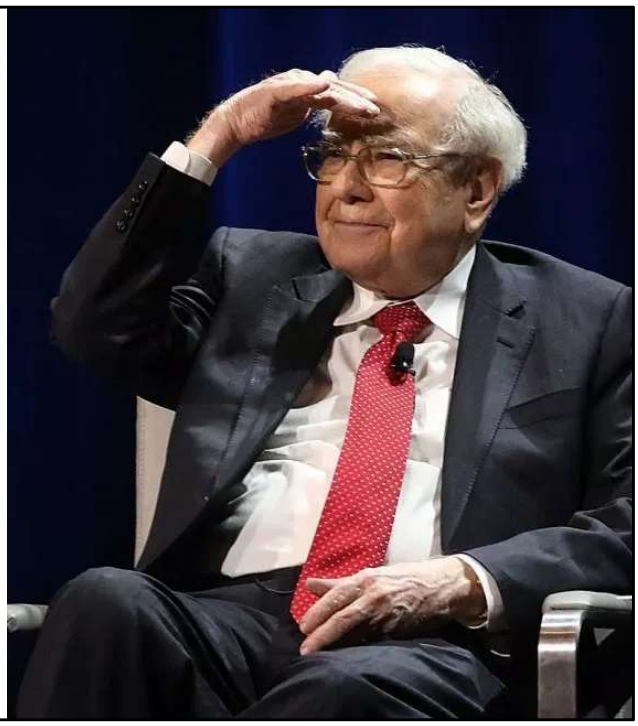
Takeaway: Really? Fund managers are as human as we are. They suffer from the same biases as we do, plus more. And they are prone to make bigger mistakes than we do, *because* they think they cannot make mistakes.


People destroy themselves in unique interesting ways. Systems destroy people in uniform boring ways.
~ Anon

People play the investing game like the Russian Roulette, where you put a gun with one bullet and five empty chambers on your head and shoot. The probability that you may survive the first shot is a huge 5/6, or 83%, but the consequence of failure is death. You become a statistic.

Take the probability of loss times the amount of possible loss from the probability of gain times the amount of possible gain. That is what we're trying to do. It's imperfect but that's what it's all about.

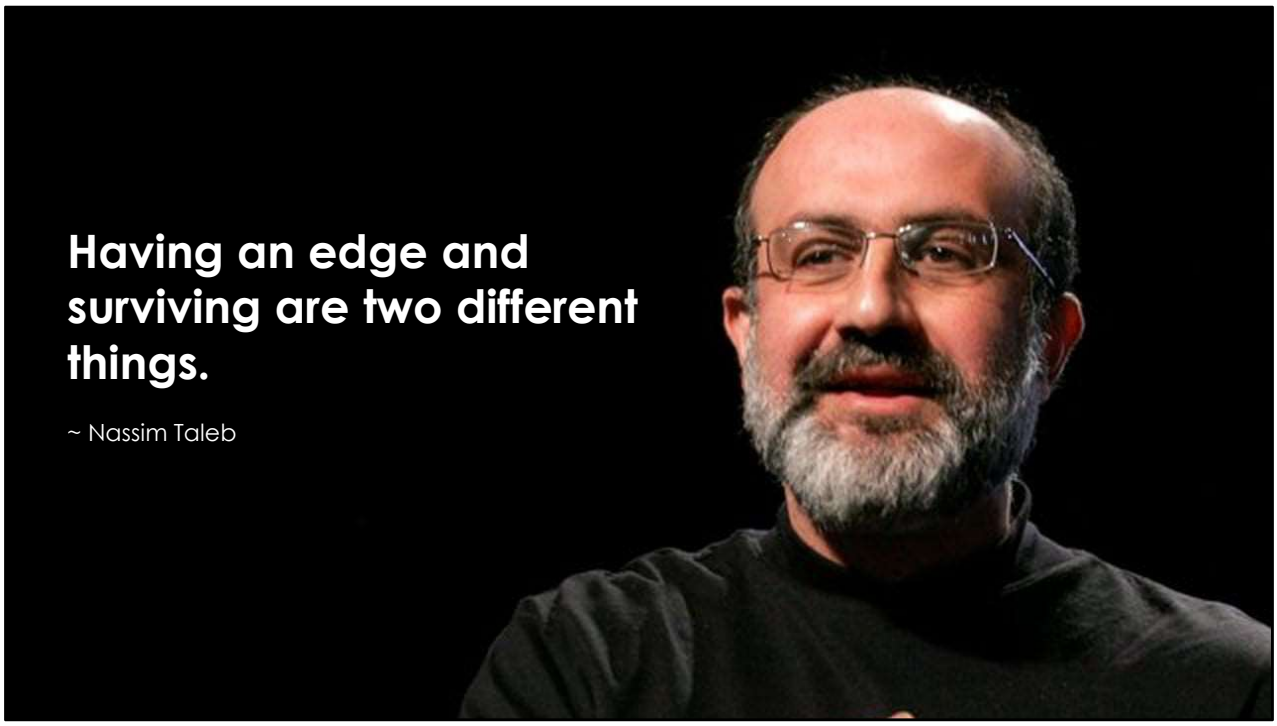
~ Warren Buffett



Success in investing = (Probability of gain X Amount of possible gain) – (Probability of loss X Amount of possible loss) = A positive number

Michael Mauboussin describes this concept as *expected value*. It's actually a very simple concept. In essence, you don't have to be right a lot, you just have to be right about your big bets at the right time. Here, while the probabilities matter a lot, so do the consequences i.e., amount of possible gain/loss. Get that equation right.

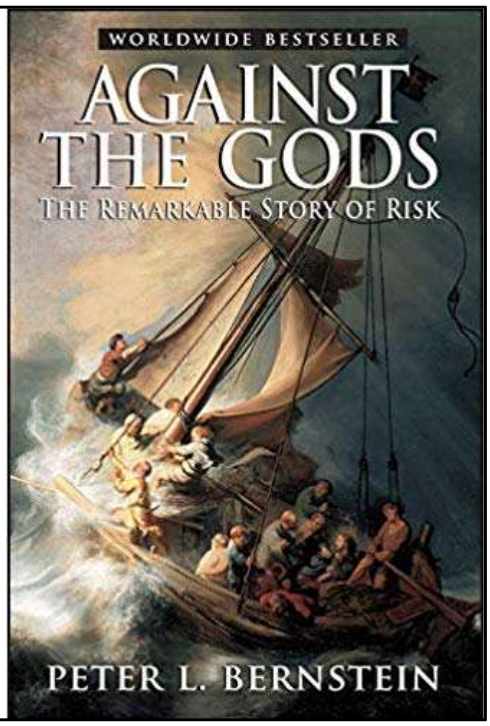
If you are willing to buy a stock, say, priced at 50-60x P/E or more, thinking the probability of it going higher is good, also remember the consequence of a quarter or two of weakness in business. Such expensively priced stocks ride on high expectations, and the consequences of a small slip could be really bad. Example – Hawkins Cookers.



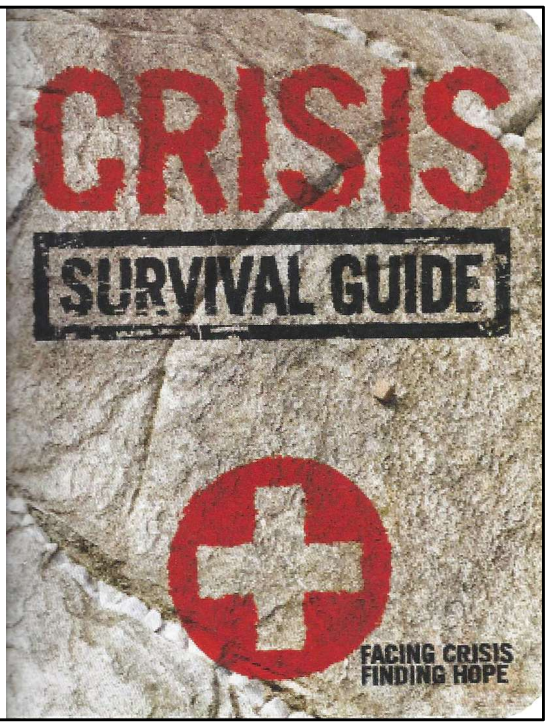
Buffett says – “In order to succeed you must first survive”. Avoid ruin. At all costs.

Survival is the only road to riches. Let me say that again: Survival is the only road to riches.

~ Peter Bernstein



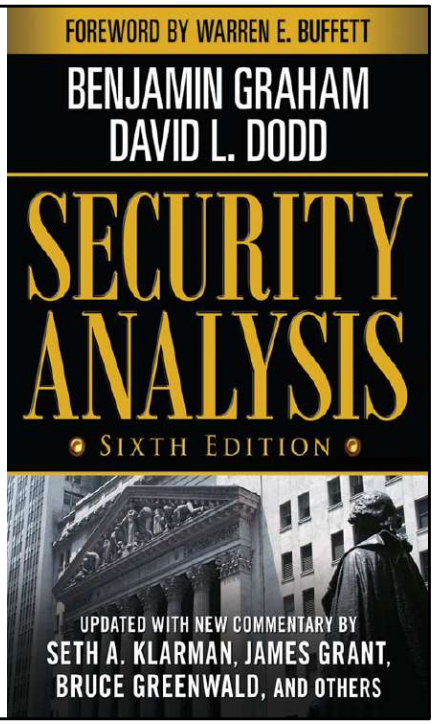
Surviving the Investing Game – The Six Most Important Things I've Learned



1. Practice Humility

Many shall be restored that now are fallen, and many shall fall that now are in honor.

~ Horace



Why did Ben Graham mention this at the very start of his seminal work? Maybe he was hinting towards the cyclical nature of business and investing, and therefore the need to be humble, esp. when you are riding an upturn.

There are a million ways to get rich. But there's only one way to stay rich: Humility, often to the point of paranoia. The irony is that few things squash humility like getting rich in the first place.

Humility is one of the greatest assets for any stock market investor. Knowing that you *don't* know a lot of things, knowing that you *will* make a lot of mistakes, and knowing that you *will* often be crucified for your mistakes…and accepting these as part of the game that must still be played, is what creates a successful investor.

(Source - Morgan Housel – https://www.collaborativefund.com/blog/getting-rich-vs-staying-rich/)

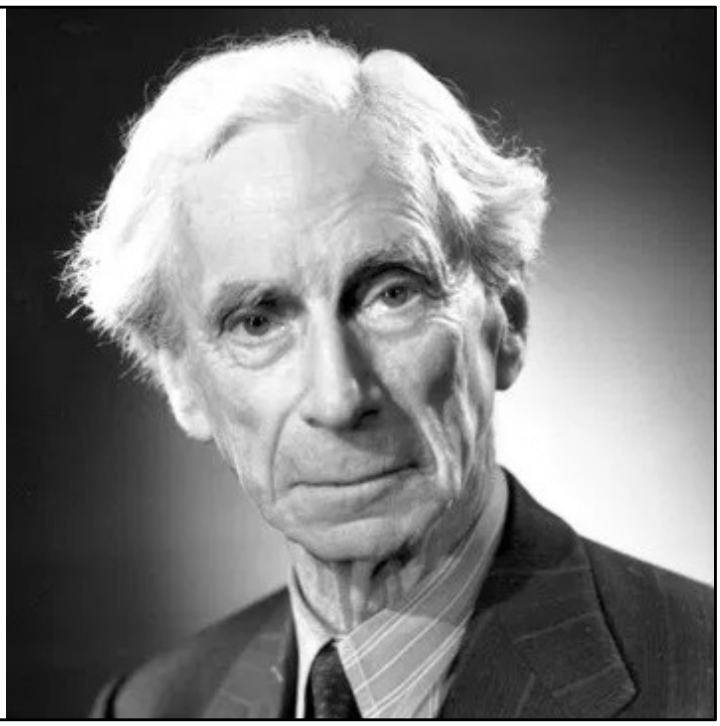
…swelled head -- an expensive disease everywhere to everybody, but particularly in Wall Street to a speculator.

~ Jesse Livermore, after his third bankruptcy

Remember this?

The whole problem with the world is that fools and fanatics are always so certain of themselves, and wiser people so full of doubts.

~ Bertrand Russell



Most of the biggest problems investors face is that they demand *certainty* in a world that is always tentative and uncertain. They think they must accurately predict and manage the future, not just have some probabilistic and uncertain handle on it. And it is precisely this unrealistic demand that causes them to make dumb mistakes repeatedly.

Consider the formula of compounding, where – Future Value = Present Value x (1 + Rate of Return) ^ Time

What excites most investors in this formula and where they wish to exert the maximum control and expect greatest certainty is the 'rate of return'. This is despite that it is the only variable in this formula that is tentative and most uncertain, and beyond investors' control. The two variables that are under an investor's maximum control are 'present value', or the initial investment and 'time', or the amount of time the money is allowed to compound. And these are the two variables, especially 'time', most investors choose to ignore in their race to earn the maximum return.

I don't throw darts at a board. I bet on sure things.

~ Gordon Gekko, Wall Street

Let me share a bit of my story of experiments with the investing truth. When I stared my career as a stock market analyst in 2003, I believed the profession had nothing to do with manipulation and everything to do with balanced, rational thinking. I had made the leap into this career in part because of the money, but also because being an analyst seemed like a perfect job for a serious guy like me who liked to reason his way through life.

Sure, emotion and hype sneaked into my line of work occasionally, but in the end, the stock market was rational, analytical, and cool. Fooling people wasn't part of the equation. Or so I thought. But what I saw around in the industry, made me realize how my "charming" views about this profession were plain silly.

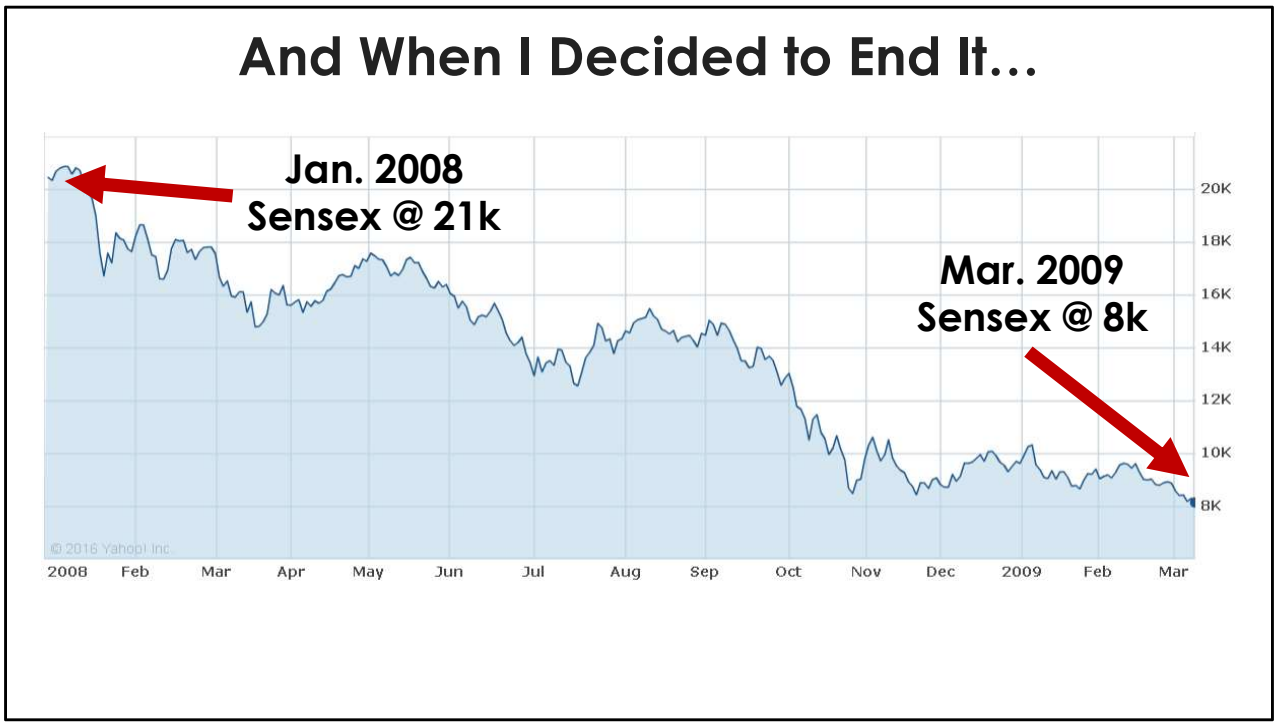
Of course, the stock market profession is as much about fooling people as the advertising profession, which believes that the product it sells, is the best product a consumer must buy. Everything in the stock market profession, as I've discovered over the years, *is* about the money.

Over the years, a typical sell-side analyst's job – especially one who works for a

broking company – has changed from giving good advice to investors to helping their investment bankers do deals. Brokers need action to make any money, since their compensation is largely based on transactions. So each time a sell-side analyst recommends a stock, it is jumped on and embraced like a new lover. However unlike institutional investors (like fund managers) who largely make their own investment decisions and use a sell-side analyst's research as one of the many inputs, the brokers and the small investors who follow them actually take every word the analysts write or say as the gospel. Now this is what scared me!

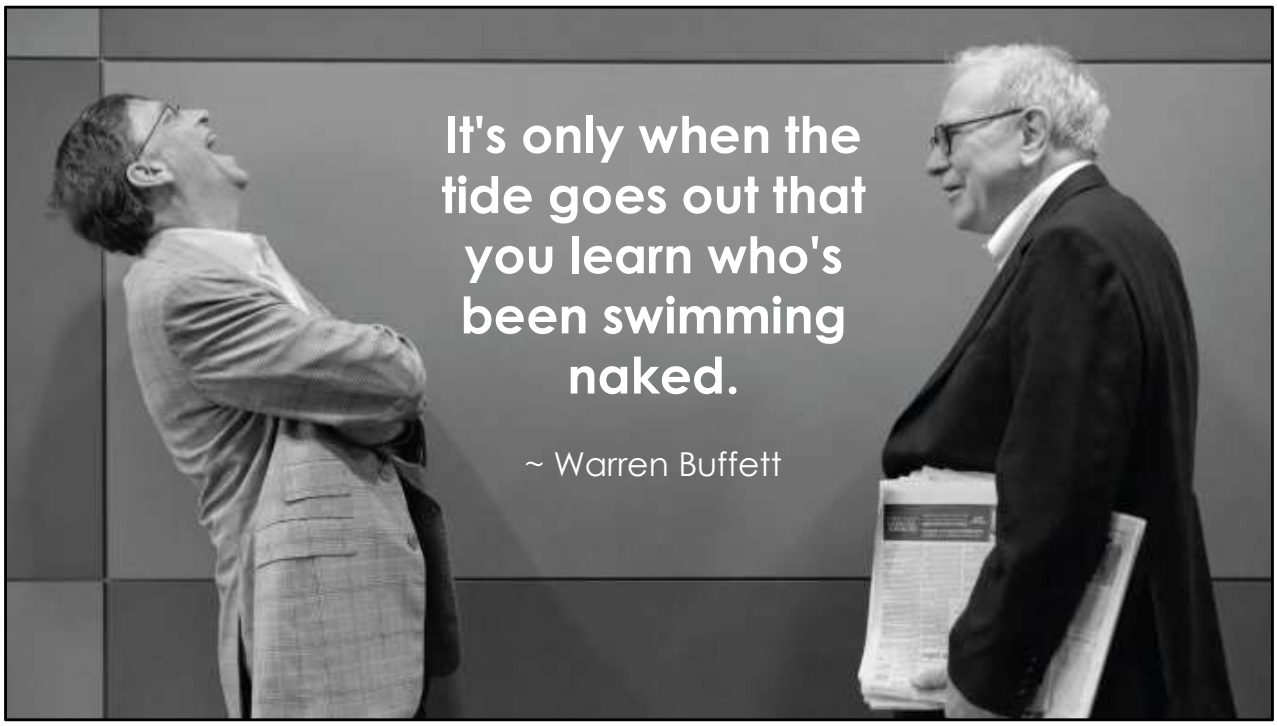
Anyways, listening to Gordon Gekko is how it started in 2003. "What an easy way to get rich!" I told myself.

"Gekko Sir was right! Stock market is a sure thing."



"Ouch!"

And then, 2008 happened. But I was taught that intelligent people *always* make money, and that markets are always efficient!


It's only when the tide goes out that you learn who's been swimming naked.
~ Warren Buffett

When the tide went out for this man and his company…

It was clearly a case of arrogance combined with too much money, especially borrowed money.

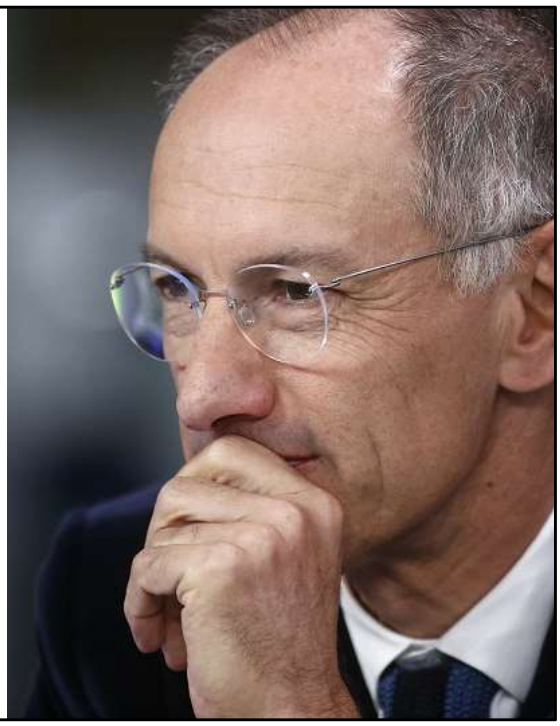
Only The Paranoid Survive

Charlie Rose: Why is Sequoia successful?

Michael Moritz: I think we've always been afraid of going out of business.

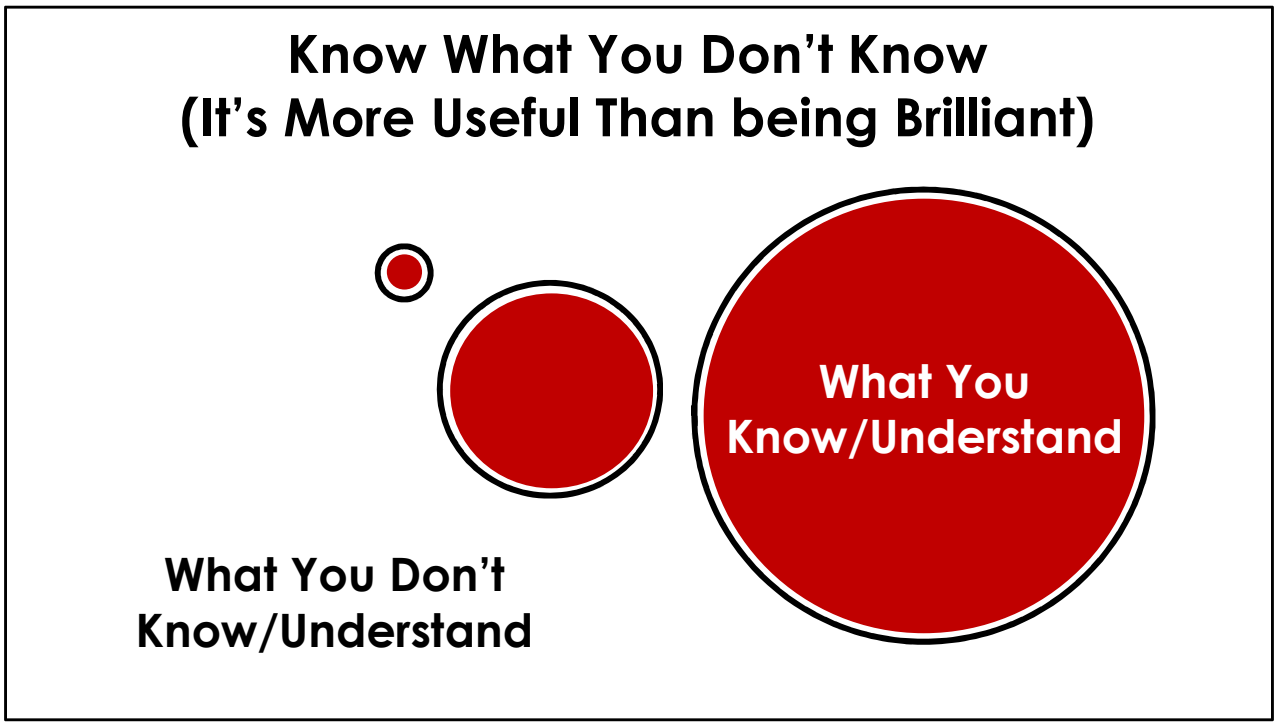
Charlie Rose: Really? So it's fear? Only the paranoid survive?

Moritz: There's a lot of truth to that … We assume that tomorrow won't be like yesterday. We can't afford to rest on our laurels. We can't be complacent. We can't assume that yesterday's success translates into tomorrow's good fortune.



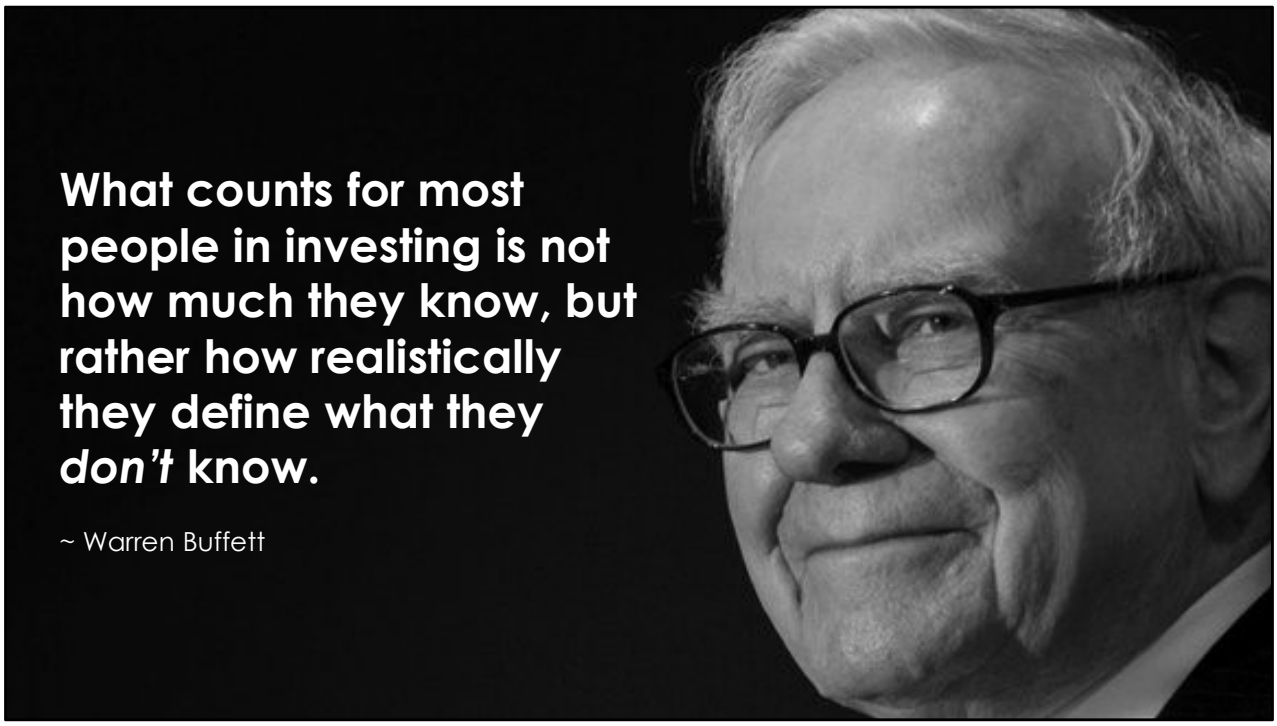
Source - Morgan Housel – https://www.collaborativefund.com/blog/getting-rich-vs-staying-rich/

Avoid taking and making predictions.



The greatest enemy of knowledge is *not* ignorance, it is the illusion of knowledge. ~ Stephen Hawking

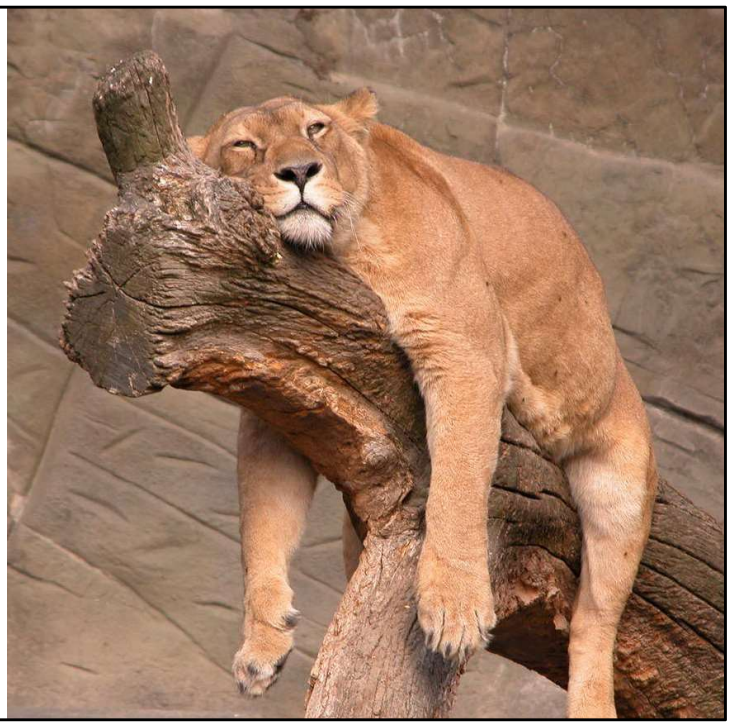
We generally do not know the answers to questions from subjects we have not studied in the past. And we are humble in accepting our ignorance on such subjects. But things get different when it comes to investing in the stock markets. We have no qualms in going beyond the boundaries of what we know. We have no doubts before treading beyond our '*circle of competence*'…which goes against the idea of humility.


What counts for most people in investing is not how much they know, but rather how realistically they define what they *don't* know.
~ Warren Buffett

2. Practice Inactivity

All of humanity's problems stem from man's inability to sit quietly in a room alone.

~ Blaise Pascal

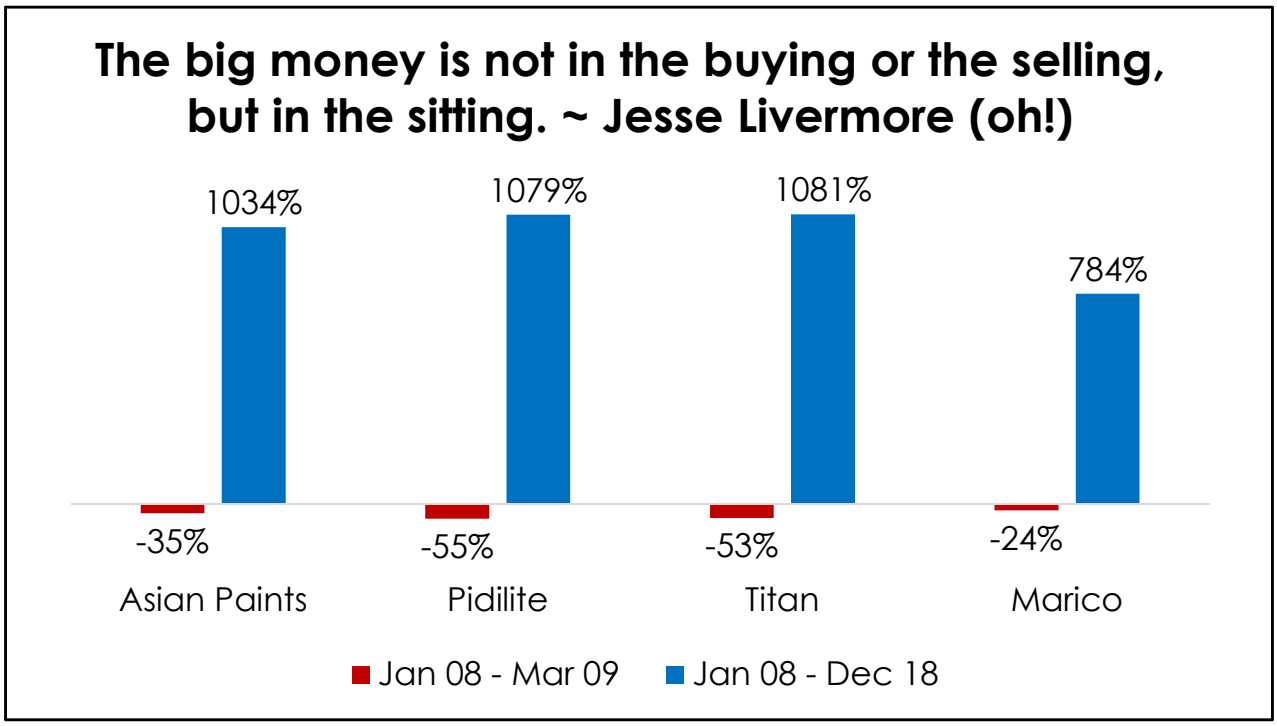


Impatience is the number one enemy for any investor and patience is possibly the greatest virtue an investor can have.

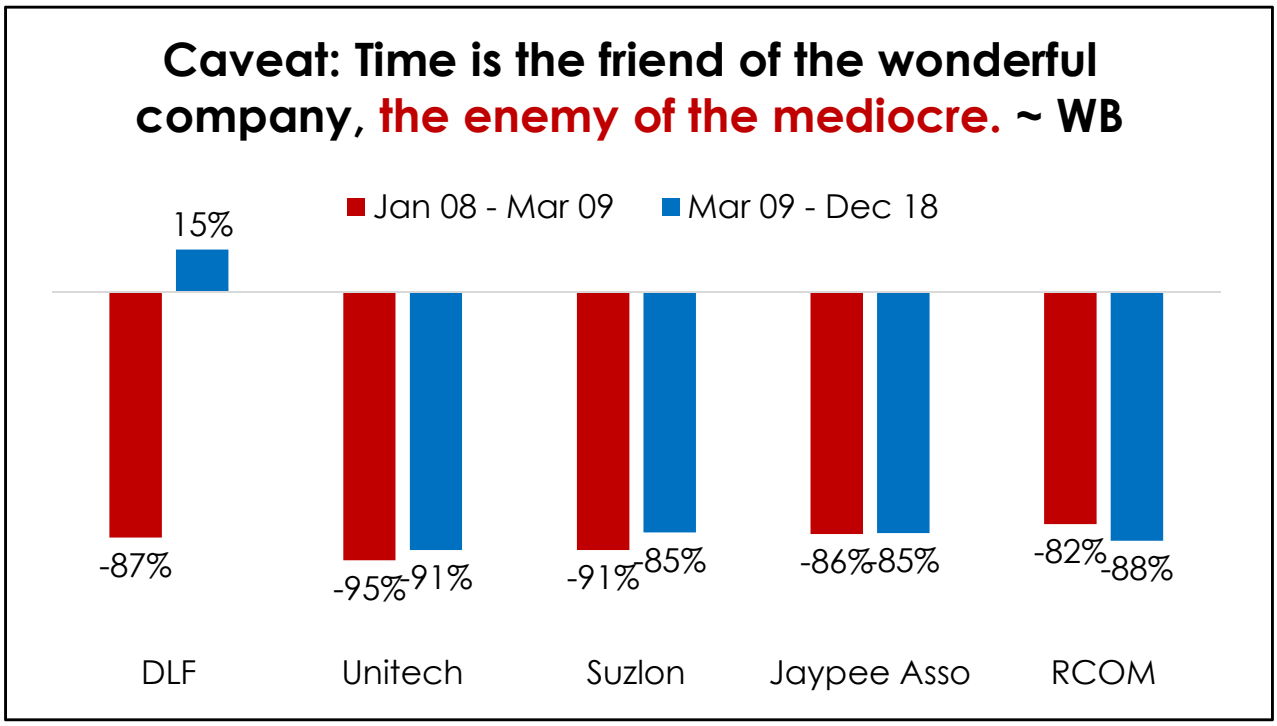
"Lethargy bordering on sloth remains the cornerstone of our investment style." ~ Warren Buffett

Time in the market, not timing the market, works.

A happy way to live life and invest is to do nothing when nothing must be done.



Hindsight bias, but these stocks (of great businesses, and that's very important) fell in the 2008 crisis…but even if you were owning them at the peak of Jan 2008 (or had bought them then) and held on till today (Dec. 2018), you would have made great returns.



But don't take this idea too far, and especially with bad businesses. Stocks that fell 80-90% in the 2008 crisis, fell another 80-90% over the next 10 years.

When you practice inactivity, do it with high quality businesses. "Buy and hold" does not mean "buy and forget."

Buy quality, review occasionally, if all is good, keep.

Why 90% of M&As fail?

Most mergers and acquisitions (M&As) are due to bias towards action i.e., doing something…not really for the benefits of the business as is touted during the M&A process.

Who are the best investors?

~ Fidelity study for a period between 2003 and 2013

A study by Fidelity in 2003 claimed the company had looked over the accounts of thousands of individual investors, and they found a theme. The people who didn't touch their portfolios did the best. Fidelity threw a whole new twist on some tried and true advice, however. They pointed out that people really couldn't resist the temptation of touching their investments. The only people who didn't bother were dead. Thus, **dead people had the best investment returns.** The second best were basically dead, at least to Fidelity. They were the people who forgot they had an account with the firm.

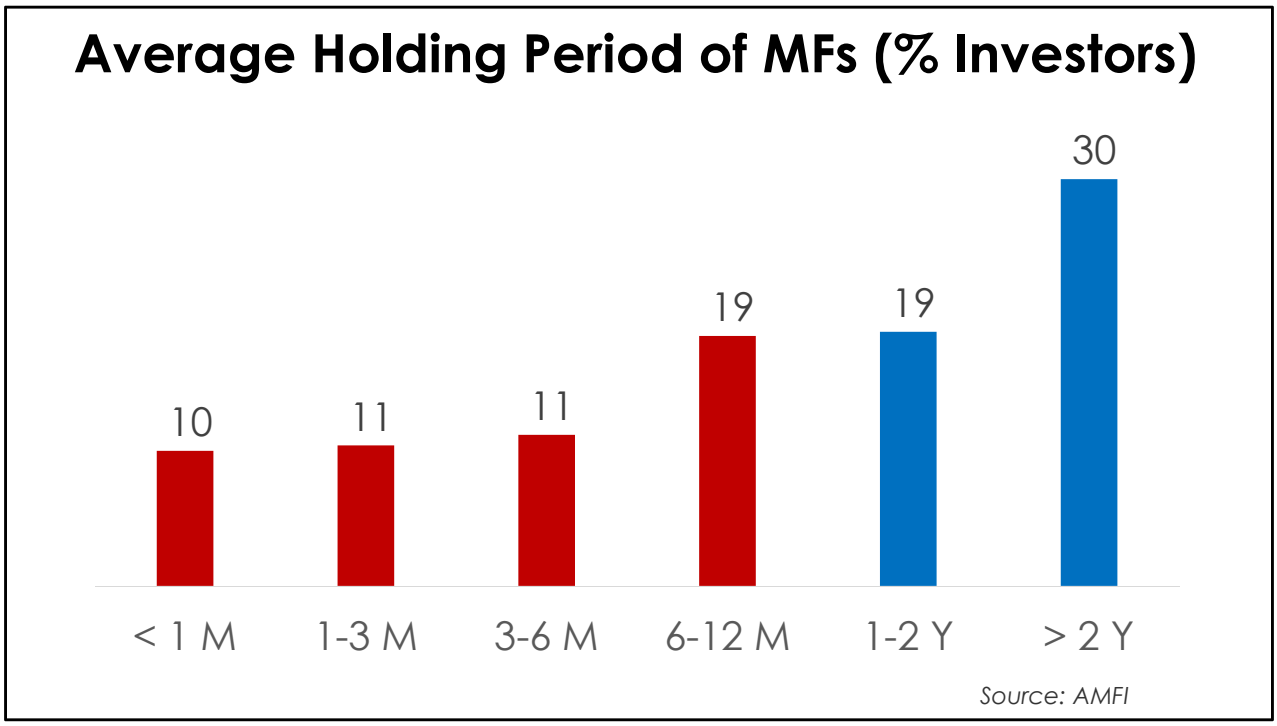
So, when you are dead, you cannot get tempted to touch your investments. You don't bother where your stocks are going. You are not tempted to sell a stock simply because the price of the company went down or assume that the recent bad economic conditions will continue perpetually into the future. Thus, dead people had the best investment returns, as per the Fidelity study.

Now, you don't need to die for the sake of a remarkable investment performance, but you get the point here, right? Inactivity is a great skill in investing, and it pays off handsomely.

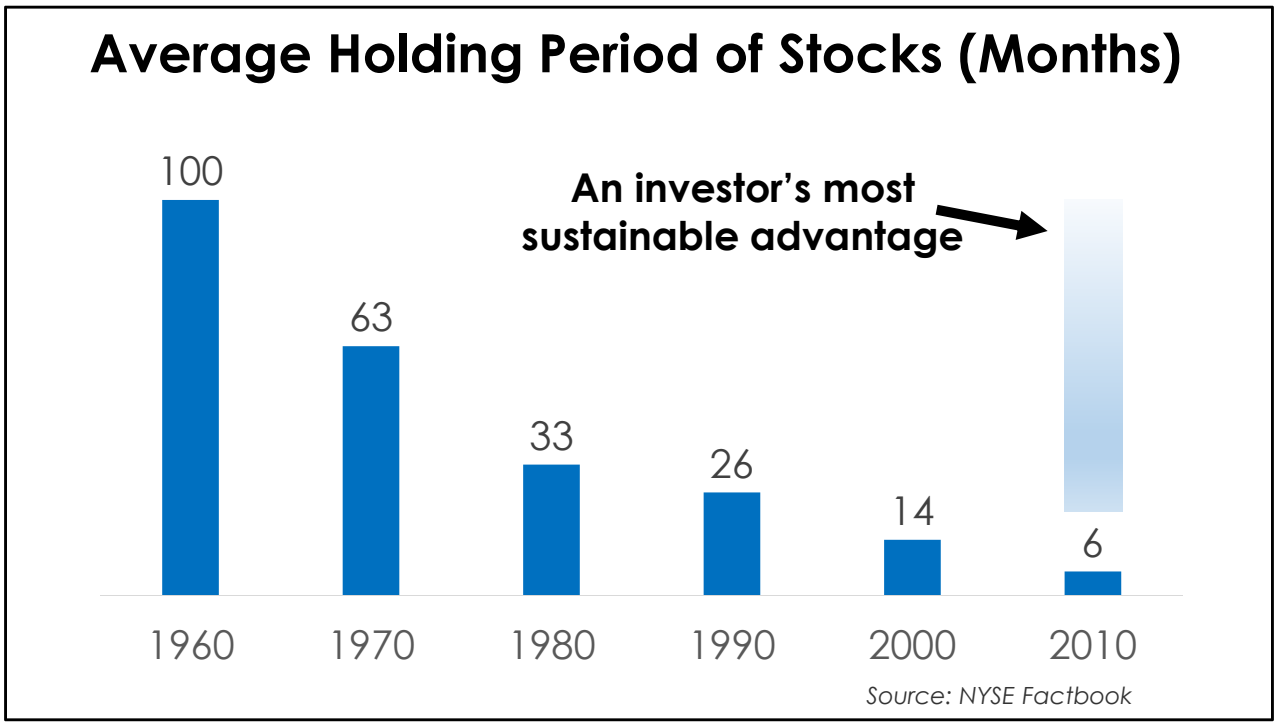
3. Think & Act Long Term

No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant.

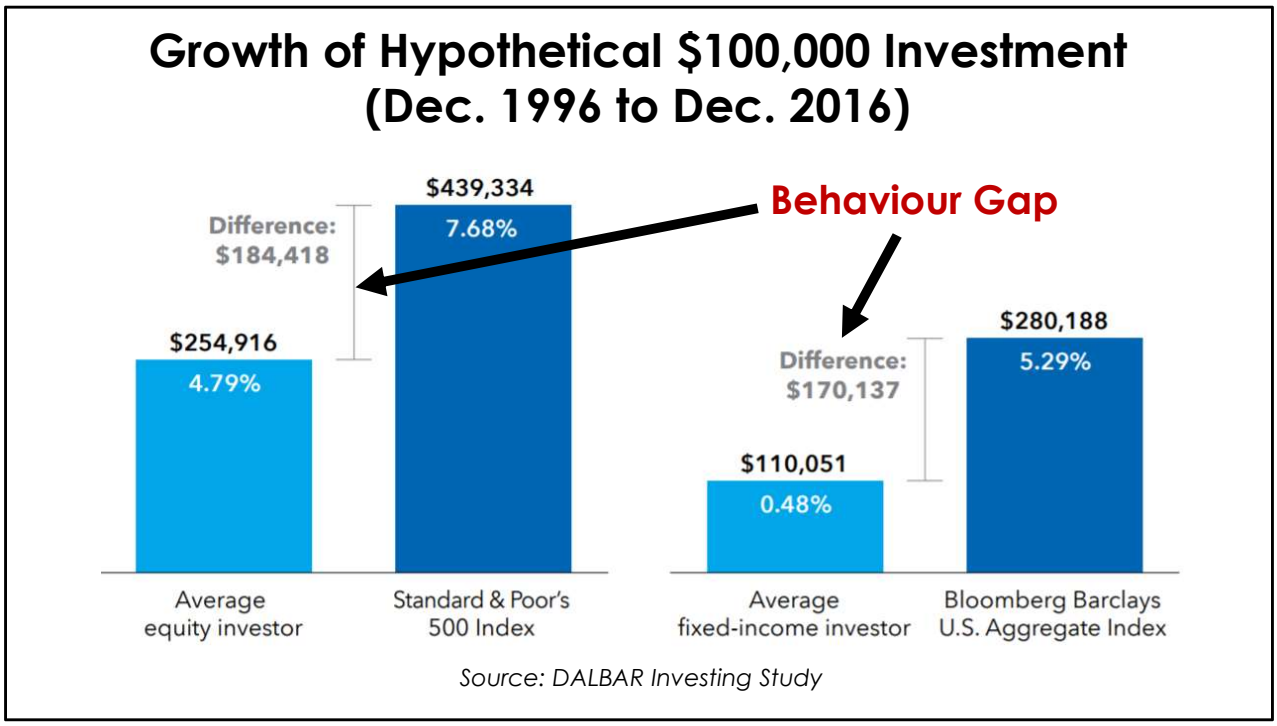
~ Warren Buffett



>50% investors hold MFs for < 1 year!



More people are thinking short term! Humans have attention of eight seconds, which is lesser than that of a goldfish.



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.

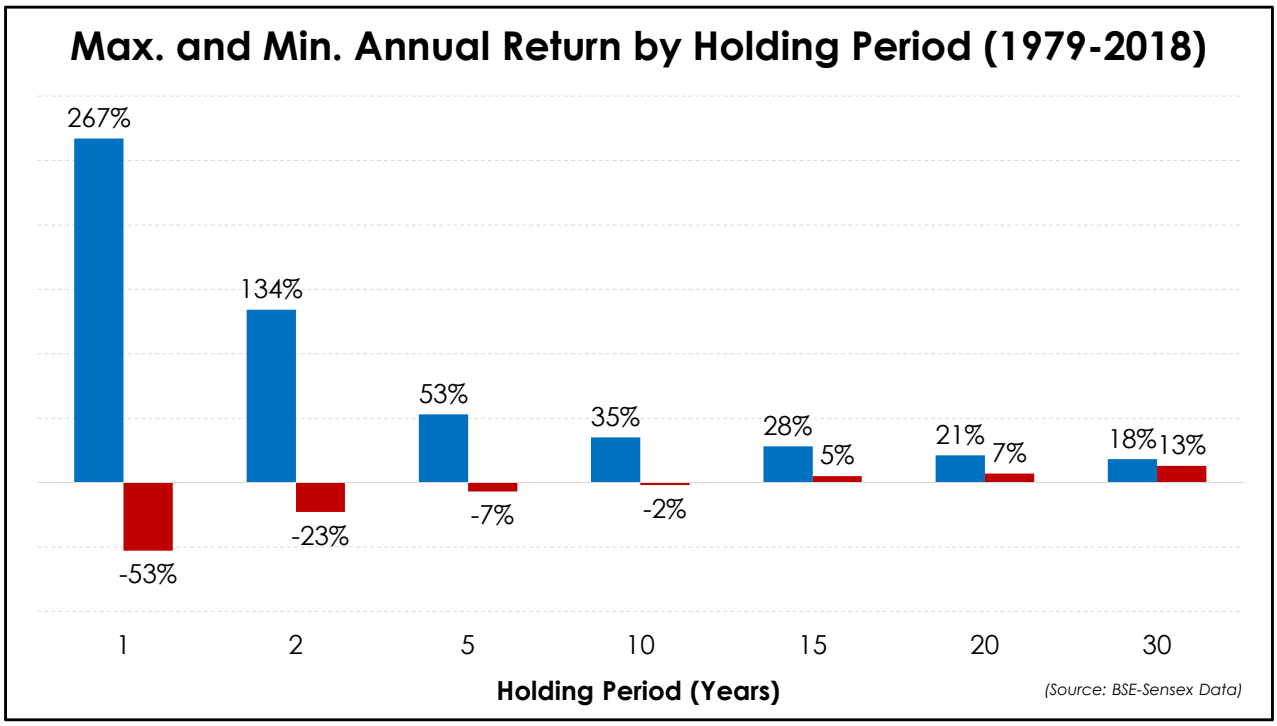
Behaviour Gap idea source - https://www.behaviorgap.com/

"Time" Does Not Help!

	Investor Returns[1]					
	Equity Funds	Asset Allocation Funds	Fixed Income Funds	Inflation	S&P 500	Barclays Aggregate Bond Index
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

[1] **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.*

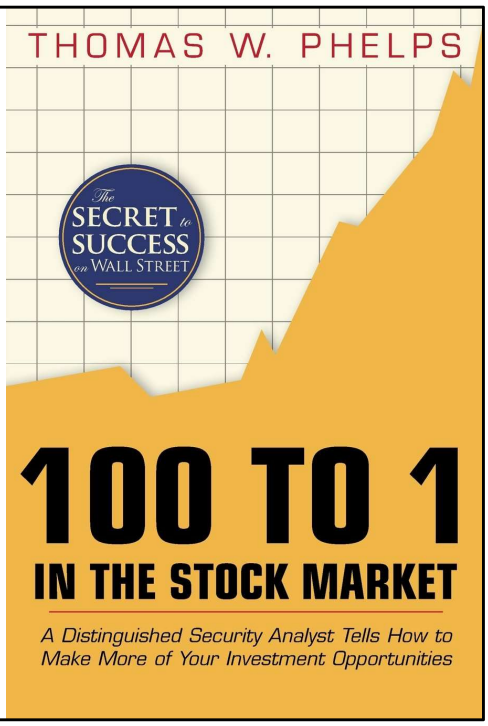
So, the behaviour gap exists even over longer periods of time. We really suck at investing! The earlier we accept this fact, the earlier we can try to become more sensible with our investment decision making. Sadly, however, most of us will never have that humility.



Longer you hold stocks, smoother are your returns (again, high probability and no certainty).

To make money in stocks, you must have the vision to see them, the courage to buy them and the patience to hold them.

~ Thomas Phelps



Patience is the rarest of the three, but it pays off in the long run. That's how fortunes are made in the stock market.

"Price randomness in the short term can obscure long term growth in value…"

Short Term Price Randomness

Period	High	Low	Percentage Decrease
March 1973-January 1975	93	38	(59.1%)
10/2/87-10/27/87	4,250	2,675	(37.1%)
6/19/98-3/10/2000	80,900	41,300	(48.9%)
9/19/08-3/5/09	147,000	72,400	(50.7%)

Long Term Growth in Value

Compounded Annual Gain – 1965-2017 . . .	20.9%
Overall Gain – 1964-2017	2,404,748%

Data on Berkshire Hathaway's stock from Buffett's 2017 letter - http://www.berkshirehathaway.com/letters/2017ltr.pdf

Sub Specie Aeternitatis
(in aspect of eternity)

~ Spinoza, Dutch philosopher

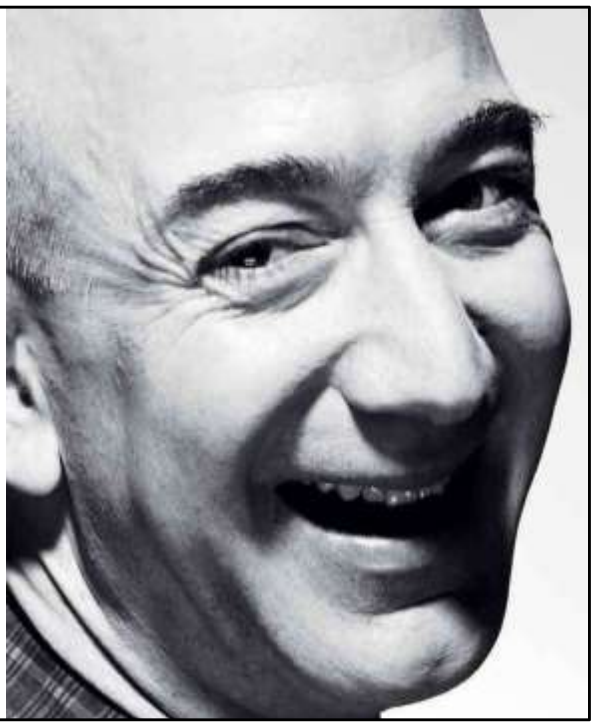
Marshall Weinberg, one of the students from Graham's class said that the biggest lesson he drew out of that class was on long-term thinking – *One sentence changed my life…Ben Graham opened the course by saying: 'If you want to make money in Wall Street you must have the proper psychological attitude. No one expresses it better than Spinoza the philosopher.' When he said that, I nearly jumped out of my course. What? I suddenly look up, and he said, and I remember exactly what he said:* ***'Spinoza said you must look at things in the aspect of eternity.'*** *And that's what suddenly hooked me on Ben Graham.*

Here was the father of value investing teaching his students about the value of long-term thinking, and that too in terms of eternity. Now, almost seven decades later, we would be paying true homage to Graham if we could view investing through a wide-angle lens, zooming out, taking a long-term perspective, and striving for a long, sustained upward trend in our stocks instead of getting worried about the short-term volatility in their prices. This may not help us eliminate all mistakes we may make as investors, but it can give us the tool to treat our investments and portfolios just a little bit better. (See - https://www.safalniveshak.com/zoom-out/)

Remember – Your Only Sustainable Edge

Just by lengthening the time horizon, you can engage in endeavors that you could never otherwise pursue…

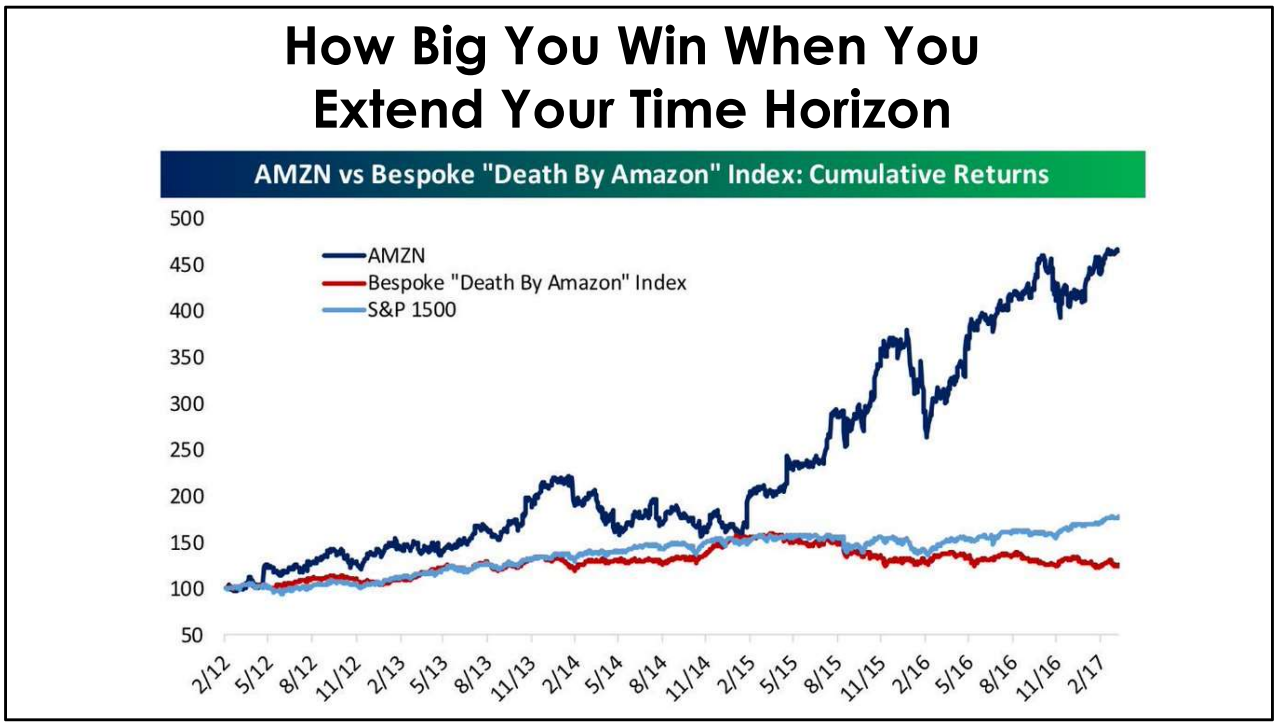
~ Jeff Bezos



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.*

Also, investors that do focus on trying to gain an information edge are typically focused on short-term information. This type of information might be useful in predicting whether or not a company will "beat expectations" in the next quarter, but it isn't all that much of an advantage in determining the long-term value of the enterprise or its longer-term competitive position. So much focus is on the short-term, and so much focus is on trying to uncover information before the market. This creates an advantage for investors who choose to focus on a different potential advantage, and that is namely time-horizon advantage.

Source - http://basehitinvesting.com/what-is-your-edge/

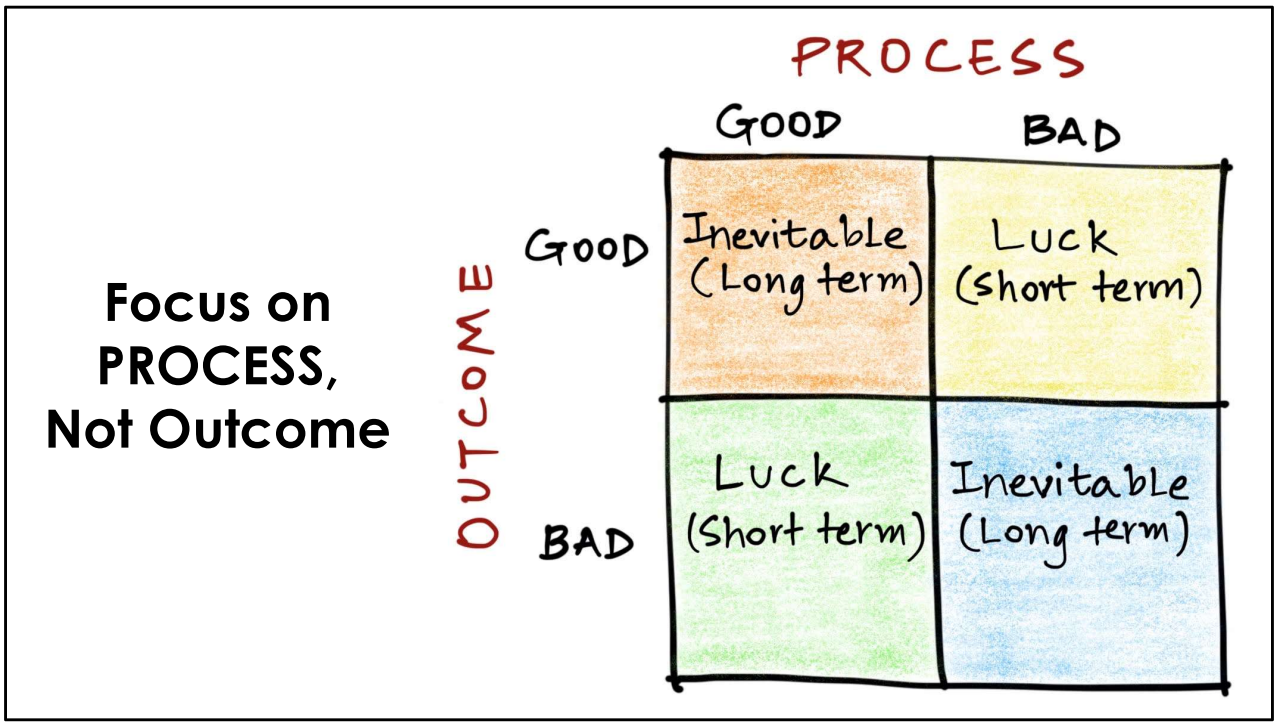


Bespoke publishes the “Death By Amazon” Indices as a way to track performance of the companies (like Barnes & Noble, Costco, Wal Mart, Macy’s, etc.) most affected by the rise of Amazon. Companies included are direct retailers with a limited online presence (or core business based on physical retailing locations)

https://www.bespokepremium.com/wp-content/uploads/2017/10/B.I.G-Tips-The-Bespoke-Death-By-Amazon-Indices-092517.pdf

Michael Mauboussin - *"There's a quick and easy way to test whether an activity involves skill; ask whether you can lose on purpose. In games of skill, it's clear that you can lose intentionally but when playing roulette or the lottery you can't lose on purpose."*

In investing, often you can't lose on purpose, and thus it is on the 'luck' side of the continuum. This doesn't mean that you simply give up on investing, because it has a large element of luck in it, up to chance. You just have to think long-term and use probabilities to your advantage. And here – in investing – the way to change your luck and move on a surest path to success in the long run is – a good process.



The human brain is said to run on about 12 watts — in other words, only a fifth of the power that's needed by a 60-watt light bulb. That's not much at all, given the power consumption of some of the computers that exist today. Yet we expect this relatively puny hardware to make immensely complex calculations about the investing world, and we even have the audacity to hope that we might get these calculations right.

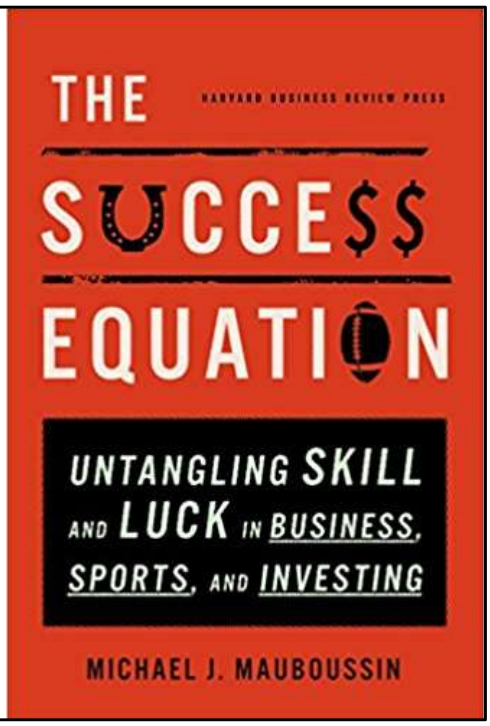
One way to tilt the playing field to our advantage is to construct an environment in which we can operate more rationally—or at least less irrationally. But there's also another tool at our disposal: if we're looking to make better investment decisions, it helps immeasurably to develop a series of rules and routines that we can apply consistently. That's what an investment process all about.

Luck, Skill, and Time Horizon

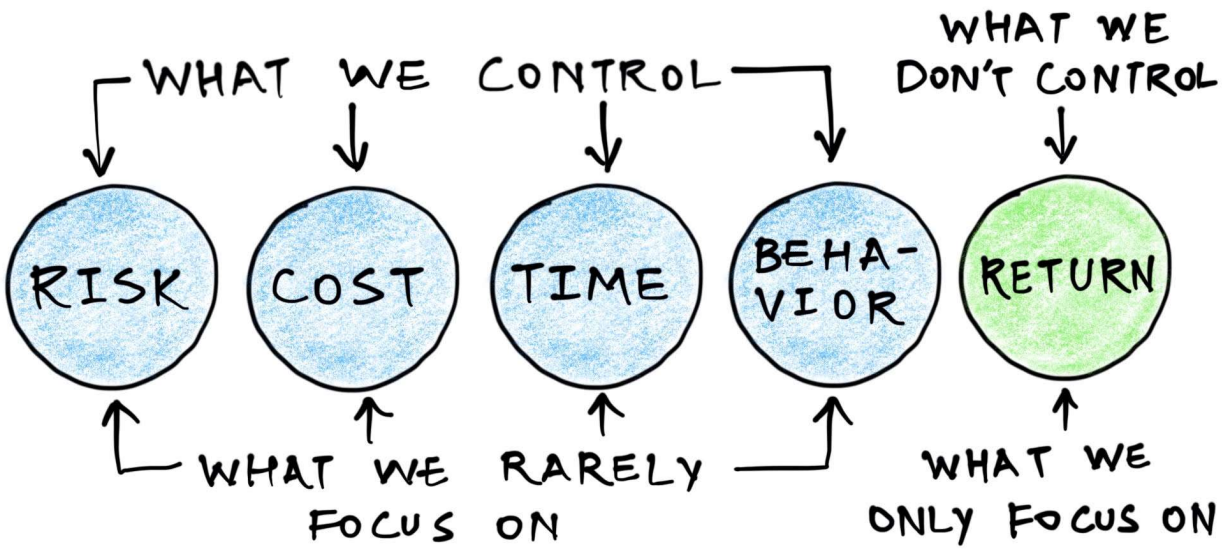
In activities where luck plays a larger role, skill boils down to a <u>process</u> of making decisions.

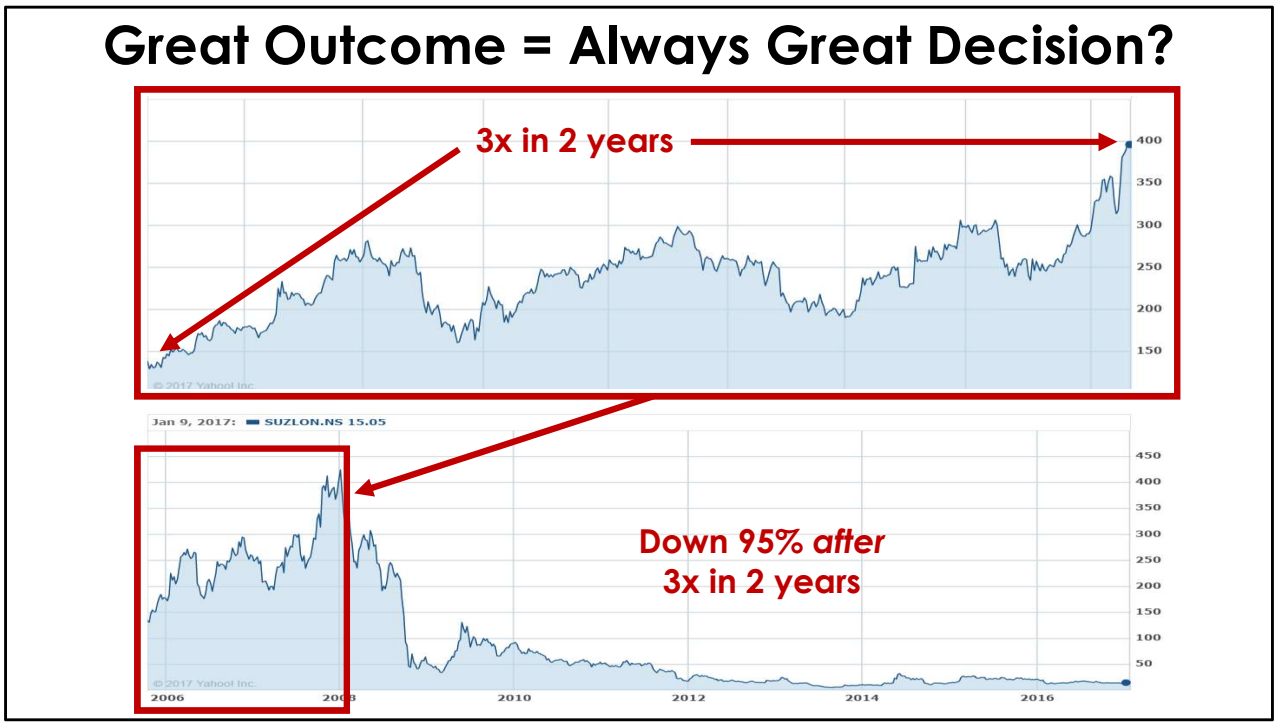
Skill shines through only if there are a sufficient number of decisions *(over a period of time)* to weed out bad luck.

~ Michel Mauboussin, The Success Equation



PROCESS – The ONLY Thing You Control





You can't necessarily tell the quality of a decision from the outcome. Given the unpredictability of future events and, especially, the presence of randomness in the world, a lot of well-reasoned decisions produce losses, and plenty of poor decisions are profitable. Thus one good year or a few big winners may tell us nothing about an investor's skill. We have to see a lot of outcomes and a long history – and especially a history that includes some tough years – before we can say whether an investor has skill or not."

Spain has a national lottery since 1763. The first prize paid out Euro 4 million in 2011. The winner had hunted for a ticket with the last two digits as 48. He found the ticket, bought it, and then won the lottery. When asked why he was so intent on finding that number, he replied, “I dreamed of the number 7 for 7 straight nights. And 7 times 7 is 48.”

So, you can be lucky even when you are dumb and don’t have a process! But a great outcome doesn’t always mean that the decision was good. In investing, a bad decision, especially one that is not based on any process, can have disastrous consequences.

5. Keep It Simple

There seems to be some perverse human characteristic that likes to make easy things difficult.

~ Warren Buffett

What do you see?

What you don't see?

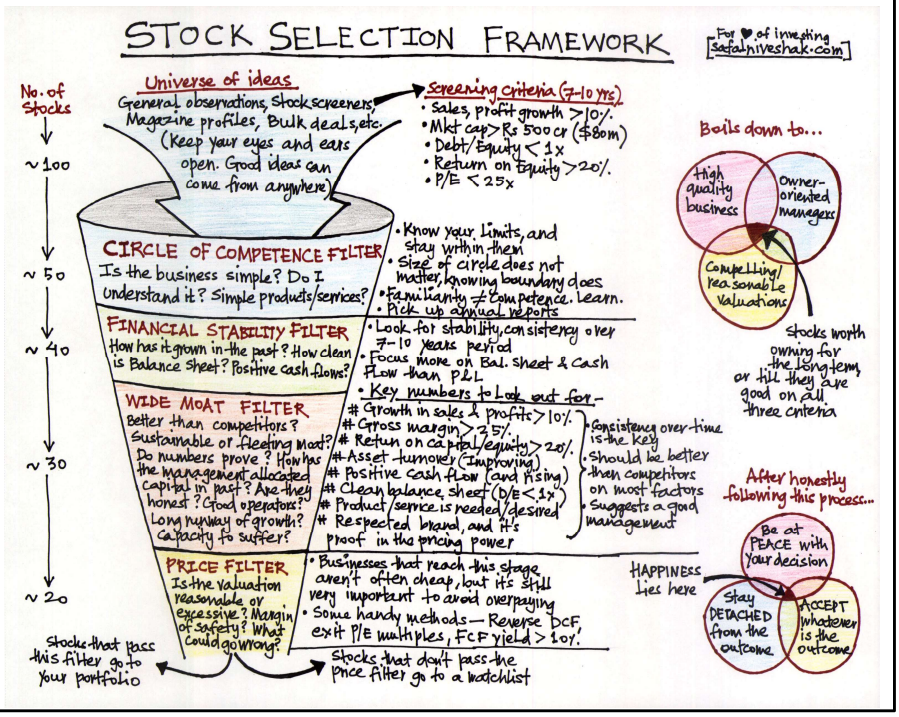
And this is how they teach you at the B-School!

(Bloomberg Terminal At SIBM Bengaluru – https://insideiim.com/bloomberg-terminal-sibm-bengaluru/)

Life is really simple, but we insist on making it complicated.

~ Confucius

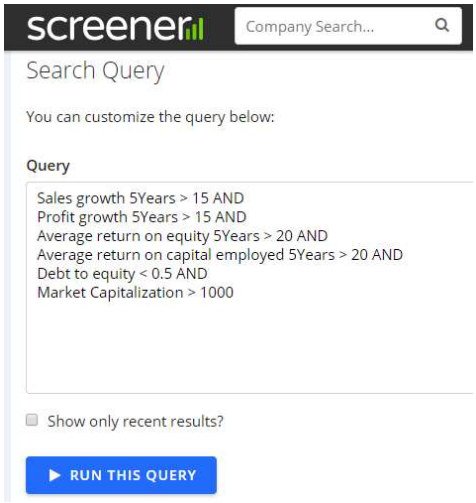
Keeping it Simple – One-Page Stock Selection Framework



https://www.safalniveshak.com/stock-selection-framework/

Quarter-Page Business Quality Screen

- **Sales growth > 15%** *(9 of last 10 years)*
- **ROCE > 20%** *(9 of last 10 yeas)*
- **Debt to Equity < 0.5x**
- **Positive and rising Free Cash Flow**
- **Simple business to run and understand**
- **Better than competitors (moat)**
- **Long runway of growth**
- **Clean and capable management** *(good capital allocators, look at ROCE, D/E)*



One-Para Investment Checklist

Jeff Bezos's 2014 Letter to Shareholders

amazon.com

To our shareowners:

A dreamy business offering has at least four characteristics. Customers love it, it can grow to very large size, it has strong returns on capital, and it's durable in time – with the potential to endure for decades. When you find one of these, don't just swipe right, get married.

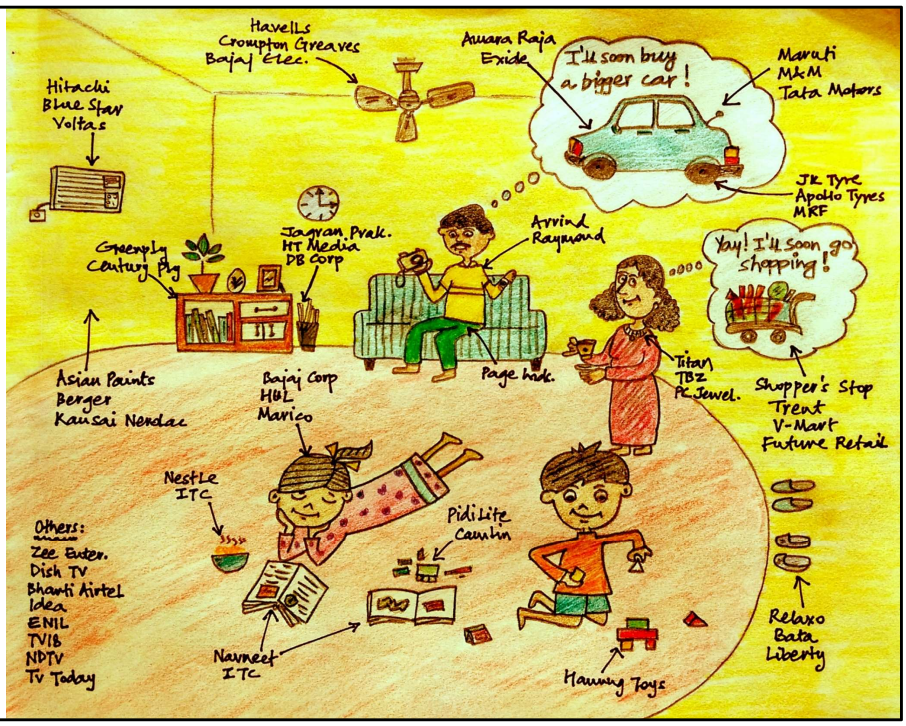
Warren Buffett's 2017 Letter to Shareholders

and varied businesses; and (4) investment earnings from our huge portfolio of stocks and bonds. In this section, we will review [illegible]

*World's best investment checklist –

In our search for new stand-alone businesses, the key qualities we seek are durable competitive strengths; able and high-grade management; good returns on the net tangible assets required to operate the business; opportunities for internal growth at attractive returns; and, finally, *a sensible purchase price*.

When I wanted to teach my 11-year old daughter about stocks, I painted this…



https://www.safalniveshak.com/how-to-find-great-businesses-peter-lynch-way/

10 stocks she chose (based on brands she knew of)…

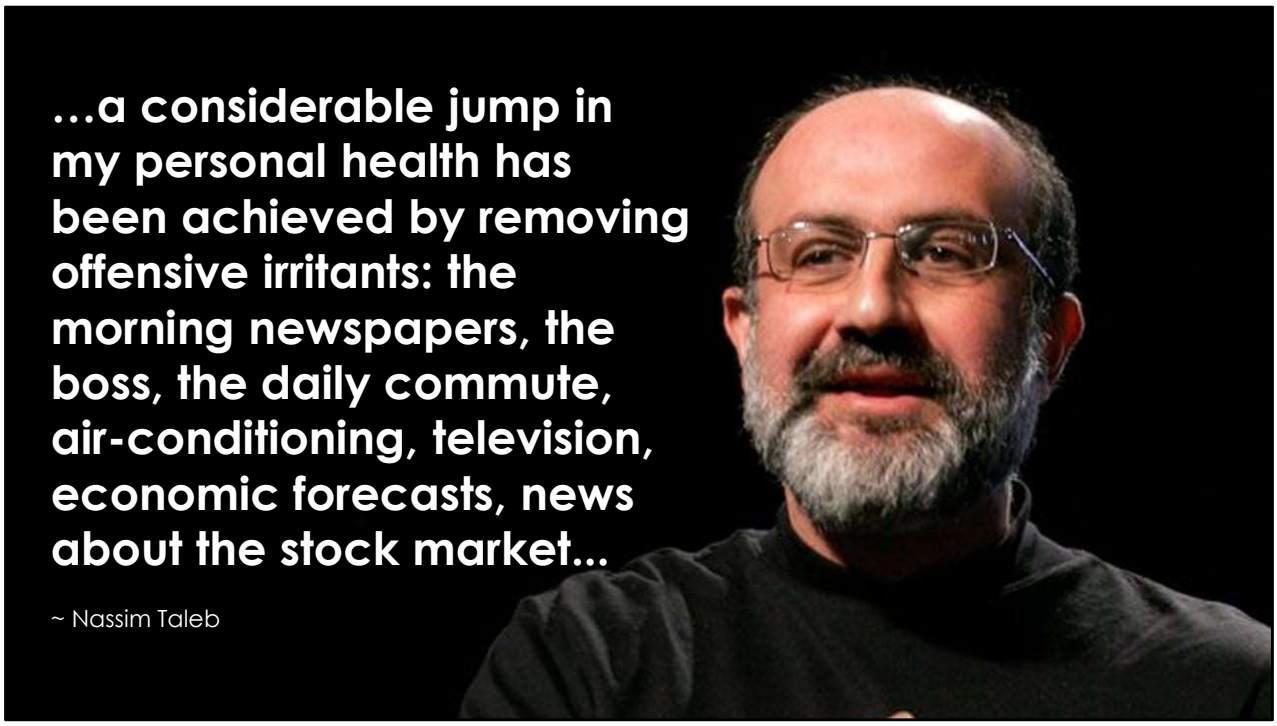
…and the *outcome* makes me proud (and somewhat fearful for she may undermine luck if she understands this)

Stock	May-15	Dec-18	Return
Voltas *(ACs)*	280	540	94%
Asian Paints *(Paints)*	760	1,320	73%
Nestle *(Food)*	6,800	10,400	53%
Pidilite *(Stationery)*	580	1,140	97%
Marico *(Consumer)*	200	360	78%
Navneet *(Stationery)*	90	105	15%
Bata *(Footwear)*	525	1,060	101%
Shopper's Stop *(Retail)*	365	500	36%
Titan *(Jewellery)*	365	920	151%
Camlin *(Stationery)*	88	100	14%
Average Portfolio Return (3.5 years)			**71%**
BSE-200 Index	3,390	4,550	34%
BSE-30 Index	27,100	35,670	32%

Her chosen stocks beat the market big time. Not disappointing!

Though it's just 3.5 years and luck has played its role.

Disclaimer – These are NOT recommendations, but purely examples.



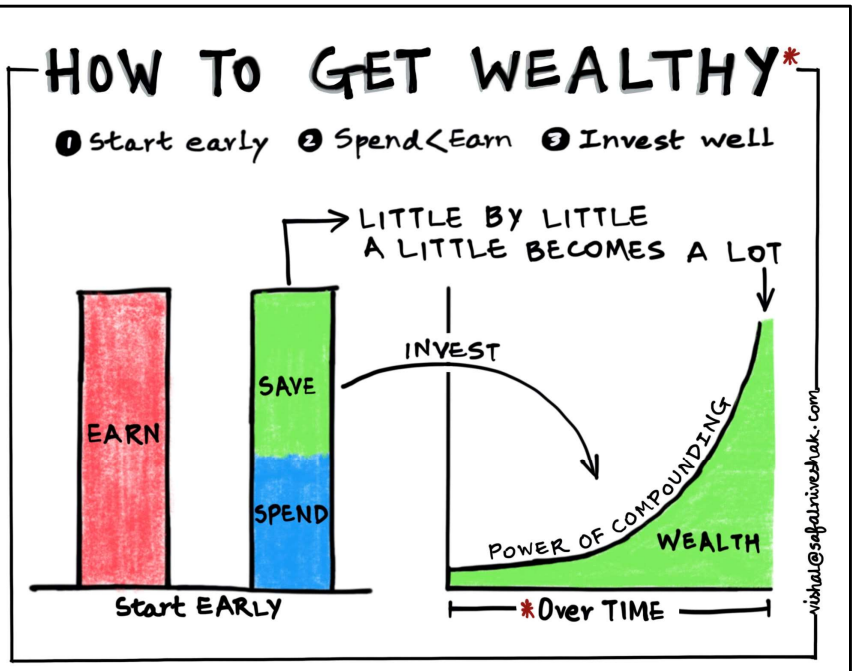
To simplify your life and investing, learn to subtract things and not add. Read the *Via Negativa* chapter in Nassim Taleb's fantastic book *Antifragile.*

It's not the daily increase but daily decrease. Hack away at the unessential.

~ Bruce Lee

Making decisions is exhausting. The more decisions you make the less will power you have. Reminds me of this saying – *The learned man aims for more. But the wise man decreases and then decreases again.* Simplify, simplify, simplify!

50,000+ Books on Personal Finance, But Just One Simple Rule



Like, consider personal finance and how to get wealthy…

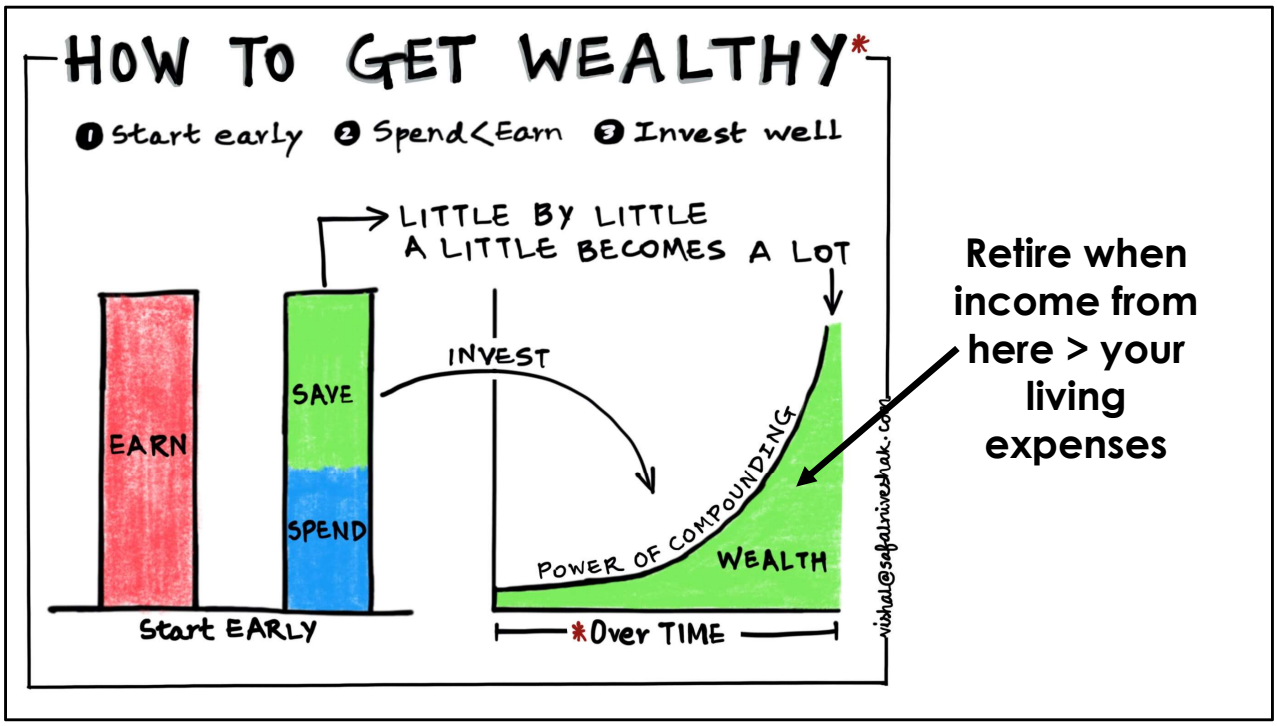
https://www.safalniveshak.com/how-to-get-wealthy/

(Source: networthify.com)

Check out this site to know, at a given savings rate, when you can retire from your addiction of the monthly paycheque – https://networthify.com/calculator/earlyretirement?income=1800000&initialBalance=0&expenses=1224000&annualPct=15&withdrawalRate=5

Withdrawal Rate (WR) is the maximum rate at which you can spend your retirement savings, such that you don't run out in your lifetime.

Assumption – 5% WR = 15% return on your investments *minus* 10% inflation



Retire when income from here > your living expenses

But, How Much is Enough?

Remember that very little is needed to make a happy life.

~ Marcus Aurelius, Meditations

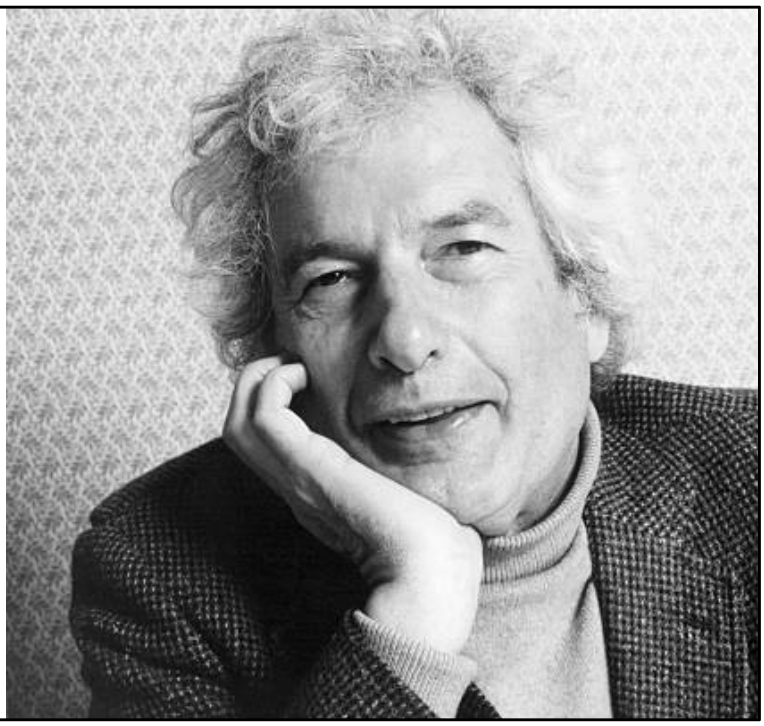
Imagine entering a marathon only to find they have made a key change. There is no finish line. How will you train for such a race? You couldn't. How will you know if you'd won the race? You wouldn't. Thus you need finish lines. Answering the money question of how much is enough will help you know where that finish line could be.

https://www.safalniveshak.com/how-much-is-enough/

“I’ve got something he can never have.”

“And what’s that?”

“Enough.”



Joseph Heller, a funny writer now dead, and his friend were at a party given by a billionaire on Shelter Island. The friend asked, “Joe, how does it make you feel to know that our host only yesterday may have made more money than your novel ‘Catch-22’ has earned in its entire history?”

And Joe said, “I’ve got something he can never have.” And his friend asked, “What on earth could that be, Joe?” And Joe said, “The knowledge that I’ve got enough.”

(Source - The Happiness Equation - https://amzn.to/2UvEt3J)

How Much is Enough?

Rule of Thumb: 25 x Annual Living Expenses

Assume:

- **Annual Living Expenses =** Rs 12 Lac
- **Retirement Corpus =** 25 x Rs 12 Lac = Rs 3 Crore
- **5% Withdrawal Rate** (at which you spend your retirement savings) = 5% x Rs 3 Crore = Rs 15 Lac **(Retire**)**

You may be a bit more conservative and use a 30x multiple. But have one such number in mind, and have that as your finish line for the "Enough?" question.

https://www.safalniveshak.com/how-much-money-is-enough/

**Retire, But Do Work That Matters

There comes a time when you ought to start doing what you want. Take a job that you love. You will jump out of bed in the morning. I think you are out of your mind if you keep taking jobs that you don't like because you think it will look good on your resume.

— Warren Buffett

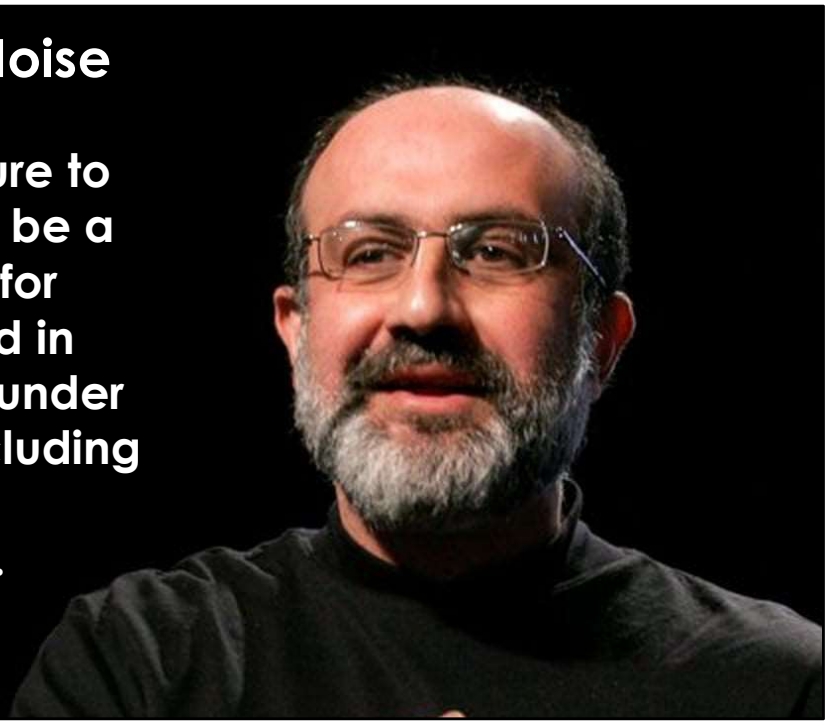
Don’t sell anything you wouldn’t buy yourself; don’t work for anyone you don’t respect or admire, and work only with people you enjoy.

~ Charlie Munger

6. Cut Out Noise

…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



Things are (often) not what they appear on media…

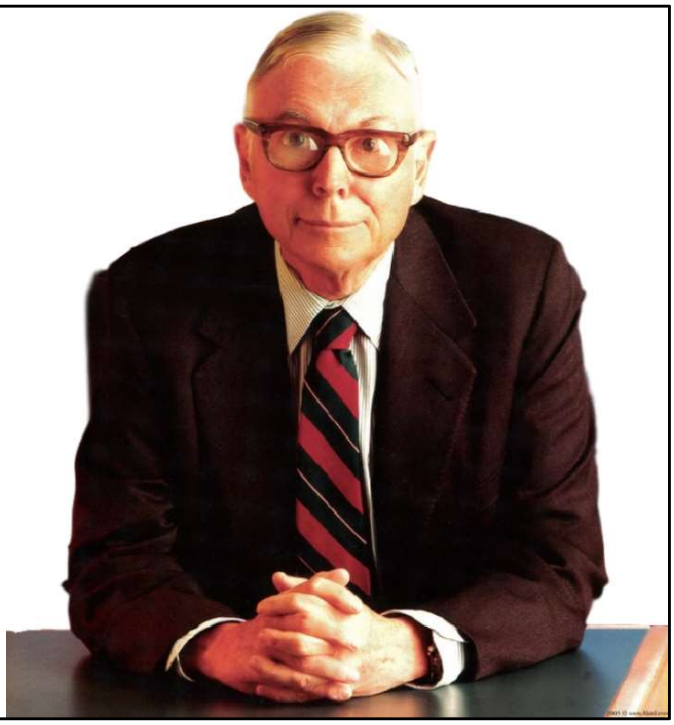
We latch on to the first impressions (System 1 thinking; Daniel Kahneman) when we are surrounded by too much noise, and thus aren’t thinking much.

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



Beware, because you guys are super talented ;-)

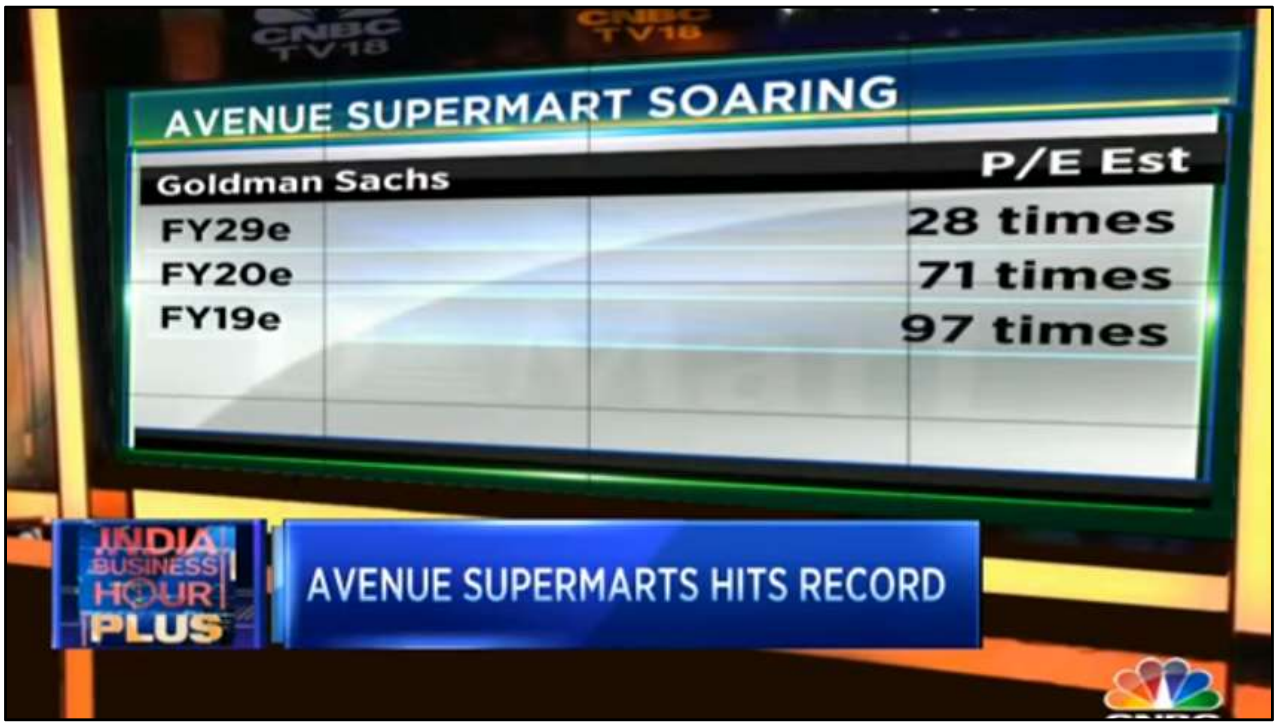
Gorging Gene Theory Explains Our Never-Changing Instincts

And it's mostly the problem of our brain and how it has (not) evolved. Also, 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. Read this note on the Gorging Gene Theory from *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.*

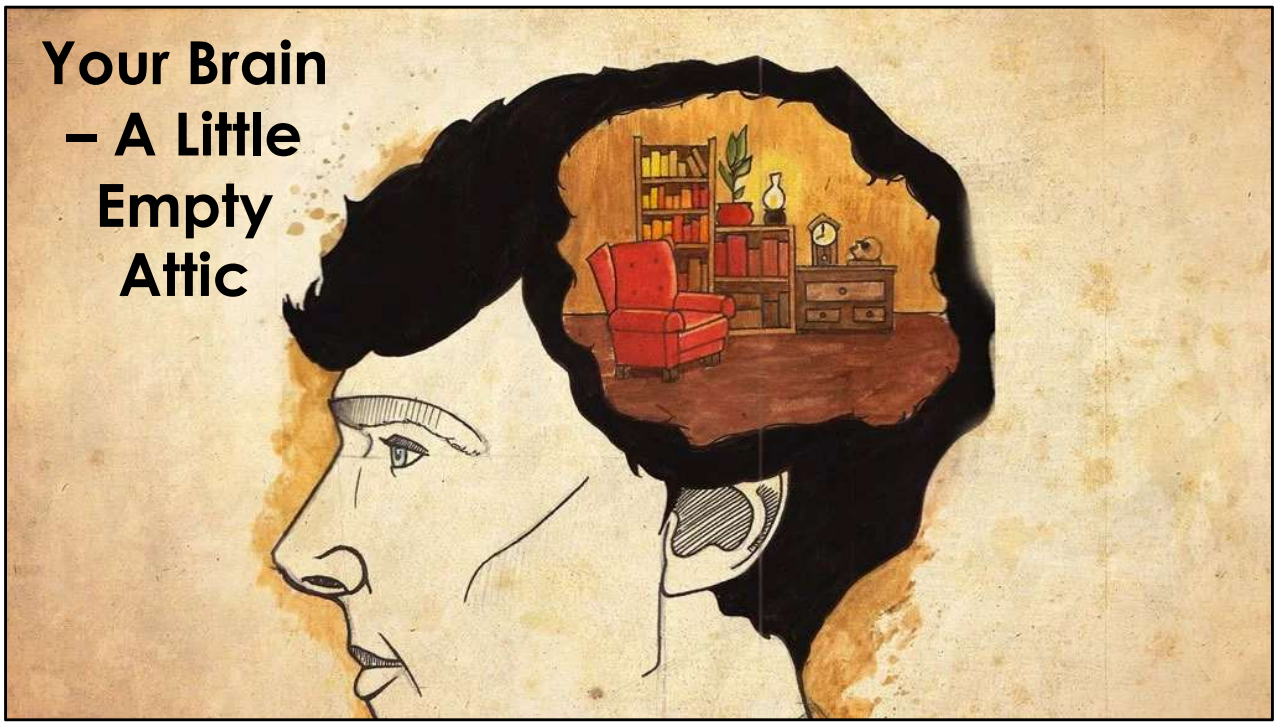
Stuff we get excited about!

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

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)

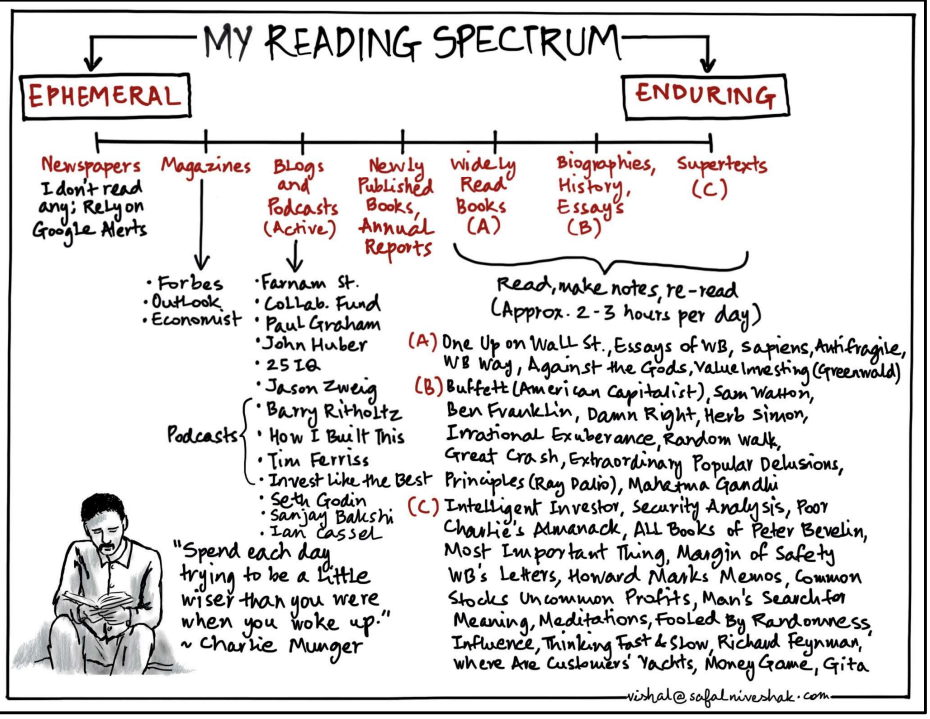


I am reminded of what Sherlock Holmes told his accomplice Watson in *A Study in Scarlet – I consider that a man's brain originally is like a little empty attic, and you have to stock it with such furniture as you choose. A fool takes in all the lumber of every sort that he comes across, so that the knowledge 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.

A Quick Guide to Cutting Noise and Seeking Wisdom



Stock your brain attic with the right lumber…

https://www.safalniveshak.com/reading-learning-for-investors/

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

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.

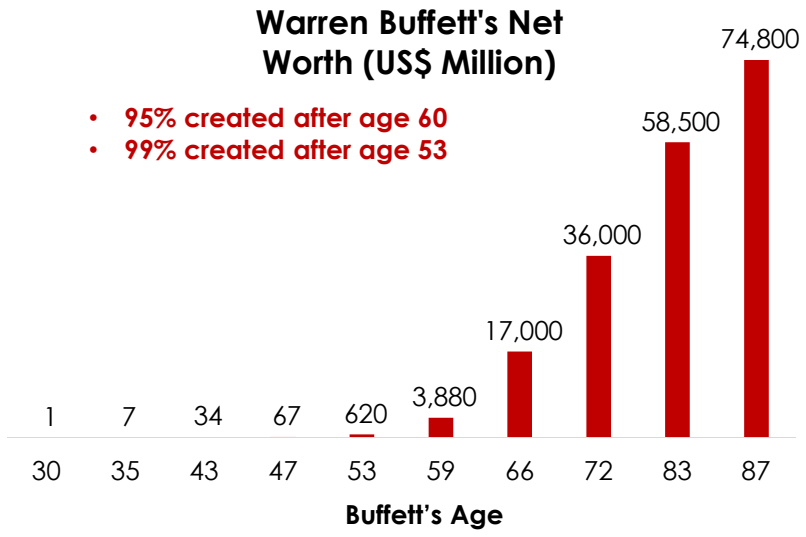
I hope you agree with me. And I hope you take the responsibility of acquiring worldly wisdom seriously, which is going to help you in your life and work.

A pedestrian on 57th Street sees a musician getting out of a cab and asks, “How do you get to Carnegie Hall?” Without pause, the artist replies wearily, “Practice, practice, practice.”

The investment process is that practice that will take you to the Carnegie Hall of investing. Just that it will take time.

If you're even a slightly above average investor who spends less than you earn, over a lifetime you cannot help but get very wealthy – if you're patient.

~ Warren Buffett



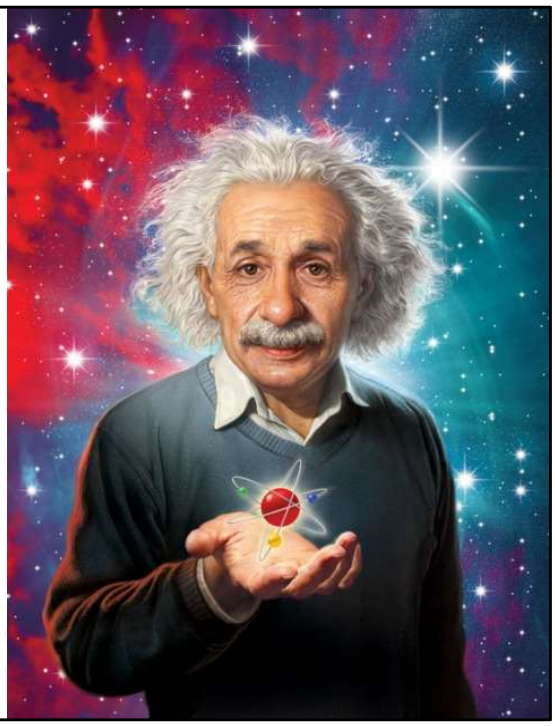
See, even Buffett is asking you to be just slightly above AVERAGE.

"If you're patient" is the key. Never forget this.

Stay Hungry, Stay Foolish, Stay Curious, Survive

It is a miracle that curiosity survives formal education.

~ Albert Einstein



"Stay hungry, stay foolish" was Steve Jobs' advice to students in his 2005 commencement speech at Stanford University -https://youtu.be/UF8uR6Z6KLc

Stay hungry - Stay eager
Stay foolish - Be ready to try new things, or be ready to step out of your comfort zone
Stay curious – Be open to learning…always

Thank you!

vishal@safalniveshak.com