Safal Niveshak's

28 Big Ideas On Investing, Business, Life, Behaviour, and Thinking

...From 28 Great Books You Must Read

Anshul Khare & Vishal Khandelwal
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"We do not inherit the earth from our ancestors.
We borrow it from our children."
~ David Brower

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Introduction

The books that we selected for Bookworm aren't chosen randomly. These are the books that have appeared on the must-read list of many business leaders, investors, thinkers, and authors.

The goal is not to spoon feed you with the summary of the books. The authors of these amazing books have spent thousands of hours researching and brainstorming over the ideas. Reading a book review, containing few hundred words, can never be a replacement for the book itself.

If the book review doesn't sound interesting to you, perhaps it's our inability to communicate the awesomeness of the book.

Chances are that our untrained eyes have missed many other wonderful insights in the book which you will be able to spot easily. So not reading the book would be a mistake.

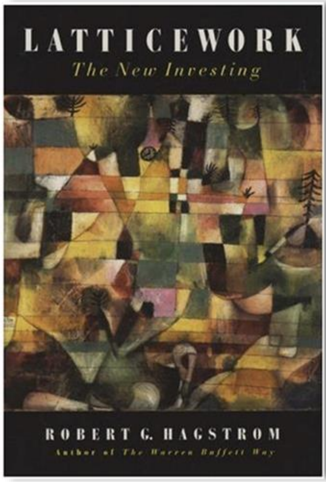
Reading a book summary is like trying to enjoy a delicious cake by sniffing it from a distance and imagining its flavour.

The goal here is to prime you with few insights from the text so that you get a copy.

Happy reading!

With respect,
Anshul & Vishal

Latticework: The New Investing by Robert Hagstrom



This book is unlike most other investment books I have ever read. It presents strong arguments to underscore the importance of a multidisciplinary approach to investing.

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

Hagstrom makes a case that a successful stock picker must be ready to shift models and look at the markets from different vantage points with the passage of time. Instead of working like an analyst - plugging factual information into excel models - investors need to regard the insights or models from other disciplines too. The task of the investor, Hagstrom argues in Latticework, is to be well-read and always be open to a new perspective of the world.

One counterintuitive insight that jumped at me from the book is that most of the big ideas, unlike common belief, don't originate in a human mind like a flash. Instead, these ideas build with one thought at a time over several decades (even centuries) involving multiple people.

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

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

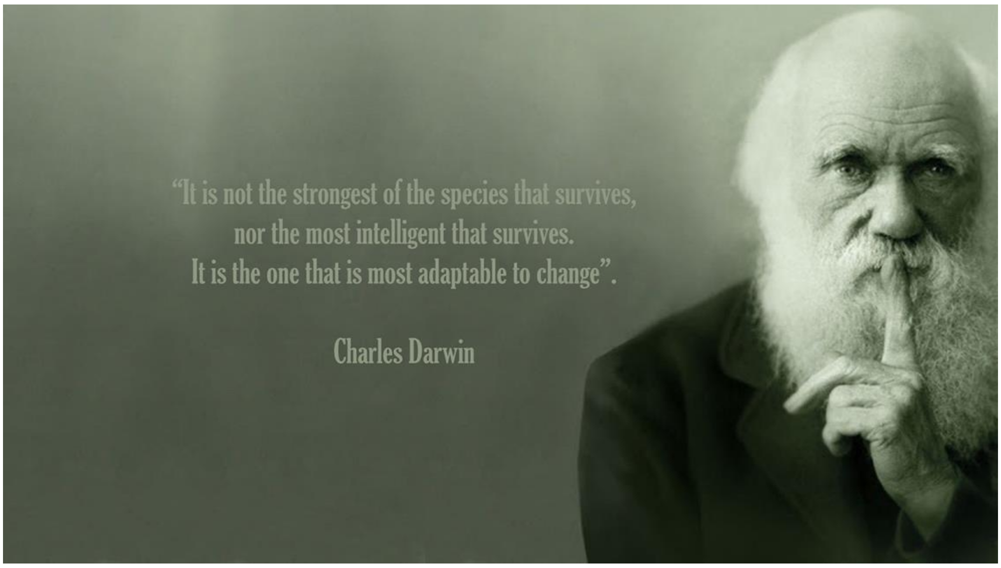
"...equilibrium is not only the backbone for classical economics", writes Hagstrom, "but it also serves as the foundation for modern portfolio theory."

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

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

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

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



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

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

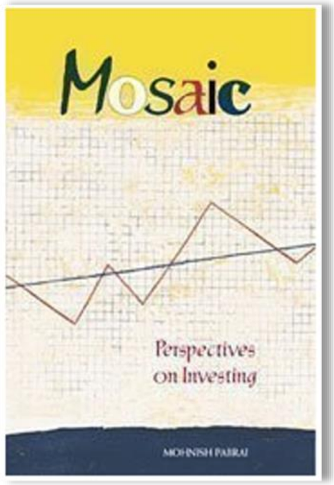
However, the biological interpretation of economy and stock markets still has several missing pieces.

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

You may not appreciate this book if all you are looking for is magic formulas or ready-made rules of sound investing. However, if you have a keen interest in the history of the development of some of the challenging ideas from different disciplines and their applicability to the field of investing, then Latticework is the book you shouldn't miss.

PS: A more detailed review of this book was published on Safal Niveshak. Click here to read it.

Mosaic: Perspectives on Investing by Mohnish Pabrai



How much would you pay to have lunch with Warren Buffett? How about Rs. 4 crore? Don't be surprised because that's the amount Mohnish Pabrai (along with his friend Guy Spier) paid to have a private lunch with Warren Buffett in 2006. Mohnish manages $ 850+ million US-based fund called Pabrai Funds and is a hardcore Buffett disciple.

Pabrai has built three successful businesses in the last twenty-five years, including a technology company, a Buffett style hedge fund and a very successful philanthropic organization called Dakshana Foundation, which educates talented underprivileged children to qualify for IITs. With this kind of experience, I am sure he has some interesting insights for us.

Mosaic is a collection of 26 essays that Mohnish published between 2001 and 2004. I find his ideas very simple to understand because he has a knack of making the art of value investing look simple. Every article speaks volumes about the tremendous amount of thinking that has gone into each topic. Not only that, Pabrai is a natural story teller.

Here are few big ideas from Mosaic.

Steer Clear of the Short Side
In investing and in life, you would do far better if you knew what to avoid. Says who? Charlie Munger. And being a Munger fan, Mohnish advice isn't much different. He writes –

"Odds are very high that I'll go to my grave without ever having shorted a stock. My quality of life would go down dramatically if I were forced to watch every wiggle in the market."

Theoretically, when you short sell a stock, your best case (upside) is 100% return but the worst case (downside) is potentially unlimited. Even if you strongly feel that a company is highly overpriced, you can't predict when the market will realize the correct price. Here, I am reminded of the words of wisdom attributed to the economist John Maynard Keynes –

"The market can remain irrational longer than you can remain solvent."

Back of the Envelope Calculations

A simple back of the envelope calculation can give a quick idea about the intrinsic value of a company. It could be as simple as 10 year FCF (free cash flow) discounted to present and added to the terminal value (10 times of FCF). You don't need fancy excel macros and complicated formulae to arrive at an accurate value of a stock. This is what Buffett says about valuation –

"I only get into situations where I know the value. There are thousands of companies whose value I don't know. But I know the ones that I know. And incidentally, you don't pinpoint things. If somebody walks in this door and they weigh between 300 and 350 pounds, I don't need to say they weigh 327 to say that they're fat."

Or quoting John Maynard Keynes again – "It is better to be roughly right than precisely wrong." Of course, DCF shouldn't be the only tool to arrive at a valuation. It's just one of the ways to get an approximate idea about the 'range of intrinsic values'.

Decoding a Company's DNA

Touching on the qualitative aspect of the company, Mohnish writes –

"From an investment perspective, a lot of useful information can be gained from decoding [the] genetic blueprint [of the company] and understanding what transpired during the very early stage of a given business. If you're able to decode, you can extrapolate business performance far into the future."

E.g. Microsoft as a company is good at cloning ideas instead of innovating, unlike Apple which is an innovation factory.

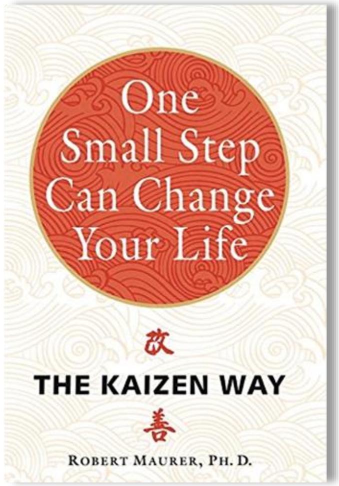
Similarly, it helps to understand the personality of the CEO. Mohnish adds –

"A very gainful exercise for the investor would be to characterize the personality traits of the CEO before making an investment. If you can buy a great business well below its intrinsic value and it's run by a very low ego, totally truthful, high capability CEO who is deeply in love with his business, back up the truck. Otherwise, keep on driving."

There aren't many people in the hedge fund industry who can match Pabrai's experience as a successful entrepreneur and astute investor.

PS: The book is available for free on Mohnish Pabrai's blog in form of individual downloadable articles.

The Kaizen Way by Dr. Robert Maurer



Think of the last time you set out to bring about a major change in your life – like losing weight, starting a new project or business, learning how to invest on your own, starting an exercise regime, learning to break an addiction, or building a new relationship. What did you feel? Exhaustion? Excitement? Fear?

Most people, when faced with change, get so overwhelmed with the perceived enormity of the work required to bring the change that they either don't get started or give up very early. But there is an alternate way to circumvent our brain's resistance. The book I am talking about here packs the idea that can create a backdoor entry, kind of a hack if you will, for your brain.

The Kaizen Way is small but brilliantly written book by Dr. Robert Maurer.

One Small Step
The heart of Kaizen philosophy is to make such small changes in your life that your brain doesn't even know you're changing, and therefore, doesn't get in the way. Dr. Maurer writes –

"I am talking about really small steps here, ones that seemed almost embarrassingly trivial at first...spend a few seconds each day imagining the details of a dream job. If a patient wanted to cut out caffeine, we'd start by taking one less sip each day."

It's worth mentioning here a tremendously useful mental model from Charlie Munger's Latticework called *boiling frog syndrome*, described by Prof. Bakshi in this wonderful blog post. He explained –

"Small incremental changes tend to go unnoticed...If you put a frog in hot boiling water, it will instantly leap out of the pan and be never seen again. But, if you put a frog in a pan containing water at room temperature and slowly turn up the heat, it wouldn't be able to tell the tiny incremental changes. It will boil and die...Charlie Munger once said that many businesses die just like the boiling frog. Cognition, misled by tiny changes involving low contrast, will often miss a trend that is destiny."

John Wooden, one of the most successful coaches in the history of basketball believed in Kaizen. He said –

"When you improve a little each day, eventually big things occur ... Don't look for big, quick improvement. Seek the small improvement one day at a time. That's the only way it happens and when it happens, it lasts."

A lot of credit for Japan's rapid development and corporate dominance, after being devastated by World War II, goes to the philosophy of small continuous improvements.

It worked so well for them that Japanese gave it a name of their own – Kaizen. Lao Tzu's saying best captures the essence of Kaizen – *"The journey of a thousand miles begins with the first step."*

There are six strategies Maurer talks about in his book that can help you bring about big changes in your life over a period of time. Let's look at my favorite one from that list. It's so simple that you can start implementing immediately.

Ask Small Questions
Dr. Maurer starts with the premise – *"Small questions create a mental environment that welcomes creativity and playfulness."*

Doesn't it feel counterintuitive that just the act of asking questions, especially to yourself, can solve problems? The truth is - questions are better at engaging the brain.

But if you try to understand how our brain works you would discover that the brain's main criterion for storing information is repetition. As a result, when you force your brain to go over a question repeatedly, the brain has no choice but to pay attention and begin to create the answers.

"Ask a question often enough, and you'll find your brain storing the questions, turning them over, and eventually generating some interesting and useful responses...I believe that the mere act of posing the same question on a regular basis and waiting patiently for an answer mobilizes the cortex...It will process and absorb the question and, in its own magical way, create answers when it is ready...which may be in that moment we are in the shower, driving, or washing the dishes."

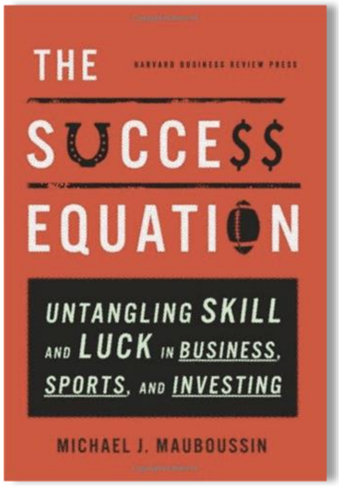
It's important that the questions are very small else it will trigger the fight-or-flight response in your brain and it will shut down. Asking small trivial questions is a common trick used by many successful fiction writers to overcome writer's block. They start with a simple incident and then, by answering small questions, the whole story starts taking shape.

Famous novelist Stephen King, in his book On Writing, explains how he goes about creating stories around the characters. When he imagines a character, he asks questions about that character's personality, life, habits, appearance etc. and then let his imagination provide the answers.

Sam Keen's wonderful line drives the point straight to the home– "What shapes our lives are the questions we ask, refuse to ask or never think to ask."

The Kaizen Way has loads of such practical ideas to bring the spirit of kaizen in your life. The small step that you'll take to read this book may turn out to be a giant leap in your life.

The Success Equation by Michael Mauboussin



In the last fifty years, Warren Buffett has recommended quite a few books in his lectures and writings. But there is one book that can boldly claim to have found its way to Warren Buffett's reading desk. And that book is The Success Equation, authored by Michael Mauboussin.

Michael belongs to the breed of those rare investment strategists who have spent their life puzzling over the really crucial questions in the world of decision making. He is an expert in one of the most debatable topic in the field of business strategy i.e., role of luck in defining the success of an individual as well as an organization.

Apart from being a successful investor, Michael also teaches at Columbia Graduate School of Business. He has authored three other books out of which I have read two and found both of them equally insightful.

The key insight in The Success Equation is about the Skill-Luck continuum. Much of what we experience in life results from a combination of skill and luck. Mauboussin deconstructs the puzzle for us.

Skill-Luck Continuum
According to Michael luck is a chance occurrence that affects a person or a group. Luck can be good or bad. Furthermore, if it is reasonable to assume that another outcome was possible, then a certain amount of luck is involved. In this sense, luck is out of one's control and unpredictable.

Skill is defined as the ability to apply one's knowledge readily and execution to performance. Some activities like playing musical instruments or chess allow almost no luck. Other activities like poker or investing are embedded with large quantities of luck, and skill here mostly pertains to an ability to make sound decisions.

The litmus test to find out any involvement of skill in an activity is this: *ask whether you can lose on purpose.*

Skill-luck continuum is an imaginary linear scale where on the far right are activities that rely purely on a skill such as running, swimming, chess, etc. On the far left are activities that depend on luck and involve no skill. Roulette or the lottery are few examples.

In skill dominated situations, following a good process almost always leads to a good outcome. In a luck dominated world, a good process also leads to a good outcome but only over time.

"On the skill side of the continuum, feedback is clear and accurate, because there is a close relationship between cause and effect. Feedback on the luck side is often

misleading because cause and effect are poorly correlated in the short run. Good decisions can lead to failure, and bad decisions can lead to success."

This is the reason why history turns out to be a poor teacher in making a sense out of socio-economic events, because of luck being a dominant force. For that matter, most of the history is nothing more than a bunch of manufactured stories polluted by narrative fallacy. The blindness to alternate histories is quite evident in most of the history books.

The second fascinating idea that I found in the book is what Michael calls the paradox of skill.

Paradox of Skill
Dealing with skill is counterintuitive. We just saw that skill side activities in the continuum aren't affected by luck much. However, if everyone gets better at something, luck plays a more important role in determining who wins.

The paradox of skill is very evident in the field of investing. With thousands of equally smart, knowledgeable and skillful investors pitted against each other, luck has started calling the shots as to who comes out with market-beating performance figures, especially in short term.

The Arc of Skill
When it comes to tracking the lifecycle of skill in individuals the pattern you discover is interesting. For most of the activities involving physical skill the peak comes at the age of mid to late twenties and then it goes down.

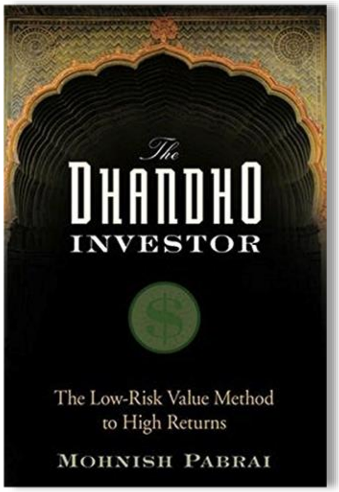
However, in activities involving cognitive skills, the peak comes much later in one's life. Statistics say that a typical institutional investor achieves his peak performance around the age of 42 to 45 years.

Interestingly, corporate performance and company lifecycle also follow an arc of skill. Many studies have validated that in spite of some companies enjoying sustained superior performance, the rate of reversion to the mean seems to be accelerating. This is a valuable insight for estimating the future cash flows of companies.

In The Success Equation, Michael Mauboussin has gone beyond the general notion that luck is important. He has provided a blueprint to enhance the understanding of limits of skill and the role of luck in real life situations. It's a fascinating book that forces you to reflect on your decision making process.

The Dhandho Investor by Mohnish Pabrai

Yet another book from Mohnish Pabrai.



Dhandho is a Gujarati word which is best described as – endeavours that create wealth while taking virtually no risk. Like many other value investors, Mohnish too prescribes a low risk betting strategy.

The book starts with a fascinating description of "Patel Motel" business.

The Patel Motel Dhandho

The Gujarati community in the US make up less than 0.2 percent of the population but they control more than 50 percent of the motel business employing nearing a million people and owning over $ 40 billion in motel assets. The distressed motel industry, low initial investment, easy mortgage and free accommodation were reasons compelling enough to attract the Patel community to motel business. With frugality and extremely low operating costs, Patels turned motels into cash generating machines.

The cash generated by one motel was used to buy another motel and very soon Patels began applying their low-cost model to higher-end hotels, gas stations, convenience stores (7-Elevens) etc. The snowball effect over time ended up creating amazing results for the Patel community. There's an explanation of this idea in the book with a simplistic DCF analysis (taking into account various possible outcomes) for a motel business and proves that it was a typical "Heads, I win; tails, I don't lose much!" bet – a dominating theme in this book.

So here are few Dhandho strategies.

Invest in Distressed Situations

Humans are subject to extreme fear and extreme greed, which occasionally creates pockets of inefficiency in the markets. To exploit this inefficiency, all we need to do is to narrow the universe of candidate businesses down to ones that are understood well and are in a distressed state. When you stumble upon distressed businesses in distressed industries, the odds are high that an investor can pick up assets at steep discounts to their underlying value.

How do you find such distress situations? Business headlines are one such source. Especially negative news, or scams/scandals in certain industry or business. Don't stop when you find distressed businesses. What's the next step?

"We begin by eliminating all businesses that are either not simple businesses or fall squarely outside our circle of competence. What's left is a very small handful of simple, well-understood businesses under distress. We are now ready to apply the rest of the Dhandho framework to this select group."

Be A Cloner
One of the mental models which Mohnish swears by is cloning i.e., copying the proven strategies that have been tried and tested by other successful people. Cloning is a recurrent theme that you would notice in all his talks and writing. According to Mohnish, innovation is a difficult and risky game, but lifting and scaling existing ideas carries far lower risk and offers great rewards. Thousands of Patels simply copied the motel business model from the first few Patels who had figured it out. Most entrepreneurs lift their business ideas from other existing businesses or from their last employer.

"In seeking to make investments in the public equity markets, ignore the innovators. Always seek out businesses run by people who have demonstrated their ability to repeatedly lift and scale. It is the Dhandho way."

Mohnish himself cloned the Buffett partnership fee structure for Pabrai Funds. It wasn't something that could be adopted by most mutual funds and hedge funds – even if they recognized the competitive advantage it would bring.

"Having a moat that your competitors can see in broad daylight but never ever cross is just fantastic."

Other aspects of Buffett's investing style that Pabrai copied are - not disclosing the portfolio positions, discussing the performance only once a year, having a very small investment team size and a concentrated portfolio.

Prefer Low-Risk High-Uncertainty Business
Dhandho entrepreneurs think through the range of possibilities and draw comfort from the fact that the odds of a permanent loss of capital are extremely low. What does that mean? Well, markets sometimes get confused between risk and uncertainty. Mohnish writes –

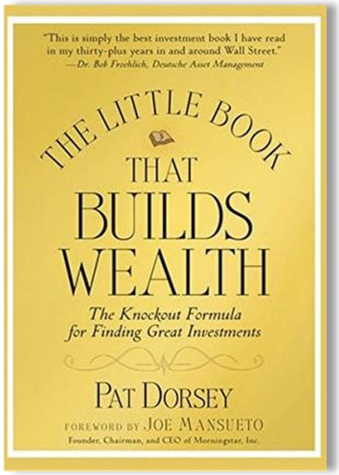
"Always take advantage of a situation where Wall Street gets confused between risk and uncertainty. The results will usually be quite acceptable...Savvy investors like Buffett and Graham have been taking advantage of Mr. Market's handicap for decades with spectacular results. Take advantage of Wall street's handicap by seeking out low-risk, high-uncertainty bets."

Mohnish discusses three different case studies (Stewart Enterprises, L3 bonds, and Frontline) from his personal portfolio to explain this peculiar characteristic of inefficient markets. And how do you find these interesting risk-uncertainty kinds of opportunities? Mohnish's recommendation –

"Read voraciously and wait patiently, and from time to time these amazing bets will present themselves."

The Dhandho Investor was one of the very first few books that I read during my initiation into the world of value investing. If you too are a new investor and looking for a jargon-free book to start with, this one is for you.

The Little Book that Builds Wealth by Pat Dorsey



Warren Buffett, in his 1987 letter to shareholders, while talking about GEICO, gave a new meaning to the word 'Moat'. He used moat as a metaphor for companies having a durable competitive advantage. Pat Dorsey, in his wonderful little book, explains –

"There are lot of ways to make money in the stock market. You can play the Wall Street game, keep a sharp eye on trends, and try to guess which companies will beat earnings estimates each quarter, but you'll face quite a lot of competition.

You can buy strong stocks with bullish chart patterns or superfast growth, but you'll run the risk that no buyers will emerge to take the shares off your hands at a higher price. You can buy dirt-cheap stocks with little regard for the quality of the underlying business, but you'll have to balance the outsize returns in the stocks that bounce back with the losses in those that fade from existence.

Or you can simply buy wonderful companies at reasonable prices, and let those companies compound cash over long periods of time. Surprisingly, there aren't all that many money managers who follow this strategy, even though it's the one used by some of the world's most successful investors. (Warren Buffett is the best-known.)"

Just as moats around medieval castles kept the opposition at bay, economic moats protect the high returns on capital enjoyed by the world's best companies. If you want to understand the concept of economic moats, I suggest, read this book as soon as possible. However, to get your feet wet, let me highlight some sources of moats that have been discussed in the book.

Switching Costs

The products or services that a company sells may be hard for customers to give up, which creates customer switching costs that give the firm pricing power. This is an elegant solution to the complex problem of developing an edge.

One obvious example is your bank. Switching bank isn't something that you would want to do frequently because of the cumbersome process.

Another way switching costs create moat is when companies make it tough (intentionally or unintentionally) for customers to use a competitor's product or service. There are several examples of such businesses in various industries. You can find such businesses from financial services to the energy sector to health care industry.

In the software industry, Oracle is a great example of a strong moat. It's not only difficult but expensive (and potentially very risky) for enterprise customers to switch to another database.

However, consumer-oriented firms such as retailers, restaurants, and packaged-goods companies have low switching costs, which make it very hard for them to create moats. They can always create moats by virtue of economies of scale or brand power but switching costs don't help them.

Cost Advantages
Companies can dig moats around their businesses by having sustainable lower costs than then competition. Cost advantages matter most in industries where price is a big part of the customer's purchase decision.

Some companies have cost advantages, stemming from a process, location, scale, or access to a unique asset, which allow them to offer goods or services at a lower cost than competitors.

Be warned for what one company can invent, another can copy. That's why process based cost advantages are less durable as compared to location-based cost advantages. For that matter, low costs based on ownership of some unique assets are much more durable (like ownership or oil wells supports, not just a business but whole countries in the Middle East)

Pat Dorsey's book is a superbly written one which helps you create a framework around competitive advantages. Prof. Sanjay Bakshi said this about Dorsey's book in his interview with Safal Niveshak in 2014 –

"Many years ago, I co-authored a paper on Eicher Motors, which I think your readers would agree is a fantastic company. At the time, in 2008, the stock was selling at a ridiculously low price of Rs 200 per share even though the company had Rs 147 per shares in cash and no debt. That stock now sells at 5,500.

I presented that paper to two investors — both offshore funds. One of them bought it promptly and, over time, Eicher Motors became its best performing position. The other fund bought it too but sold out in less than a year when the stock went up a bit. So, you get two vastly different outcomes from the same stock. The fund that sold out did not have the patience. The other one did. And the fact that I had much more influence over the one which did not, or perhaps could not, exercise patience at the time, tells us something isn't it?

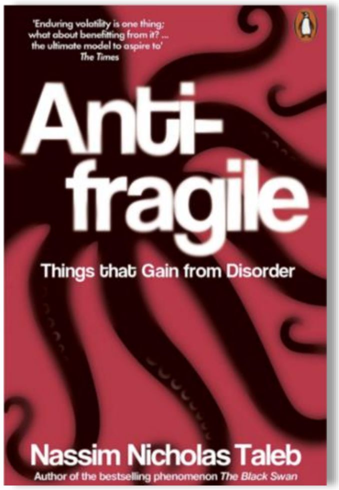
I learnt a very important lesson from that one. Be patient with great businesses. Let them do the hard work for you. Just sit there.

So, a few years ago, I decided to increase my focus on moats. I enjoyed the process (and the proceeds) so much that last year I decided to exclusively focus on moats.

In this decision, apart from my own experience of investing in moats over the last 20 years, I was also influenced by...Pat Dorsey, the author of a wonderful book on moats."

The Little Book That Builds Wealth is one of the most important texts that you can read to understand the puzzle of moat and competitive advantages.

Antifragile by Nassim Nicholas Taleb



This book contains more than four hundred pages (excluding the appendix) of densely packed insights and concentrated doses of ideas. Nassim Taleb is one of my favourite authors. Before Antifragile he had authored two other best-selling books – The Black Swan and Fooled by Randomness, both of which are must-reads too. In fact, all three books are quite related to each other, like a trilogy. Many of the ideas that Taleb wrote about in his earlier two books have found their logical conclusion in Antifragile.

However, if you haven't read Taleb's previous two books, don't let that stop you from reading this one. You can always go back to earlier books later.

In The Black Swan, Taleb showed that highly improbable and unpredictable events underlie almost everything about our world. In Antifragile he stands uncertainty on its head, making it desirable, even necessary. Antifragile takes the central idea of The Black Swan and expands it to encompass almost every other aspect of life, from the 19th century rise of the nation state to what to eat for breakfast.

Antifragility

We know what fragile is – something which breaks or disintegrates easily when subjected to a stress or disorder. So what can be the opposite of fragile? 'Robust' or 'resilient'? These are the words that came to my mind when I tried to answer this for the first time.

Think about it, is 'staying same' the opposite of the word 'decrease'? Because that's what robust or resilient means - something which doesn't break, i.e., stays the same, under stress. The opposite of fragile should ideally be something which doesn't just resist stress but benefits from stress; gets better and better. So Taleb coins a new word – antifragile – something which is not just immune to adverse events but thrives on them.

The simplest example of an antifragile system would be a human body or for that matter our bone structure. Our bones grow stronger when subjected to moderate stress. Not only that, in absence of stress bones actually become weak and wither away. So an antifragile body doesn't just thrive on stress but it needs it to flourish. The wind extinguishes a candle and energizes fire, Taleb says, "Likewise with randomness, uncertainty, chaos: you want to use them, not hide from them. You want to be the fire and wish for the wind."

Taleb talks about a Triad, something similar to the skill- luck continuum which we saw in Michael Mauboussin's book The Success Equation, in which 'robustness' falls in the middle. At the far left is 'fragility' and at the far right is 'antifragility'.

Hydra, in Greek mythology, is a serpent-like creature and has numerous heads. Each time one is cut off, two grow back. So harm is what it likes. Hydra represents antifragility. In Hindu mythology, there is a similar character called Raktabija. A demon (asura) who has the magic boon that every drop of blood shed from his body gives rise to another Raktabija (literally the blood borne).

It's worth noting that things are antifragile up to a certain level of stress. Even our so-called antifragile body benefits from some amount of mishandling, but up to a point – it would not benefit too much from being thrown down from the Eiffel Tower.

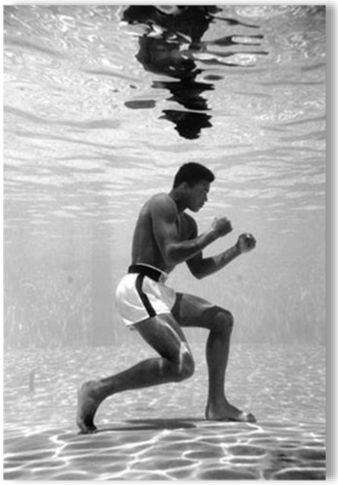
Here's a key insight about how antifragility has implications in business.

"Some businesses love their own mistakes. Reinsurance companies who focus on insuring catastrophic risks (and are used by insurance companies to "re-insure" such non-diversifiable risks), manage to do well after a calamity or tail event that causes them to take a hit. If they are still in business and "have their powder dry" (few manage to have plans for such contingency), they make it up by disproportionately raising premia - customers overreact and pay up for insurance. They claim to have no idea about fair value, that is, proper pricing, for reinsurance, but they certainly know that it is overpriced at times of stress, which is sufficient to them to make a long term shekel. All they need is to keep their mistakes small enough so they can survive them."

Warren Buffett probably understood this and that's why he refused to participate in the race for mindless growth for his insurance subsidiaries. A relentless focus on underwriting profitability made sure that he had his "powder dry" when other fragile competitors would routinely get wiped out in the event of one bad year. Buffett's Berkshire, in my opinion, is the epitome of an antifragile business.

I enjoyed reading Antifragile so much that I recommend it to everyone I meet.

The Little Book of Talent by Daniel Coyle



"I don't count my sit-ups, I only start counting when it starts hurting when I feel pain, that's when I start counting, because that's when it really counts."

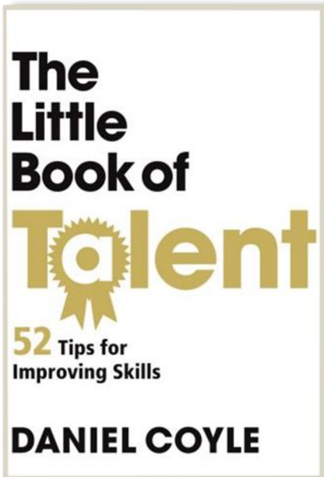
Those are the words of the greatest pugilist that the world has ever seen in the history of boxing – Muhammad Ali. Ali began training at the age of 12 and won the world championship when he was 22 years old. A child prodigy, born with a gift for throwing lightning fast punches. But was he really born wearing boxing gloves and a knack for knocking people out? Of course not.

Many research studies have established that talent is determined far less by our genes and far more by our actions: specifically, the combination of intensive practice and motivation that produces brain growth.

Ali earned his talent by sweating out countless hours, practicing each and every move, working on his stamina and training his mind. He probably raked in more than ten thousand hours of practice much before he was 22.

The rule of 'ten thousand hours', a scientific finding, says that all world-class experts in every field have spent a minimum of ten thousand hours intensively practicing their craft. That's how a talent is built. The 10,000-hour heuristics was made popular by Malcolm Gladwell's book Outliers.

So, does it mean anybody who spends ten thousand hours doing something will become a world class expert in that activity? Of course not. There is more to the rule than the number 10,000. It's *'Deliberate Practice'* which holds the key to developing expert-level skills.



Deliberate practice is defined as the form of learning which fuses the notion of attentive repetition with the willingness to operate on the edge of your ability, aiming for targets that are just out of reach. That's what Muhammad Ali meant when he said – "I don't count my sit-ups. I only start counting when it starts hurting when I feel the pain..."

The idea is that development of skill is nothing but brain development. With quality practice, the brain builds new and stronger neural pathways that result in dexterity in the skill.

Daniel Coyle's book, The Little Book of Talent, takes the idea of deliberate practice and breaks it down into 52 simple, practical, doable tips that will power your skill development and take it to a whole new level. Whether you want to improve your singing voice, a powerful forehand swing, success in business or persuasive communication skills, the methods discussed in this book, if implemented, will propel you on an express path for unleashing your true potential.

The central idea, Coyle says, is – small actions, repeated over time, transform us. Which resonates pretty well with Charlie Munger's advice. He recommends that "you should go to bed just a little bit smarter than when you woke up."

Here are some tips to get started on the path of talent development.

Steal from Top Performers
As Pablo Picasso put it, "Good artists borrow, Great artists steal."

All improvement is about absorbing and applying new information, and the best source of information is top performers. Mohnish Pabrai, a very successful fund manager, swears by the idea of cloning which is nothing but copying (of course, after applying your brain) the best investment ideas from people he respects.

Look at every single performer better than you and see what they've got that you can use. Then make it your own.

Keep a Journal
From tennis champion Serena Williams to rapper Eminem, a huge percentage of top performers keep some form of a daily performance journal. They fill these journals with ideas, observations, goals, wisps of thoughts, problems, etc.

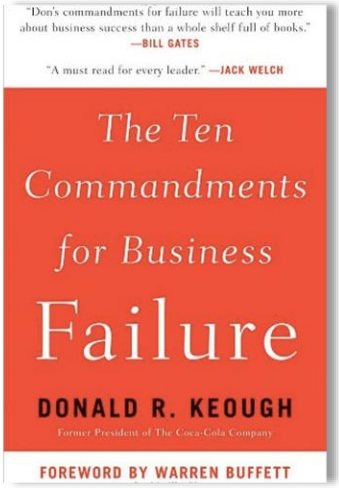
What matters is not the precise form, but your practice of writing stuff down and reflecting on it later. I recently published a post on Safal Niveshak about the importance of journaling as a thinking tool.

I can never put enough stress on the importance of journaling. This practice has a huge potential and can change your life drastically for better.

Greatness is not born, but grown through deep practice, no matter who you are. Thus, the new science can be summed up as follows: You want to develop your talent? Build a better brain through intensive practice.

The Little Book of Talent is a text that needs to be read and re-read every year.

The Ten Commandments for Business Failure by Donald Keough



They say you should never judge a book by its cover. It's a good rule of thumb about what not to do.

So how do you judge if a book is worth reading or not? I agree, it's a difficult question to answer but if you find a book, which starts with a foreword from Warren Buffett, there is no question about whether to read it or not. The Ten Commandments for Business Failure is one such book. Buffett writes -

"It has been an article of faith for me that I should always try to hang out with people who are better than I. When I am with Don Keough, I can feel myself on the up escalator...He's an incredible business leader...Don talks such sense and offers such inspiration...he is one of the very few guys I feel I can hand the keys over to."

Keough worked in The Coca-Cola Company for close to 40 years and retired from the post of president and CEO. So even if Buffett hadn't endorsed him, it would still be a huge mistake to miss a book written by a person who ran one of the most iconic companies of the last century.

It's quite common to find business leaders dispensing advice about what it takes to be successful, expounding on the secret sauce of success. But it takes a genius to recognize that, in business and life, what needs to be investigated is not what works, *but what fails*. Don's lifetime experience in business made him realize the same.

So instead of developing a step-by-step formula for success, he came up with commandments for failure. Don writes –

"...I give you these ten commandments and with them comes the assurance that if you carefully follow one or more you will fail, or at least have a head start on the downward path to ultimate failure...view this little book as a cautionary tale. If you find yourself a disciple of one or more of these commandments, watch out. You are on your way to failure and taking your company with you."

These commandments are especially useful at the time when the going is good. It's at the times of success that people lower their guards, develop vulnerability and make way for the seeds of failure.

No commandment that Don lays out is less important than others but the one which I found extremely useful which is not only applicable to business but also for individual conduct.

Play the Game Close to the Foul Line
Every business, willingly or unwillingly, is involved in creating trust.

"Despite improvements in technology and new fads in management and marketing, all business finally boils down to matters of trust—consumers trust that the product will do what it promises it is supposed to— investors trust that management is competent— employees trust management to live up to its obligations."

So this commandment says that you are more likely to succeed in losing the trust if you play it close to the line. This tendency ensures that you're not likely to inspire much trust on the part of your customers or employees. And you will fail.

When the markets are rising, a very few corporate leaders ask "Is it right?". Instead, they begin pondering "Is it legal?" And then from that point, it's not very far from "Can we get away with it?"

In recent years, the line separating what's legal and what's ethical has become so blurred that it has started enticing the new generation of smart and energetic people who have a fuzzy view about the right thing. It all starts small when you ignore the tiny cracks in the ethical conduct. Management's talent is now in being creative with the rules than by being guardians of transparency and fiscal integrity.

Passing laws and making new regulations can never make men ethical. People who don't mind playing close to the foul line are more prone to cross that line. It's extremely dangerous to even work with such people because someone who can steal for you will steal from you.

Peter Drucker said that there is no such thing as business ethics. Just ethics. It's not separate from the rest of your life. Plus, the biggest benefit of an ethical conduct is that it removes a lot of stress from your life.

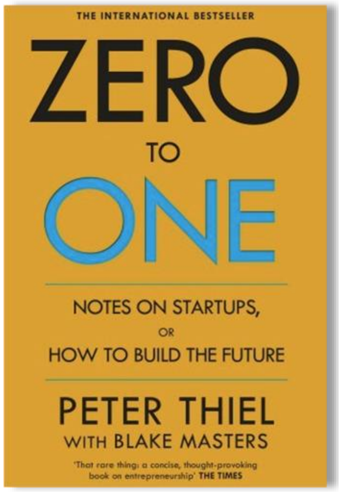
So if you want a stressful life culminating into a grand failure, make sure you always play the game close to the foul line.

For a value investor, Don's ten commandments are nothing less than a blueprint to assess the quality of a management. If you feel that the business leader is following one or more of these commandments, you should avoid that company like a baboon plague.

These commandments may seem clichéd but don't forget - things which are easy to see are easy to miss too. I am even considering getting a laminated version of these commandments for my wall.

In fact, if I could add one more commandment to Keough's list, it would be "Don't read this book!"

Zero to One by Peter Thiel



The most interesting thing about future is that it's unpredictable. Anybody who claims that he or she can predict the future is either lying or crazy, possibly both.

However, there's still a way in which a handful of people have ended up not only predicting the future but benefitting from it enormously and creating a disproportionate amount of wealth in the process. These are the people who believe – "The best way to predict the future is to create it."

The problem is that these people work secretly and rarely come out in public to claim their share of fame. But once in a while, you see a dark horse coming out and willing to share his or her thought process.

Peter Thiel is one such dark horse who was relatively unknown outside the group of selective people in Silicon Valley.

In case you don't know about Thiel, he was the founder of PayPal (with Elon Musk) and an early stage investor in Facebook, LinkedIn, and SpaceX. He is one guy who has been there, done that. Thiel's ideas are must read for every entrepreneur.

Zero to One is based on his lectures at Stanford University. One of his students, Blake Masters, made lecture notes and published it. The notes became an instant hit on the internet and soon Masters got an opportunity to co-author 'Zero to One' with Peter Thiel.

In just a few years, Blake Masters went from being Peter Thiel's student to a co-author. I call this strategy, exposing yourself to the positive black swan or in simple words, giving luck a chance to find you. But I'll save that discussion for some other day.

Nassim Taleb says in his endorsement of this book – "If a risk taker writes a book, read it. If it is Peter Thiel, read it twice. In fact, read it thrice to be safe."

Like a Zen master, Thiel doesn't believe in giving readymade answers. His ideas are more like an exercise in thinking.

I'll pick up few insights, especially the ones which resonated most with my current state of mind, from the book as part of this review but you'll be doing yourself a huge injustice if you skip reading the book after reading these notes. As Taleb says, this book is not just a must- read but a must re-read.

Discovering the Secrets
Learning the conventions and rules of the game are essential for creating a good foundation in any field, but it won't give you the edge.

Contrarian thinking is based on the assumption that there are still secrets which aren't known to the public. Looking at the history of innovation and technological breakthrough in last few centuries, some would guess that there are many world-changing companies yet to be started. Hence there are many secrets left to be uncovered. But our society has somehow come to believe that we are nearing the state of perfect knowledge – a state where everything that can be known is already known.

Take the case of efficient market theory, which proposes that there are no inefficiencies (secrets) in the market so it's futile to even try. But value investors like Warren Buffett and Charlie Munger have been shouting the secret from the rooftops. According to them, markets aren't always efficient. Any investor, with hard work and patience, can discover those pockets of inefficiencies (secrets) from time to time.

Thiel writes -

"You can't find secrets without looking for them...there are many more secrets left to find, but they will yield only to relentless searchers...Great companies can be built on open but unsuspected secrets about how the world works...only by believing in and looking for secrets could you see beyond the convention to an opportunity hidden in plain sight."

So what do you do when you find a secret? The last thing you should do is go out and share it with everybody. Thiel suggests -

"If you find a secret, you face a choice: Do you tell anyone? Or do you keep it to yourself?

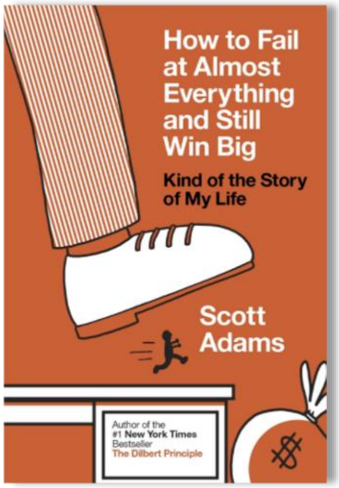
Unless you have perfectly conventional beliefs, it's rarely a good idea to tell everybody everything that you know.

So who do you tell? Whoever you need to, and no more. In practice, there's always a golden mean between telling nobody and telling everybody—and that's a company. The best entrepreneurs know this: every great business is built around a secret that's hidden from the outside. A great company is a conspiracy to change the world; when you share your secret, the recipient becomes a fellow conspirator."

I think Thiel might be one of the top ten smartest people living on this planet today (the first spot is already taken by Charlie Munger). The easiest way to become smart is to ponder what geniuses say. Zero to One is full of counterintuitive insights that will help your thinking and ignite possibility. Remember, the future can't happen on its own. It needs people like Peter Thiel

Thiel's book is worth reading in its entirety. If you miss this book you might miss the future too, again!

How to Fail at Almost Everything and Still Win Big by Scott Adams



If you don't know Scott Adams, odds are high that you would give a pass to a book with such a cheesy and hackneyed title. But it would be a colossal mistake. Scott's book, How to Fail at Almost Everything and Still Win Big, is one of my all-time personal favorites and I can vouch for the tremendous utility of his methods.

For the uninitiated, Scott Adams is the creator of Dilbert, one of the most popular and widely distributed comic strips of the past century. He has been a full-time cartoonist since 1995, after sixteen years as a technology worker for companies like Crocker National Bank and Pacific Bell. Apart from being a cartoonist, he has written many bestselling books and is sought after speaker in corporate circles.

The title of the book is intriguing and Scott claims that he has at least failed in 36 different businesses. But in the process of failing, he kept accumulating useful knowledge and skills about business, marketing, product, customers etc. Based on his personal experience he has charted a template for success which, according to him, will not guarantee success but definitely increase your odds.

"This is a story of one person's unlikely success within the context of scores of embarrassing failures...Was my eventual success primarily a result of talent, luck, hard work, or an accidental just-right balance of each? All I know for sure is that I pursued a conscious strategy of managing my opportunities in a way that would make it easier for luck to find me. Did my strategy make a difference, or is luck just luck, and everything else is just rationalization? Honestly, I don't know. That's why I suggest you compare my story with the stories of other people who found success and see if you notice any patterns."

That's the kind of honest confession I look for from anyone whose advice I am willing to take.

Although the book is loaded with useful ideas but the one that had a huge impact on my worldview was this one -

Passion is Overrated
"You would often hear advice from successful people that you should "follow your passion." Passion will presumably give you high energy, high resistance to rejection, and high determination...My hypothesis is that passionate people are more likely to take big risks in the pursuit of unlikely goals, and so you would expect to see more failures and huge success among the passionate. Passionate people who fail don't get a chance to offer their advice to the rest of us. But successful passionate people are writing books and answering interviews questions about their secret for success every day...Passion sounds more accessible...[But] it's easy to be passionate about

things that are working out, and that distorts our impression of the importance of passion."

If you're passionate about a project initially and it doesn't go anywhere for a long time, your passion might soon fizz out and even turn into annoyance and frustration. Whereas any small hobby that meets an early success can generate more passion inside you which can go in a positive feedback loop and become a hugely successful endeavour. So it's the success that causes passion rather than passion causing success. Scott concludes -

"So forget about passion when you're planning your path to success...I'll describe some methods for boosting personal energy that have worked for me. You already know that when your energy is right you perform better at everything you do including school, work, sports, and even your personal life. Energy is good. Passion is bullshit."

Sure there are people who are born with a natural talent at some activities and then passionately devote their lives to pursuing them. But that's true for a very small set of people. Most people don't have any such talents so what are they supposed to do until they find their passion or 'the calling'?

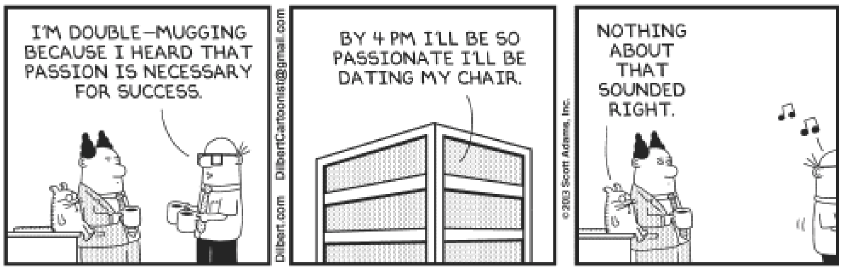


Image Source: Dilbert.com

The aim should be to maximize one's personal energy, which means eating right, exercising, avoiding stress, getting enough sleep and having something in life that makes you excited to wake up every morning.

Scott's book is full of refreshing insights on ways to think about the process of finding happiness and success. He concludes the book thus –

"...always remember that failure is your friend. It is the raw material of success. Invite it in. Learn from it. And don't let it leave until you pick its pocket. That's a system."

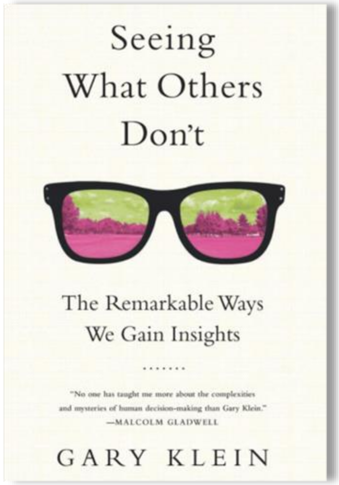
It's unlike any other self-help book and doesn't bore you with a complicated preaching. I have read this book three times so far and found something new and useful every time. Currently, I am on my fourth iteration.

Scott, being a cartoonist, has a way of delivering maximum value with minimum words and that too with loads of humor. I have resolved to read this book at least once every year to keep pounding the all-important concepts on my head.

This is one book which I have gifted the most to friends and family. I am sure you will also find it immensely useful and life changing.

PS: Scott Adams has recently found himself vaulting to a new level of fame when he correctly predicted Donald Trump's win in presidential elections, one year in advance. Read his blog posts and interviews on YouTube to find out more about how he managed to do that.

Seeing What Others Don't by Gary Klein



Two cops were stuck in traffic. They were on a routine patrol. As they waited for the light to change, the younger cop glanced at the fancy new BMW in front of them. The driver took a long drag on his cigarette, took it out of his mouth and flicked the ashes onto the upholstery.

The younger cop couldn't believe it. He exclaimed, "That's a new car and he just ashed his cigarette in that car. Who would ash his cigarette in a brand new car? Not the owner of the car. Not a friend who borrowed the car. Possibly a guy who had just stolen the car."

Upon quizzing the driver, it did turn out to be a stolen car. The cop noticed something which wasn't obvious to others. He had a brilliant Insight. This is just one of the many fascinating examples that the book Seeing What Others Don't is filled with.

Charlie Munger, the inimitable partner of Warren Buffett, likes to quote, "A lot of success in life and success in business comes from knowing what you really want to avoid." He favours the attitude where one is consistently trying to avoid stupidity instead of running after brilliance. On another hand, the key to success, according to Munger, is "Work, work, work and hope to have a few insights."

What I infer from above two statements is that, in life and in business, reducing errors is a good strategy but one shouldn't forget about generating new insights too. In other words, an effective decision-making process needs two things. Reducing errors and gaining insights.

The whole discipline of behavioural economics is focused on identifying the cognitive biases and minimize their impact on human decision making, i.e. reducing errors. However, we know very little about when, why, or how insights are formed—or what blocks them. Klein unravels the mystery in his book. He writes -

"Ideally, reducing mistakes would at least help us gain insights but I don't believe that's how it works. I suspect the relation between the arrows runs the other way. When we put too much energy into eliminating mistakes, we're less likely to gain insights. Having insights is a different matter from preventing mistakes."

What's an 'Insight'?

"Insights are disruptive. They come without warning, take forms that are unexpected, and open up unimagined opportunities."

Insight isn't just about moving from an impasse state to a solution state. Insights shift us towards, says Klein, "a new story a new set of beliefs that are more accurate, more comprehensive, and more useful. They change how we understand, act, see, feel, and desire."

Another criterion for the kind of insights we are interested in here is that others with the same information somehow miss the discovery.

What Kills an Insight?
This can be answered by looking at the thought process of those who failed to gain the insight in spite of being exposed to the same information that insightful people were given.

Klein believes that there are four things that stifle the process of insight generation. They are flawed beliefs, lack of experience, a passive stance, and a concrete reasoning style.

People gripped by a flawed theory can ignore, explain away, or distort evidence that could lead to insights. As they say, "It ain't what you don't know that gets you in trouble. It's what you know for sure that just ain't so."

The second factor, experience, isn't just about having the necessary knowledge. Klein writes -

"Experience is about how we use our knowledge to tune our attention. Our background can sensitize us to cues or patterns that others might miss. This notion of being attuned, of being sensitized, fits with the concept of generally prepared mind. People with a generally prepared mind haven't done specific homework to get ready for their insight. Rather, their efforts and their interests have prepared them to notice things others miss."

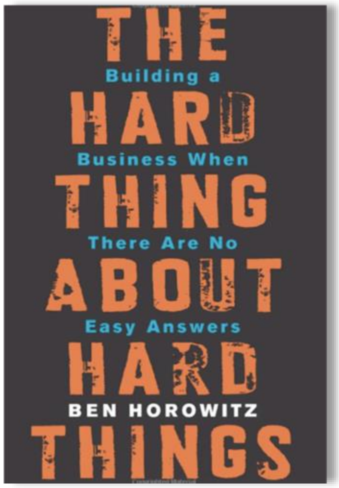
This is what Charlie meant when he said, "Work, work, work [prepare the mind] and hope to have few insights."

Klein's observation about Google search was an eye opener. Google search systematically removes the element of serendipity, finding something useful which we weren't looking for, and deprives us of potential insights. Klein argues -

"The goal of helping people perform their jobs better makes sense only if they have well-defined and stable jobs. It doesn't apply to people whose jobs may shift as a result of insights...The system we design to help people do their current jobs may lock them into the original job concept and reduce the chance for insights...A powerful search engine such as Google can be too helpful. It learns our preferences and shows us matches that are likely to satisfy us, but we don't get exposed to other kinds of options...Google is wrapping us in a cocoon of our own beliefs."

Seeing What Others Don't is loaded with real and fascinating stories of insightful discoveries. It's an entertaining and fun to read book revealing remarkable patterns about how people generate insights.

Hard Thing About Hard Things by Ben Horowitz



While many people talk about how great it is to start a business, very few are honest about how difficult it is to run one. In fact, calling it difficult would actually be an understatement.

Building a company inevitably leads to tough time. It's just hard and the hard thing about it is that there is no formula to deal with those hard things.

In his book, The Hard Thing About Hard Things, Ben Horowitz, an experienced tech entrepreneur and co-founder of venture capital firm Andreessen Horowitz, offers practical wisdom for managing the toughest problems business schools don't cover.

Horowitz was the co-founder and CEO of the enterprise software company Opsware, which Hewlett-Packard acquired for $1.6 billion in cash in 2007.

Here are some of my favourite insights from the book.

Facts Vs Perception
Talking about utility of developing diverse perspective, Ben recounts his experiences at school –

"I was the only kid on the football team who was also on the highest academic track in math, so my teammates and I didn't see each other in many classes. As a result, I ended up moving in multiple social circles and hanging out with kids with very different outlooks on the world. It amazed me how a diverse perspective utterly changed the meaning of every significant event in the world...Looking at the world through such different prisms helped me separate facts from perception. This ability would serve me incredibly well later when I became an entrepreneur and CEO. In particularly dire circumstances when the "facts" seemed to dictate a certain outcome, I learned to look for alternative narratives and explanations coming from radically different perspectives to inform my outlook."

Ben had a first-hand experience of large organizations falling for institutional imperative and the herd mentality. He shares an interesting experience when he was about to sell his company.

Peacetime Vs Wartime CEOs
When looking at the performance of a CEO, it's important to recognize the kind of period he was at the helm. Was it a peacetime period or wartime?

"Peacetime in business means those times when a company has a large advantage over the competition in its core market, and its market is growing. In times of peace, the company can focus on expanding the market and reinforcing the company's

strengths. In wartime, a company is fending off an imminent existential threat. Such a threat can come from a wide range of sources, including competition, dramatic macroeconomic change, market change, supply chain change, and so forth.

My greatest management discovery through the transition was that peacetime and wartime require radically different management styles. Interestingly, most management books describe peacetime CEO techniques and very few describe wartime. For example, a basic principle in most management books is that you should never embarrass an employee in a public setting. On the other hand, in a room filled with people, Andy Grove once said to an employee who entered the meeting late, "All I have in this world is time, and you are wasting my time." Why such different approaches to management?

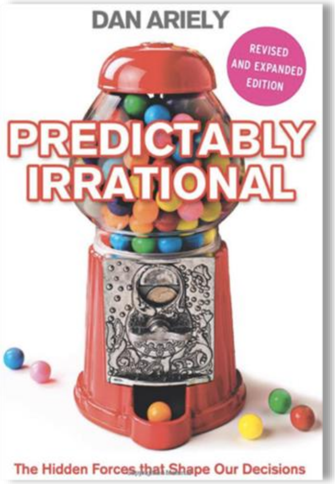
In peacetime, leaders must maximize and broaden the current opportunity. As a result, peacetime leaders employ techniques to encourage broad-based creativity and contribution across a diverse set of possible objectives. In wartime, by contrast, the company typically has a single bullet in the chamber and must, at all costs, hit the target. The company's survival in wartime depends upon strict adherence and alignment to the mission."

Peacetime and wartime management strategies are very different and so is CEO. If you're comparing performances of two CEOs, don't forget to ask if they were peacetime or wartime CEOs.

Reading Ben's book will give you an insider's perspective on how a CEO deals with problems like initiating layoffs, hiring the right people, training, and minimizing politics. When you read the book you'd feel as if were there with Ben while he was making those tough decisions and tackling the hard things.

If you have wondered what it's like to lead and scale a startup, you should read Hard Thing About Hard Things for sure.

Predictably Irrational by Dan Ariely



Dan Ariely's Predictably Irrational was probably one of the first few books that I read on the subject of human irrationality and psychological bias. Dan, in his own witty and entertaining way, refutes the assumption that we behave in fundamentally rational ways. Our misguided behaviours are systematic and predictable - making us predictably irrational.

Ariely is a Professor of Psychology and Behavioral Economics at Duke University. He has an unusual way of looking at things which is quite evident from the way he designs his experiments to gain insights on human behaviour. A lot of credit goes to him for transforming the academic studies about human biases into interesting and entertaining text.

The topic of psychological biases and human irrationality isn't a new one but what Ariely has done is shift a lot of the thinking developed by such pioneers as Kahneman and Tversky who worked in behavioural economics, and moved it into the everyday sphere.

Ariely in his book has included a wide range of scientific experiments, findings, and anecdotes that are in many cases quite amusing. Here are some of the ideas from the book which I found very insightful.

The Zero Price Effect
Would you buy something if it were discounted from Rs 500 to Rs 200? Maybe. What if it was discounted from Rs 500 to Rs 10? Possibly. How about if it were discounted to zero? Absolutely!

Getting something for free feels good. The 'cost of free' is zero which is a source of irrational excitement. Check out the pile of free key chains, free pencils and notepads lying at some corner of your house. Well, that pile may be harmless but there are other situations where this irrational affinity for the FREE stuff can cause us to make bad decisions.

For example, when you want to buy a good quality socks but end up buying another brand of socks (of probably an inferior or unknown quality) just because it has a 'buy one get one free' offer, you gave up a better deal and settled for something that was not what you wanted, just because you were lured by the FREE!

So what explains our unusual love for FREE! stuff? Ariely writes -

"Most transactions have an upside and a downside, but when something is FREE! we forget the downside. FREE! gives us such an emotional charge that we perceive what is being offered as immensely more valuable than it really is. Why? ...There's no visible

possibility of loss when we choose a FREE! item. But suppose we choose the item that's not free...now there's a risk of having made a poor decision – the possibility of a loss."

Even Warren Buffett admits to falling for the force of FREE. He once wrote in his letter to shareholders, "I'll be happy to accept a lottery ticket as a gift – but I'll never buy one. Who, after all, refuses free lottery tickets?"

I have regularly given into this zero price effect in my day to day decisions, in spite of being aware of it at the time of making decisions. That's why knowing about human biases can't insulate you from their effects. Amazon offers zero shipping charges if I make a minimum purchase of Rs 499. Every time I order a book which costs less than 499, I end up buying another book (which I don't plan to read) just to avail the FREE shipping offer. I just can't let go off the FREE offer.

Price of Ownership

Our propensity to overvalue what we own is a basic human bias, known as Endowment Effect. It reflects a general tendency to fall in love with, and generally be overly optimistic about anything that has to do with ourselves. One of the peculiarities of ownership is – the more work you put into something, the more ownership you begin to feel for it. So if a piece of furniture or an electrical gadget requires you to assemble it, your sense of ownership for that item increases quite a bit.

Another interesting human quirk related to endowment effect is the "virtual ownership". In fact, it's one of most effective weapons used by the advertising industry. Often companies have "trial promotions" where they allow you to use their product or service for free for a limited period. However, once we start using the product, it becomes our own and the sense of ownership doesn't let us return it. In that sense, "trial period" is a trap.

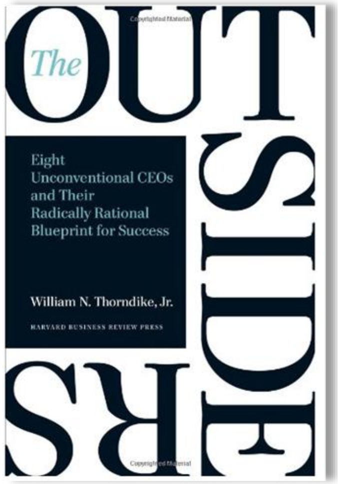
Similarly, the "30-day money back guarantee" is a clever marketing gimmick. We fail to appreciate how our perspective will shift once we bring the item at our home, and how we will start viewing it - as ours - and consequently start viewing returning it as a loss. We might think we are taking it home only to try it out for a few days, but in fact, we are becoming owners of it and are unaware of the emotions the temporary ownership can ignite in us.

"Ownership is not limited to material things", says Ariely, "It can also apply to points of view. Once we take ownership of an idea - we love it perhaps more than we should." In psychology, this tendency to fall in love with our own ideas is also known as commitment and consistency bias.

Unlike most books on psychology, Predictably Irrational is surprisingly entertaining. Ariely has a great talent for explaining boring subjects (like economics and psychology) in such a fun and insightful way.

If one is getting started on the topic of psychological biases and human irrationality, it's one of the best books to start with. I can't imagine any other book which introduces you to behavioural economics in such a simple manner.

The Outsiders by William Thorndike



It's a known fact that Warren Buffett reads hundreds of books every year but when it comes to making book recommendation publicly, he's very conservative. However, every once in a while he comes out with few book recommendations in his annual letters.

In his 2013 letter to shareholders, Buffett recommended –

"The Outsiders, by William Thorndike, Jr., is an outstanding book about CEOs who excelled at capital allocation. It has an insightful chapter on our director, Tom Murphy, overall the best business manager I have ever met."

One of the most important questions that an investor needs to answer while making an investment decision is – How to measure a CEO's performance? Conventional wisdom says it's active oversight of business operations, regular communication with research analysts, and an intense focus on stock price. But is it right?

Thorndike argues that it's the increase in a company's per share value, however, not growth in sales or earnings or employees, that offers the ultimate barometer of a CEO's greatness. He writes –

"CEOs need to do two things well to be successful: run their operations efficiently and deploy the cash generated by those operations. Most CEOs focus on managing operations, which is undeniably important...CEOs have five essential choices for deploying capital – investing in existing operations, acquiring other businesses, issuing dividends, paying down debt, or repurchasing stock—and three alternatives for raising it – tapping internal cash flow, issuing debt, or raising equity."

As Buffett has observed, very few CEOs come prepared for this critical task of efficient capital allocation –

"The heads of many companies are not skilled in capital allocation. Their inadequacy is not surprising. Most bosses rise to the top because they have excelled in an area such as marketing, production, engineering, administration, or sometimes, institutional politics. Once they become CEOs, they now must make capital allocation decisions, a critical job that they may have never tackled and that is not easily mastered. To stretch the point, it's as if the final step for a highly talented musician was not to perform at Carnegie Hall, but instead, to be named Chairman of the Federal Reserve."

In this book, Thorndike writes about eight terrific CEOs who did these two things – running operations efficiently and deploying the cash generated – well for a long time and hence made their shareholders very wealthy.

These are the 8 CEOs who feature in Thorndike's book -

1. Tom Murphy (Capital Cities Broadcasting)
2. Henry Singleton (Teledyne)
3. Bill Anders (General Dynamics)
4. John Malone (TCI)
5. Katharine Graham (The Washington Post Company)
6. Bill Stiritz (Ralston Purina)
7. Dick Smith (General Cinema)
8. Warren Buffett (Berkshire Hathaway)

When you compare the value of a dollar invested with the outsider CEOs, numbers speak for themselves.

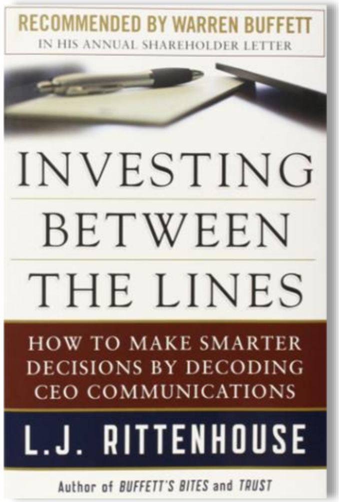
The Outsider Checklist
Thorndike has distilled the wisdom of these outsiders in form of a checklist. Here are few points from that checklist.

- The allocation process should be CEO led, not delegated to finance or business development personnel.
- Start by determining the hurdle rate—the minimum acceptable return for investment projects. Hurdle rates should be determined in reference to the set of opportunities available to the company, and should generally exceed the blended cost of equity and debt capital.
- Calculate returns for all internal and external investment alternatives, and rank them by return and risk (calculations do not need to be perfectly precise). Use conservative assumptions. Projects with higher risk (such as acquisitions) should require higher returns.
- Calculate the return for stock repurchases. Require that acquisition returns meaningfully exceed this benchmark. Repurchases can also destroy value if they are made at exorbitant prices.
- Focus on after-tax returns, and run all transactions by tax counsel.
- Determine acceptable, conservative cash and debt levels, and run the company to stay within them.
- Consider a decentralized organizational model. What is the ratio of people at corporate headquarters to total employees—how does this compare to your peer group?
- Retain capital in the business only if you have confidence you can generate returns over time that are above your hurdle rate.
- If you do not have potential high-return investment projects, consider paying a dividend. Be aware, however, that dividend decisions can be hard to reverse and that dividends can be tax inefficient.
- When prices are extremely high, it's OK to consider selling businesses or stock. It's also OK to close under- performing business units if they are no longer capable of generating acceptable returns.

The outsider approach to resource allocation offers a proven method for navigating the unpredictable, untidy world of business, one that has generated exceptional results across a wide variety of industries and market conditions.

If you are an investor, all you need to do is find one such outsider and initiate a long term partnership with him. There couldn't be a way simpler than this to secure your financial future.

Investing Between the Lines by Laura Rittenhouse



When an investor starts his investigation about a business the first thing he wants to know is if the business is strong and profitable? The answer to this question can be found out from the company's annual report by reading the numbers like net earnings, debt, cash flow, profitability ratios etc. The next question one needs to answer is how accurate or authentic those numbers are? Of course, they are verified by auditors, but then Enron and Satyam numbers were also certified by auditors. And both of them ended up as biggest accounting scandals.

As an investor, how do you know that the management is telling you the truth? And how does an honest CEO communicate with the shareholders in a manner which establishes trust?

Laura Rittenhouse, in her book Investing Between the Lines, attempts to answer the above questions. Based on a decade of research analyzing executive communications, she offers clues to separate the facts from the fluff in annual reports and quarterly earnings calls. Rittenhouse had raised a red flag on Enron, much before it collapsed, noticing a discrepancy between the net income cited in its CEO letter and its audited financial statement, among other things.

Warren Buffett, in his 2013 letter to investors, recommended Rittenhouse's book. After reading this book Buffett commented, "Rittenhouse is still on the side of the angels." Buffett's letters are considered gold standard in business communication. At more than 10,000 words, his letters are almost five times longer than an average shareholder letter. And it's not the quantity but the quality of communication which makes his letters unparalleled. Needless to say, any other annual letter would pale in comparison to Berkshire's.

In April 2002, not long after Enron scandal broke out, Buffett was invited to speak at the Securities and Exchange Commission Roundtable on the topic – "How to Prevent Future Enrons." His recommendation was simple: As the chief disclosure officer of a company, the CEO should write his own letter. He explained –

"I look for someone who talks to me frankly and honestly about the business, the way a partner would. That's a significant plus. If the CEO doesn't write, it's a black mark against them for one reason – they may not know their business very well. Plenty of CEOs don't understand their business as well as a lot of people outside their business, or even the people who work for them. They do not want to be seen as they really are."

Put simply, when it comes to communicating with shareholders, words matter as much as numbers. If the communication from management reveals a culture like Enron then you can barely trust the numbers but if the words sound similar to Berkshire's report, you can be sure of the authenticity of the reported facts.

So here's one big idea from the book which can help you decode the CEO communication.

Candor

Candor means being authentic with your words. Candid communication is an antidote to the risk of self-deception for the CEO who misleads others in public may eventually mislead himself in private.

This is Buffett's Golden Rule of investor communications: communicate with your investors as you would wish them to communicate with you. The easiest way to test for candor is to invert the problem and test the absence of candor. And how do you test the absence of candor in an executive communication?

When Rittenhouse Rankings analyzes a shareholder letter, we start reading with a red pencil or pen in hand and use it to underline clichés such as "employees are our greatest assets," "our future is bright," "advancing momentum," and "we aim to create share- holder value." This kind of meaningless jargon and platitudes diminishes our understanding of the business and our trust in the leadership.

When we finish coding a communication, we look back at the pages. If we see more red than black ink on the pages, we put a company on probation. We dig further to examine the company's accounting and its marketplace claims. This was certainly true of Enron, whose 2000 shareholder letter offered the following linguistic anesthesia:

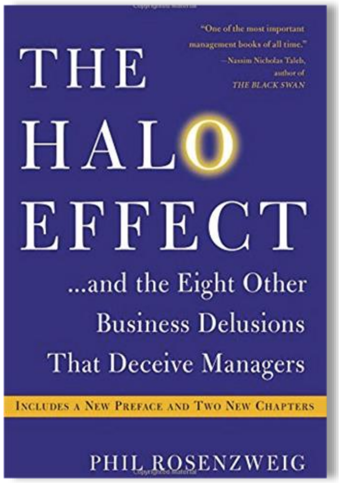
Our talented people, global presence, financial strength and massive market knowledge have created our sustainable and unique businesses. enronOnline will accelerate their growth. we plan to leverage all of these competitive advantages to create significant value for our shareholders.

In one short paragraph, Enron introduced six popular CEO cliche□s: Talented people, Global presence, Market knowledge, Financial strength, Leverage competitive advantages, Significant value for our shareholders.

Investors who read between the lines and look for the absence of candor can spot companies like this that may be headed for trouble.

To evaluate the quality of the management you don't need special access to "insider" information. The secret is right in front of you — in black and white — in the words of every shareholder letter, annual report, and corporate correspondence you receive from the management. Once you learn how to read between the lines in the annual letter you can make an educated guess about management quality and their intentions. Remember, analyzing words is as important as analyzing numbers. And to learn the art of analyzing words, there couldn't be a better place than Rittenhouse's book Investing Between the Lines.

The Halo Effect by Phil Rosenzweig



Complexity is the fabric that underlies the world of business today. As a result, in spite of all the secrets formulas and all the self-proclaimed thought leadership, success in business is as elusive as ever. Unlike hard sciences, there are no immutable laws in management because managing business isn't a science. Most theories and expert advices in this field are either anecdotal or riddled with hindsight bias.

So how do you decode the secret behind a company's performance? This is one of those problems which is better solved backward. You need to invert the problem. How?

Phil Rosenzweig has the answer. In his book, The Halo Effect, Phil stands the problem on its head and asks a different question -

"Why is it so hard to determine the factors that lead to high performance? Why is it that even clever minds that earnestly want to uncover the secrets of success don't find solid answers — even when they gather huge amounts of data about hundreds of companies over many years?"

Our thinking about business is shaped by a number of delusions, argues Phil, "that distort our understanding of company performance, that make it difficult to know why one company succeeds and another fails. These errors of thinking pervade much that we read about business, whether in leading magazines or scholarly journals or management bestsellers. They cloud our ability to think clearly and critically about the nature of success in business."

Most of the so-called scientific research in business is nothing but pseudoscience in the garb of storytelling. The author reasons -

"...some of the biggest business blockbusters [books, research papers, etc.] of recent years contain not one or two, but several delusions. For all their claims of scientific rigor, for all their lengthy descriptions of apparently solid and careful research, they operate mainly at the level of storytelling. They offer tales of inspiration that we find comforting and satisfying, but they're based on shaky thinking. They're deluded."

Once you understand these delusions you would see why the experts — gurus, consultants, professors, and journalists — are so often wrong. It isn't easy to identify these delusions but they are all around us — in the business press, in academic research, and in recent bestsellers. Let's explore some of these delusions.

The big idea from this book, as the name suggests, is Halo Effect.

The Halo Effect
Halo effect is the tendency to make inferences about specific traits on the basis of a general impression. It's a way for the mind to create and maintain a coherent and consistent picture, to reduce cognitive dissonance.

A simple example would be when you meet a person who looks sharp, handsome and has a great posture, (which are all positive external qualities) it might lead you to make a subconscious judgment about his internal qualities also i.e. you'd think this person to be intelligent and extrovert.

Another example is the way we get influenced by brands. We may not know if a new product is good, but if it comes from a well-known company with an excellent reputation, we might reasonably infer it should be of good quality. That's what brand building is about.
Rosenzweig writes -

"Perhaps nothing lends itself to the Halo Effect more than leadership. Good leaders are often said to have a handful of important qualities: clear vision, effective communication skills, self-confidence, personal charm, and more. Most people would agree these are elements of good leadership. But defining them is a different matter altogether, since several of these qualities tend to be in the eye of the beholder — which is affected by company performance."

And when the fortune turns for the company, experts opine that those very same leaders had lost their focus, became complacent and arrogant.

"...you can always find good things to say about leaders at successful companies, and you can always find reasons to criticize leaders of failing firms. A critical reader ought to ask if any successful companies have inauthentic leaders, and if any unsuccessful companies are run by authentic leaders, because if not, it's quite possible we're just throwing around Halos."

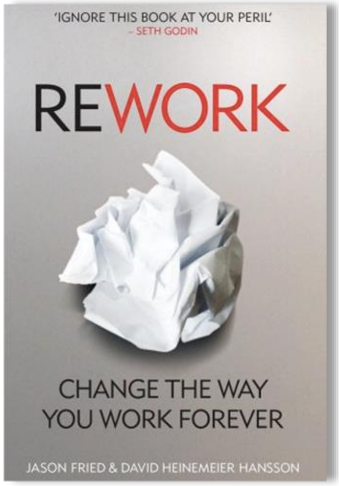
Put simply, Halo effect is the manifestation of human desire to tell a coherent story.

The need of the hour for business managers is to think for themselves and independent thinking requires a strong bullshit filter. Knowing about Halo effect and its associated delusions helps you build such a filter.

Some of the other delusions that are discussed in this book include the delusion of correlation and causation, the delusion of connecting the winning dots, the delusion of lasting success, the delusion of absolute performance and the delusion of organizational physics.

The names that Phil has chosen for these delusions give a clue about their nature but you'd have to read the book to understand how exactly these delusions play out in the real world.

Rework by Jason Fried and David Hansson



This is one book which can prove to be risky for you especially if you're into a job and contemplating doing something of your own. I personally know few people who got so inspired from the book Rework by Jason Fried and David Hansson, that they actually quit their job. So before saying anything, let me issue this warning - read this book at your own risk. And let me also tell you what Seth Godin has to say - ignore the book at your peril.

The authors are people who run one of the most unconventional software company in the world called Basecamp, known for their innovative products. It's a company which has only sixteen employees who almost never see each other and are spread across 8 cities on two continents. And for the information of techies who are reading this, David Hansson is the creator of Ruby on Rails, an open-source web framework on which hundreds of thousands of web applications have been built – including Twitter.

These are the guys who are redefining the way work is done. They write -

"You don't have to work miserable 60/80/100-hour weeks to make it work. 10–40 hours a week is plenty. You don't have to deplete your life savings or take on a boatload of risk. Starting a business on the side while keeping your day job can provide all the cash flow you need. You don't even need an office. Today you can work from home or collaborate with people you've never met who live thousands of miles away. It's time to rework work."

It's a book not only for entrepreneurs and small business owners but even for people stuck in day jobs who have always dreamed about doing their own thing. So without wasting much time let's dive in and look at few interesting ideas from the book.

Scratch Your Own Itch
A great product or service is something which addresses a real human need and you can't figure that out sitting in a room thinking about what other people may need.

"The easiest, most straightforward way to create a great product or service is to make something you want to use...When you build a product or service, you make the call on hundreds of tiny decisions each day. If you're solving someone else's problem, you're constantly stabbing in the dark. When you solve your own problem, the light comes on. You know exactly what the right answer is...When you build what you need, you can also assess the quality of what you make quickly and directly, instead of by proxy."

In fact, that's the simplest way to find passion in your work.

"...this 'solve your own problem' approach lets you fall in love with what you're making. You know the problem and the value of its solution intimately. There's no substitute for that. After all, you'll (hopefully) be working on this for years to come. Maybe even the rest of your life. It better be something you really care about."

Embrace Constraints
People think of constraints as giving something up instead of gaining something. But if you give away your TV, you gain back all the hours it used to suck from your life. So embrace your constraints because they can weed out the non-essential noise from your life.

Consider Twitter. What makes it the world's most effective communication medium? It's the constraint of squeezing your thoughts into 140 characters. It was the constraint of the two-week hackathon that led to the creation of Twitter, say Biz Stone, co-founder of Twitter, "One of the first decisions we made about Twitter, something that never changed, was that each message would be limited to 140 characters or fewer.

"Constraints are advantages in disguise. Limited resources force you to make do with what you've got. There's no room for waste. And that forces you to be creative...Writers like Ernest Hemingway and Raymond Carver found that forcing themselves to use simple, clear language helped them deliver maximum impact."

You think the lack of money is stopping you? It may sound ironical but one of the most interesting problems that many rich people face is to control their urge to solve every problem by throwing money at it. Solving problems with money is the most inefficient brute force approach and it poses a threat to your creativity at being resourceful.

Limiting the options gives you a place to start and scarce resources make you focus on the most important aspect of your work.

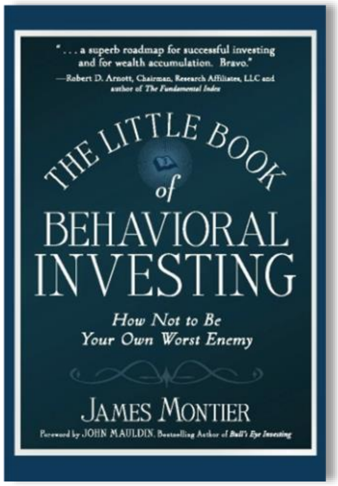
When I read this book it reminded me of another awesome book, Anything You Want by Derek Sivers. Rework should be paired with Derek's book. In fact, pairing up books i.e., reading them simultaneously is called the syntopical reading. It's a trick discussed by Mortimer Adler in his book How to Read a Book.

As an investor, Rework holds very useful insights about what one should look for in company's management. If the CEO's working and thinking style shows his inclination towards any of the Rework's ideas, you probably have found a smart guy.

The duo - Jason and David - have written one more wonderful book called Remote, another gem which shouldn't be missed.

PS: Another piece of trivia about Davin Hansson. He went from not having a driver's license at 25 to winning, at 34, the 24 Hours of Le Mans race, one of the most prestigious automobile races in the world. David reveals his learning secrets in a very engrossing interview with Tim Ferriss.

The Little Book of Behavioural Investing by James Montier



Success in investing doesn't correlate with IQ once you're above the level of 100, writes Warren Buffett, "Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing."

That statement from Buffett highlights the importance of human behaviour in investing.

And the study of behaviour in the context of investing is what behaviour finance is all about. In today's world of information technology where access to information is not really a privilege anymore, what has become increasingly more crucial to investing performance is how one controls his own behaviour and emotions especially during the time of market extremes i.e., bull and bear markets.

There are hundreds of book out there which talk about behavioural finance. For any new investor, this can get overwhelming. For such people, one of the best places to wet their feet is James Montier's The Little Book of Behavioral Investing.

Montier is an outspoken value investor and a member of the asset allocation team of Boston-based GMO. GMO has more than US$ 100 billion of assets under management. Prior to GMO, he was the co-Head of Global Strategy at Socie□te□ Ge□ne□rale. He has written three other books on value investing and behavioural finance.

In Montier's own words, here's what can you expect from this book –

...I will highlight some of the most destructive behavioral biases and common mental mistakes that I've seen professional investors make. I'll teach you how to recognize these mental pitfalls while exploring the underlying psychology behind the mistake. Then, I show you what you can do to try to protect your portfolio from their damaging influence on your returns. Along the way, we'll see how some of the world's best investors have striven to develop investment processes that minimize their behavioral errors.

Here's one big idea from the book.

Overcoming Empathy Gap with Seven P's
Every value investor (including myself) likes to repeat Warren Buffett's quote – "Be greedy when others are being fearful and be fearful when others are being greedy." But when the panic sets in the market and stocks are down by 40 percent, most of us wouldn't have the discipline to
execute a buy. When the time comes, why do we find it hard to do what we earlier thought we would do under such circumstances? Montier writes –

"When asked in the cold light of day how we will behave in the future, we turn out to be very bad at imagining how we will act in the heat of the moment. This inability to predict our own future behavior under emotional strain is called an empathy gap. We all encounter empathy gaps. For instance, just after eating a large meal, you can't imagine ever being hungry again. Similarly, you should never do the supermarket shopping while hungry, as you will overbuy."

Empathy gap explains why Buffett's simple advice is not easy to follow. So what can we do to overcome the perils of empathy gap? The answer is, using the power of pre-commitment. Montier suggests –

"Investors should learn to follow the seven P's - Perfect planning and preparation prevents piss poor performance. That is to say, we should do our investment research when we are in a cold, rational state—and when nothing much is happening in the markets—and then pre- commit to following our own analysis and prepared action steps."

The simplest and most effective example of this strategy is investing through SIPs (systematic investment plan). By getting ourselves out of the equation and setting up an automated system of investing a fixed amount of money every month, we remove the risk of underinvestment during the panic time and overinvestment during market euphoria.

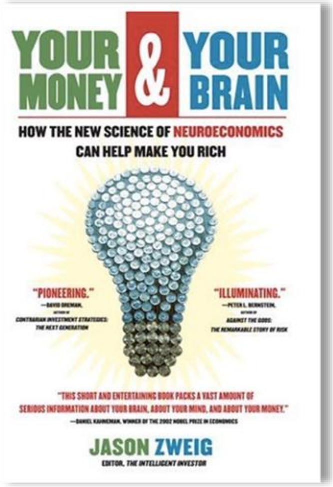
Guy Spier, in his book The Education of a Value Investor, talks about one such hack. He writes –

"When it comes to buying and selling stocks, I need to detach myself from the price action of the market, which can stir up my emotions, stimulate my desire to act, and cloud my judgment. So I have a rule, inspired by Mohnish [Pabrai], that I don't trade stocks while the market is open. Instead, I prefer to wait until trading hours have ended. I then email one of my two brokers— preferring not to speak with them directly— and ask to trade the stock at the average price for the upcoming day. I'm not trying to get an edge on the market because I don't want to get swept up in its constant mood swings. As Ben Graham explained, we have to try to make the market our servant, not our master."

If you're already aware of various behavioural biases, you may not find any new groundbreaking information in this book. However, you should still read Montier's book for two reasons.

First, human biases are so deep wired in our brains that it takes tremendous willpower and intelligent hacks to overcome its effects. Which means human folly is something which needs to be reminded every now and then. The book is a great reminder of the various behavioural pitfalls that we all are prone too. Second, in spite of the basic principles being same, the examples used by the author are quite interesting. Moreover, James Montier, being a successful value investor, has his own experiences and history which brings a unique perspective to the subject of behavioural investing.

Your Money and Your Brain by Jason Zweig



Jason Zweig is an investment journalist and a long time investing columnist for Wall Street Journal. He is best known for editing and adding commentary to the revised edition of Benjamin Graham's investment classic The Intelligent Investor. Graham's book, considered as investing bible by many, was first published in 1949 and stays on top of every value investor's reading list. In his commentary, Zweig has made Graham's principles easier to understand and implement.

Your Money & Your Brain is Zweig's attempt to demystify the subject of behavioural economics. The hypothesis that our emotions interfere with our rational thinking isn't a hypothesis anymore. Zweig writes -

"... over the past few years, scientists have made stunning discoveries about the ways the human brain evaluates rewards, sizes up risks, and calculates probabilities. With the wonders of imaging technology, we can now observe the precise neural circuitry that switches on and off in your brain when you invest."

Advancement in technology has added another dimension of neuroscience to the field of behavioural economics. Neuroeconomics is thus the hybrid of neuroscience, economics, and psychology. The electrical activity inside our brains gives very important clues.

"The 100 billion neurons that are packed into that three- pound clump of tissue between your ears can generate an emotional tornado when you think about money. Your investing brain does not just add and multiply and estimate and evaluate. When you win, lose, or risk money, you stir up some of the most profound emotions a human being can ever feel...the neural activity of someone whose investments are making money is indistinguishable from that of someone who is high on cocaine or morphine."

However, a caveat is in order. Immediately after Daniel Kahneman won Nobel Prize for his pioneering work on behavioural finance, the market was flooded with books on the subject of behavioural biases and human irrationality. Suddenly our emotional brain was declared a villain by all the self-proclaimed behavioural experts. Taking behavioural economics to the extreme is not exactly an intelligent idea either.

"And it's not as if emotion is the enemy and reason is the ally of good financial decisions. People who have suffered head injuries that prevent them from engaging the emotional circuitry in their brains can be terrible investors. Pure rationality with no feelings can be as bad for your portfolio as sheer emotion unchecked by reason. Neuroeconomics shows that you will get the best results when you harness your emotions, not when you strangle them."

Although Zweig too primarily talks about how our emotions undermine the quality of decisions relating to money, he also recommends a balanced approach. When markets are either silent or moving slowly, it's not too difficult for someone to practice rationality. Reading annual reports and thinking about business fundamentals is easy when the stock market is going sideways. In fact, that's the time to cut some slack to our emotions. Because these are the very emotions which make us human. The challenge comes when a sudden spike or drop creates tremors in the market. That's the time to be watchful of our reflexive brain's (what Kahneman calls System 1 thinking) tantrums.

Many of the books that I have read on behavioural finance, get so busy talking about cognitive biases that they end up presenting a lopsided view. When I first started learning about human biases, I overdosed too much on them. It's true that cognitive biases lead us to make systematic errors of judgment but these are the very same biases which make us human. Without them, we won't be able to function even for a minute in this world. In fact, being rational truly means acknowledging the relevance of reflexive brain and using it wisely. According to Zweig, to become a successful investor one needs to strike a right balance between rational thinking and intuitive thinking.

Here's a big idea from the book.

Denominator Blind Reflexive Brain

Imagine a small bowl and a large bowl full of jelly beans. The small bowl holds 10 jelly beans, of which 9 are white and 1 is red. The large bowl contains 100 jelly beans of which 95 are white 5 are red. You are blindfolded, so you can't really see the colour of jelly bean while you're picking it up but you'll earn Rs. 100 if you end up picking a red one. Which bowl would you choose?

As you can figure out, the smaller bowl has 10 percent red jelly beans; and the bigger one has only 5 percent red jelly beans. But many people still prefer to pick from the bowl that they "know" has lower odds of success, because they "feel" it offers more ways to win.

This error of judgment, the so-called jelly bean syndrome, is also known as denominator blindness. The reflexive brain finds it harder to deal with relative numbers (percentages) and gets fooled by absolute numbers. In above example, people compare the 5 red jelly beans available in the bigger bowl to the single red jelly bean available in the smaller bowl.

"...it's the denominator that matters; that's where the real money is. After all, the sum total of your wealth is a much more important number than the amount by which it rose or fell on any given day. Even so, many investors fixate on the numbers that change the most, overlooking the much larger amounts of money that are at stake overall...The jellybean syndrome hits home in other ways.

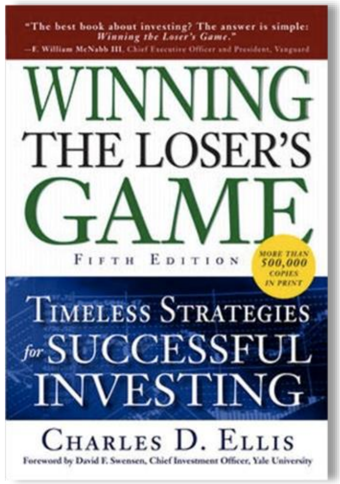
The fees and expenses charged by mutual funds are a small number —typically less than 2% a year —while performance can be a big number, sometimes surpassing 20%

a year. And the expense figures barely fluctuate at all, while the performance numbers are forever flashing up and down.

No wonder individual investors consistently say that they consider past performance to be much more important than current expenses when they pick a fund."

Someone who was officially chosen to write the commentary on Benjamin Graham's seminal book doesn't need my stamp of approval. But that won't stop me from saying this - Jason Zweig is an outstanding writer and a brilliant thinker.

Winning The Loser's Game by Charles Ellis



Good sense of humor and investment acumen don't normally go hand in hand. Apart from Warren Buffett, there are very few value investors who possess all the three qualities of candor, straight talk, and good humor. Charlie Ellis is one of them.

Ellis is a strong proponent of index funds. According to him, for an individual investor the best strategy to compound wealth over the long term is to shun the active money management and go with index funds. I don't personally agree that index fund, especially for those who are willing to invest few hours every week in learning the game, is the right choice for all investors. Nevertheless, I find Ellis' arguments very compelling.

Charles Ellis wrote a paper in 1975 which popularized the concept of loser's game. The paper talked about how the approach taken by good and bad tennis players is also seen in investing. Ellis' article was based on Dr. Simon Ramo's research. The idea was later adopted into the book Winning the Loser's Game.

Loser's Game
Dr. Ramo, in his book Extraordinary Tennis for the Ordinary Tennis Player, argues that in expert tennis the ultimate outcome is determined by the actions of the winner. Professional tennis players stroke the ball hard with laser-like precision through long and often exciting rallies until one player is able to drive the ball just out of reach or force the other player to make an error. These splendid players seldom make mistakes.

This game, played by professionals and experts, is called a winner's game. But when it comes to amateur players they play a totally different kind of game. The ball is all too often hit into the net or out of bounds, and double faults at service are not uncommon. Amateurs seldom beat their opponents but instead beat themselves. The victor in this game of tennis gets a higher score because the opponent is losing, even more, points. Ramo calls this kind of game as loser's game. Put simply, in a winner's game, the outcome is determined by the correct actions of the winner whereas, in a loser's game, the outcome is determined by mistakes made by the loser. So what's the functional equivalent of this insight in the game of investing?

A few decades back the stock market wasn't dominated by the institutional investors. A retail investor who transacted in the stock market was most likely pitted against another small investor. And among the two, the one who did superior analysis and had access to better information about the business usually made the better decision and more money.

But in the current markets when a small investor, like you and me, buys or sells a stock, the odds are high that the party on the other side is an institutional investor. The kind of resources, information, and analysis that these institutional investors have makes it unlikely that a small investor can beat them in their game. What's their game? Institutional investors are in a race to bigger and bigger assets under management (AUM) which is dependent on their quarter to quarter performance. They are into the short-term performance game. And if that's where you, as a small investor, try to outperform them, you're playing a loser's game. No wonder why the small investor beats himself all the time!

Ironically, when these institutional investors are transacting with each other, their winner's game turns into a loser's game for themselves. Since they don't have any special edge against each other and are driven by same rules, conventions and incentives. Given the cost of active management—fees, commissions, the market impact of big transactions, etc.— a large majority of investment managers have and will continue over the long term to underperform the overall market. So investing is a loser's game, not only at the amateur level but also at the professional level. I would argue that investing in IPOs is a loser's game too. The promoters and investment bankers who set the IPO price are better informed about the value of the business than a small investor. To draw an analogy from Tennis, you an amateur player is playing against Roger Federer or Serena Williams. It's their game and they have a massive edge. They have designed a winner's game and enticing you to join in. But there's a ray of hope for individual investors. Ellis writes –

"The encouraging truth is that while most investors are doomed to lose if they play the loser's game of trying to beat the market, every investor can be a long-term winner.

All we need to do to be long-term winners is to reorient ourselves to concentrate on realistic long-term goal setting and staying the course with sensible investment policies that will achieve our own particular objectives by applying the self-discipline, patience, and fortitude required for persistent implementation."

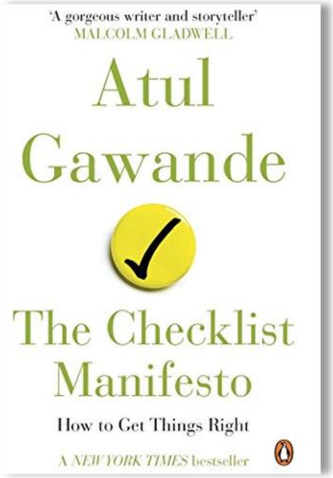
So how do you win a loser's game? Just by extending your focus from short-term to long-term. Ellis in his book concludes –

"Winning the loser's game of beating the market is easy: Don't play it. Concentrate on the winner's game of defining and adhering faithfully to sound investment policies that are right for the market realities and right for your long-term goals and objectives."

For a small investor, playing the winner's game in the stock market means ignoring the mood swings of Mr. Market, concentrating where the earnings and cash flows of the underlying businesses you own or want to own, are going to go over the long-term and most crucially, knowing your limitations as an investor.

Needless to say that Ellis' investment classic belongs on every investor's bookshelf.

The Checklist Manifesto by Atul Gawande



If you are familiar with the terms 'value investing' and 'behavioural biases', then chances are that you have heard about 'checklists' too. The idea of the checklist has been made popular in recent times by Dr. Atul Gawande.

A surgeon by profession, Dr. Gawande is also a prolific writer and deep thinker. He is a staff writer at 'The New Yorker'. Charlie Munger was so impressed with one of his article that he mailed him a US$ 20,000 cheque as a thank you.

Dr. Gawande has written three other books chronicling his experience in medical surgery but this is one book which has resonated quite well with the world of stock market investing and business analysis.

The Checklist Manifesto is based on an article published in 2007 by the author. In fact Guy Spier mentions in his book, Education of a Value Investor, how Mohnish Pabrai, after reading Gawande's article came up with his own 80 item checklist based on past mistakes.

Dr. Gawande is a master storyteller and his books are nothing less than medical thrillers. He uses his experience in surgery to tell riveting stories of interesting medical cases and what goes on inside an operation theater.

Medical profession (just like any other field of work in this world) faces the limitation of 'Necessary Fallibility'. Gawande says –

"...some things we want to do are simply beyond our capacity. We are not omniscient or all-powerful. Even enhanced by technology, our physical and mental powers are limited. Much of the world and universe is - and will remain - outside our understanding and control."

But he discovered that many times surgeons commit mistakes which are mentioned in every textbook. And the problem was that these mistakes couldn't be attributed to lack of skill or absence of knowledge.

So the first insight that I found in his book is the important distinction between errors of ignorance and errors of ineptitude –

"We have two reasons that we may fail – The first is ignorance - we may err because science has given us only a partial understanding of the world and how it works. The second type of failure is because we fail to apply correctly the knowledge that exists...For nearly all of history, people's lives have been governed primarily by ignorance. But in the modern world science has filled in enough knowledge to make ineptitude as much ignorance...Knowhow and sophistication have increased remarkably across almost all our realms of endeavour".

The complexity of modern world has made us more prone to mistakes which are potentially avoidable.

"Defeat under conditions of complexity occurs far more often despite great effort rather than from a lack of it ...The capability of individuals isn't proving to be our primary difficulty, whether in medicine or elsewhere...Training in most fields is longer and more intense than ever. People spend years of sixty-, seventy-, eighty-hour weeks building their base of knowledge and experience before going into practice on their own - whether they are doctors or professors or engineers. Yet the failures persist despite remarkable individual ability."

In the US, the number of deaths following surgery is 150,000 per year which is three times the number of road accident fatalities. The failure rate is disproportionately high and can't be ignored.

"...research has consistently shown that at least half our deaths and major complications are avoidable."

So how do you approach this problem? The answer comes from a totally unrelated place – the airline industry.

The Checklist
In the 1930s, the airline industry was manufacturing more powerful and better planes but flying these sophisticated machines became too complicated. Relying on any one person (however expert) to deal with all the complexities invited disaster. To address this, a pilot's checklist was created. It was simple, brief and to the point – short enough to fit on an index card. And it worked wonders.

How could something as simple as a checklist be of substantial help? Dr. Gawande explains –

"In a complex environment, experts are up against two main difficulties. The first is the fallibility of human memory and attention, especially when it comes to mundane, routine matters that are easily overlooked under the strain of more pressing events...A further difficulty is that people can lull themselves into skipping steps even when they remember them...Checklists remind us of the minimum necessary steps and make them explicit. They not only offer the possibility of verification but also instill a kind of discipline of higher performance...The researchers have found that simply having the doctors and nurses in the ICU create their own checklists for what they thought should be done each day improved the consistency of care to the point that the average length of patient-stay in intensive care dropped by half."

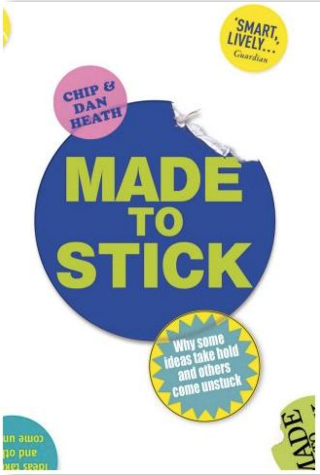
This was a remarkable discovery and a brilliant example of cross-pollination of ideas across unrelated disciplines.

Unlike airline failures, there are many other areas where we don't study the failure – like government programs, financial industry, teaching law etc. We falsely believe that by working harder we can improve our performance but we forget to learn from our failures.

It's difficult to accept that such a humble tool like a checklist can be so effective at improving the results but this book has numerous examples and case studies which support the premise that checklist do work.

In the end, a checklist is not a mere formula but a means of self-awareness. So nobody can create a checklist for you. You have to come up with your own checklist and then improve it constantly by analysing failures.

Made to Stick by Chip Heath & Dan Heath



The speaker had a charisma. He was smooth, articulate and delivered a very entertaining speech. The audience were spellbound while he was speaking. A perfect ten on ten.

Here's the rub. When the audience were surveyed about how much they remembered from our star speaker's speech, most of them couldn't recall much. All they remembered that the guy was good.

What a waste of time and effort for both speaker and audience, unless it was a stand-up comedy show where the audience just wanted pure entertainment and then forget everything the next day.

In today's knowledge economy, what's more important than ideas? It's an ability to execute those ideas. But there is another critical piece of the puzzle, especially when you are working with a team, which is how sticky your idea is in other's minds.

"Sticky" is a metaphor to emphasize that your ideas are understood and remembered, and have a lasting impact. A sticky idea changes your audience's opinions and behaviour. Your ability to add value or bring any meaningful change is determined by your ability to make your ideas stick.

It would help if you first think about the urban legend which has been floating around on the internet, first in emails now on WhatsApp, about how somebody got infected with HIV by a needle protruding out from a seat in a movie theater in Chennai. And there are many such stories which keep coming back to you as a forwarded message from a friend.

My favourite was when someone figured out a way to open his car lock by asking his wife to point the remote locking key to her phone. Believe me, no matter how stupid it sounded, I couldn't resist trying it once, only to realize that it indeed was a nonsense.

In spite of being false, for some strange reason, these urban legends and conspiracy theories are naturally sticky. They are stubbornly persistent in our memories.

In fact, perhaps the oldest class of naturally sticky ideas is a proverb – a nugget of wisdom that often endures over centuries and across cultures. "A bird in the hand is better than two in the bush" has been found in texts dating back to thousands of years. Many similar proverbs have survived through ages and are still in use to convey ideas very effectively and succinctly. Proverbs are something which stick through millennia.

Some ideas are inherently interesting and some aren't. Are ideas born interesting? Chip and Dan Heath, in their book Made to Stick, have tried to answer this question.

In an attempt to explore the anatomy of the stickiness factor, Heath brothers have distilled out six principles which make an idea stick.

1. Simplicity
2. Unexpectedness 3. Concreteness
4. Credibility
5. Emotions
6. Stories

These six principles will help you in tailoring ideas in a way that makes them more creative and more effective with your audience. They act like a checklist that you need to run through against your idea. But knowing about these principles doesn't necessarily make our job, how to make an idea stick, easy. It requires us to first identify the biggest hurdle which kills the stickiness of an idea.

For me, the most interesting insight from the book wasn't about these six principles. It was about…

The Curse of Knowledge
Heath brothers write ...

"We claim that using these principles is easy...so why aren't we deluged with brilliantly designed sticky ideas? Why is our life filled with more process memos than proverbs? Sadly, there is a villain in our story. The villain is a natural psychological tendency that consistently confounds our ability to create ideas using these principles. It's called the Curse of Knowledge."

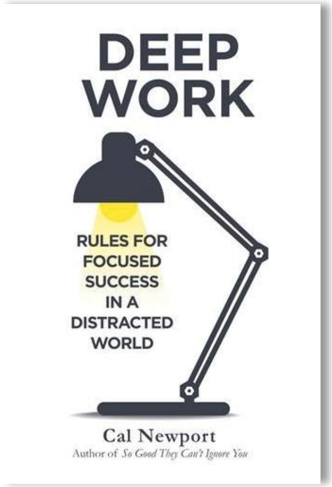
Curse of Knowledge is – once we know something, we find it hard to imagine what it was like not to know it. The Listeners and Tappers Experiment described in the book was an eye opener and a fascinating way of illustrating the curse of knowledge. The curse of knowledge is a cognitive bias according to which better-informed people find it extremely difficult to think about problems from the perspective of lesser-informed people. In other words, the more knowledgeable you became on a subject, the more unnatural it became for you to communicate that idea in a simple and clear way. In short, your knowledge itself became a barrier to its own propagation.

Once you understand the paradox of curse of knowledge, learning about the six principles will make a lot more sense. In Made to Stick, Chip and Dan Heath have established what it is that determines whether particular ideas or stories stick in our minds or not. What makes the book an entertaining read is that it's packed full of fascinating case histories and thought-provoking anecdotes.

In Made to Stick, Chip and Dan Heath have established what it is that determines whether particular ideas or stories stick in our minds or not. What makes the book an entertaining read is that it's packed full of fascinating case histories and thought-provoking anecdotes.

Go, transform your ideas and make them stick.

Deep Work by Cal Newport



Everyone knows about the life of Bill Gates and the success story of Microsoft but very few know about Bill's another trait that has played an important role in making Microsoft what it is today. Bill Gates used to work with so much intensity for such lengths during his initial years while building their first product that he would often collapse into sleep on his keyboard in the middle of writing a line of code.

This is the trait, a unique tendency to focus deeply on his work, which differentiated Gates from his contemporaries. Gates is also known to go for retreats twice a year which he calls "Think Weeks", during which he isolates himself to do nothing but read and think big thoughts.

It's this ability to do Deep Work that Cal Newport's book, with the same title, is all about. The two most voracious readers of our times, Ryan Holiday and Shane Parrish, have both recommended this new book. So goes without saying that it's a must read.

Newport defines deep work as -

"Professional activities performed in a state of distraction free concentration that push your cognitive abilities to their limit. These efforts create new value, improve your skill, and are hard to replicate."

Right from sixteenth-century philosopher Michel de Montaigne to modern psychologist Carl Jung (both of them isolated themselves for long stretches of time while they produced their most important works) and from Bill Gates to J.K. Rowling, you'll find that commitment to deep work is a common theme. Deep work, argues Cal, "is necessary to wring every last drop of value out of your current intellectual capacity. The ubiquity of deep work among influential individuals is important to emphasize because it stands in sharp contrast to the behaviour of most modern knowledge workers - a group that's rapidly forgetting the value of going deep."

Here's a sample of a practical idea that you can implement to bring the element of Deep Work in your working schedule.

To Concentrate, Embrace Boredom
In the pre-internet era, if you had to wait in a line or sit alone in a restaurant until a friend arrived, you would sit there getting bored with your own thoughts. There was nothing much to distract you. Boredom wasn't a pleasant feeling but it didn't bother people so much that they would crave distraction, unlike today where even at the slightest hint of boredom we pull out our smartphones. This has created an epidemic of distraction addiction. You can't concentrate deeply unless you de-addict yourself from your craving for distraction. One of the popular methods for this is known as 'digital detox' which suggests that you should, typically one day a week, disconnect from network tools. According to Cal, this strategy isn't effective. He argues –

"If you eat healthy just one day a week, you're unlikely to lose weight...Similarly, if you spend just one day a week resisting distraction, you're unlikely to diminish your brain's craving...Instead of scheduling the occasional break from distraction so you can focus, you should instead schedule the occasional break from focus to give in to distraction.

Schedule in advance when you'll use the Internet, and then avoid it altogether outside these times. I suggest that you keep a notepad near your computer at work. On this pad, record the next time you're allowed to use the Internet. Until you arrive at that time, absolutely no network connectivity is allowed - no matter how tempting.

Idea motivating this strategy is that the use of a distracting service doesn't, by itself, reduce your brain's ability to focus. It's instead the constant switching from low stimuli/high-value activities to high-stimuli/low- value activities, at the slightest hint of boredom or cognitive challenge, that teaches your mind to never tolerate an absence of novelty."

Drain The Shallow

We spend much of our day, writes Cal, "on autopilot - not giving much thought to what we're doing with our time. This is a problem. It's difficult to prevent the trivial from creeping into every corner of your schedule if you don't face, without flinching, your current balance between deep and shallow work, and then adopt the habit of pausing before action and asking, "What makes the most sense right now?"

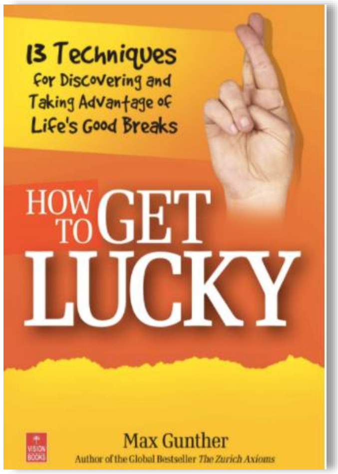
How do you prune out the shallow work? You have to identify every small distraction and then ruthlessly eliminate it.

"No discussion of shallow work is complete without considering email. This quintessential shallow activity is particularly insidious in its grip on most knowledge workers' attention, as it delivers a steady stream of distractions addressed specifically to you."

The solution is that you have to make yourself hard to reach. You don't need to respond to every email that you receive especially the ones where the sender hasn't put in efforts to deserve your time and effort (this doesn't include your close friends).

In a world of distraction, how you organize your time and days makes an enormous difference and Cal's book convincingly presents a strong argument about the need of deep work and gives numerous hacks to cultivate and protect that skill – the ability to do deep work. For that matter, I strongly recommend Cal's previous book So Good They Can't Ignore You too. It redefines the conventional wisdom about passion.

How to Get Lucky by Max Gunther



A wise man once said "I am a great believer in luck. The harder I work, luckier I get."

I am sure you've heard of this saying a number of times in the past. It's usually quoted by those who belong to the meritocratic school of thought which says, "If you're good, you don't need luck."

If you're successful it's a natural human tendency to assume the credit for your success. After all, you must have worked hard for it and you surely deserve it. But when I think of my life, I have seen and met many individuals who always worked harder and yet they sadly remain unsuccessful.

Goes with saying that I have also met those who achieved great heights with significantly less effort. These are the people who manage to attract much more than their fair share of luck. Usually, we look down on such people with disdain. It's assumed that any success founded on the element of luck is inherently undeserving.

Do you know someone who always manages to find himself in the right place at the right time? Before you label him as lucky, ask yourself – do you think his luck is out of pure randomness? Maybe he has a knack for reaching to the right place at the right time.

Common sense tells us that luck can't be controlled and it's all about chance and probability. But what if someone told you that there was a way to control luck? Not in an esoteric way but in a rational way. If you feel like scoffing at such an idea, I would urge you to have an open mind. Just for the sake of curiosity.

In his book, How To Get Lucky, Max Gunther argues that luck, although may not be controlled, can surely be manipulated. He writes –

"You cannot control your luck in a precise way. You cannot say, "I want the next card I draw to be the queen of diamonds, "...and have any reasonable expectation of that outcome. Luck isn't amenable to fine-tuning of that kind. To hope for such control is to dream of magic. It doesn't happen.

But you can bring about a substantial and even startling improvement in the quality of your luck. You can turn it from mostly bad to mostly good, from pretty good to better."

Gunther explains 13 techniques which can improve your chances of being found by good luck. Here are few of my favourites -

Serendipity Vs Goals
Many times, in business, too much emphasis is given to goal setting. Goal orientation is undoubtedly a good thing in moderate doses. But the lives of the lucky seem to say you should be wary of overdoing it.

Never take long-range plans seriously. Use them for general guidance as long as they seem to be taking you where you want to go, but whatever you do, don't get stuck with them. Throw them in the trash heap as soon as something better comes along.

The purpose of goals is to start the ball rolling and provide a general direction for proceeding but if a piece of potential good luck drifts your way, you should not summarily reject it simply because it doesn't fit some pre-designed plan.

The lucky are aware that life is always going to be a turbulent sea of opportunities drifting randomly past in all directions. If you put blinders on yourself so that you can see only straight ahead, you will miss nearly everything.

Serendipity, the faculty or habit of seizing lucky breaks that you weren't looking for, is another way of describing the zigzag life route characteristic of lucky people. You need to allow the serendipitous forces of nature to manifest your desires in whatever ways possible. Getting attached to a specific way/goal is to limit the options in which success and good luck can reach you.

The Closed Mouth
The lucky strive for maximum flexibility in their affairs, keeping themselves free to deal with those unknowable events in whatever ways seem appropriate at the time. Too much talk can constrict that valuable freedom and flexibility. Talk can tie you up, lock you into positions that seem right today but may be wrong tomorrow. A statement that seems safe today may become dangerous in the changed circumstances of tomorrow.

So the lucky guard against unnecessary talk. They are particularly careful when talking about subjects that have great personal importance to them. They reveal no more of their thinking than they have to. Avoiding excessive communication spares them the need to explain and justify actions to other people. If you talk too much about a venture this year, you may find you've given away your freedom when you want to get out of it next year.

In life you can never predict what actions you will need to take, it is best to say as little as possible about what you are doing and thinking. Then, when action is required, the only person you must argue with is yourself. As the saying goes, "The wise say something because they have something to say, the fool does so because he has to say something."

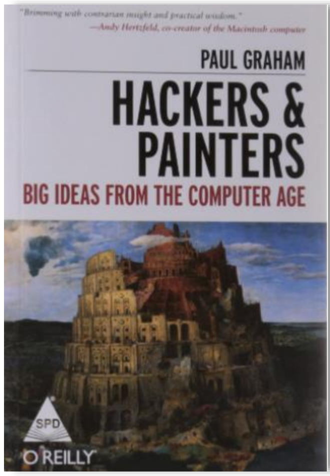
So the luck favours those who avoid unnecessary talk about their problems, plans, and feelings.

In the end, it doesn't matter how well you practice these techniques, you can still be brought to your knees by a terminal disease, get run over by a truck or struck by lightning. So be grateful for you what you have and if you're breathing, you're lucky. Which brings us to the most important trait of lucky people.

Lucky people are those who are able to see how lucky they are. This realization is the most important step to get lucky. You may not be doing too well at work and still have a loving family and good health. Shouldn't you count your blessings and be grateful for that?

How to Get Lucky will give you an unconventional and useful perspective towards luck.

Hackers and Painters by Paul Graham



Silicon Valley is replete with hundreds of successful and thousands of unsuccessful entrepreneurs who have one thing in common. They all take pride in their "dropped out from college" status. Of course, the cohort is led by people like Bill Gates, Mark Zuckerberg and Larry Page, who are still enjoying their "indefinite leave of absence" from their respective colleges (Harvard and Stanford). But among them, there are few who did complete their degrees. Paul Graham is one of them who not only finished his Ph.D. in Computer Science from Harvard but went on to study painting at *RISD and the Accademia di Belle Arti* in Florence. Surprising that someone interested in computers would also be interested in painting. Isn't it?

So who is Paul Graham? In short, he is a programmer, writer, and investor. He was the co-founder of Viaweb which was acquired by Yahoo in 1998, where it became Yahoo Store. In 2005, he, along with few others, started Y-Combinator(YC), the first of a new type of startup incubator. Since 2005, YC has funded over 1000 startups, including Dropbox, Airbnb, Stripe, and Reddit.

He's a nerd but a with a deep aesthetic sense and empathy for people who are outsiders to the subject of computer science. Although most of them are centered around computers, he does cover topics such as wealth creation and unequal income distribution.

Apart from Hackers and Painters, Graham has authored two other books on a programming language called Lisp. Hackers and Painters is based on the essays that Graham published on his blog between 2001 and 2004. He continues to write on fairly diverse topics on his blog, which is a treasure trove of wisdom.

So what's the deal with this strange title?

Hackers and Painters
In his book, Graham not only talks about topics like where good ideas come from but also touches on social and cultural issues such as free speech, getting rich, and geek culture. The central theme is to explain to the world at large what goes on in the world of computers. So the book is not just for programmers, it's something which everyone can understand. The question is – Why should an investor be interested in insights from computer age?

Everything around us is turning into computers, writes Graham, "This is the Computer Age. It was supposed to be the Space Age or the Atomic Age. But those were just names invented by PR people. Computers have had far more effect on the form of our lives than space travel or nuclear technology."

The computers have been in existence for a long time - more than half a century. But only a few people, like scientists in the labs of academic institutions and few engineers who worked in large corporations, had access to them until two decades back. Computers didn't threaten the traditional industries that much until they became cheap enough and affordable to a special set of people called Hackers.

Aren't hackers those people who break into computers? Among outsiders, that's what the word means. But within the computer world, expert programmers refer to themselves as hackers. Scientists (who had the privilege of exclusive access to computers for a long time) and engineers (who sit inside the cubicle and create software just for money) aren't the makers in the real sense. Hackers are.

Every year, large organizations are being disrupted by technology created by small companies that start in backyards. So as a value investor, it makes all the more sense to understand how the moat of many of the successful traditional businesses is being attacked by computers. And if you want to understand where we are, where we're going, and the impact of computers on future, it will help if you understand what's going on inside the heads of hackers.

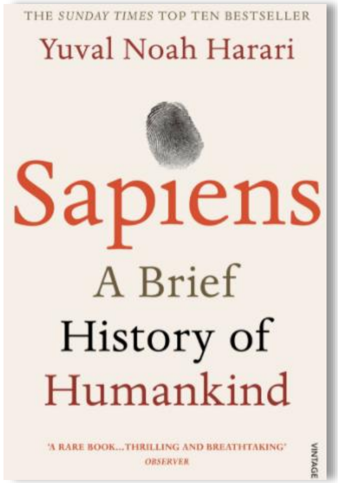
There's a lot of similarity between hackers and painters. One can derive a lot of lessons from the world of painters and use them for making things in the world of computers. Empathy is one common quality between a hacker and a painter. Graham writes –

"Like painting, most software is intended for a human audience. And so hackers, like painters, must have empathy to do really great work. You have to be able to see things from the user's point of view...looking at things from other people's point of view is practically the secret of success...Understanding how someone else sees things doesn't imply that you'll act in his interest; in some situations — in war, for example — you want to do exactly the opposite."

Put simply, hacking is a nerdy word for the act of creation. And the way to create something beautiful is often to make subtle tweaks to something that already exists or to combine existing ideas in a slightly new way.

Keep in mind that Graham published Hacker and Painters before he started YC. Which means the insights based on his experience as mentor and investor in 1000 startups is still not captured in the book. So for me, Paul Graham's book is an ongoing project since he continues to publish essays on his blog. In that sense, the book Hackers and Painter's is still not complete.

Sapiens: A Brief History of Humankind by Yuval Noah Harari



The gentleman who taught us history course in school had a strong baritone voice which was in stark contrast to his fragile-looking structure. The only reason I remember him even today is because his voice still echoes in my head. The endless lectures where he would dictate the historical events and we would ferociously note down every single word. I am sure he knew his subject well but never bothered to convince us why studying history was important.

It wasn't until 2015 that I learned the importance of history. And the credit goes to Yuval Noah Harari, who not only made a dry subject very interesting with his unique style of humor and penetrating observation but also because he presents convincing arguments about why one should study history.

In his book Sapiens, Harari writes –

"Unlike physics or economics, history is not a means for making predictions. We study history not to know the future but to widen our horizons, to understand that our present situation is neither natural nor inevitable, and that we consequently have many more possibilities before us than we imagine. For example, studying how Europeans came to dominate Africans enables us to realise that there is nothing natural or inevitable about the racial hierarchy, and that the world might well be arranged differently."

Sapiens was the best book that I read in 2015. And I am not alone in declaring it as the most important book that every knowledge seeker should read. Mark Zuckerberg, Barack Obama, and Bill Gates have openly and strongly recommended Yuval's book.

I guarantee that once you read the book, your worldview about the past, present and future will change dramatically. It's such a rich book that I had to literally stop at every page and marvel at Harari's jaw-dropping insights.

So, without further ado, let's dive into the key idea of this book.

With Great Myths Comes Great Power

On the evolution time line, the oldest ancestors of humans first appeared around 2.5 million years back. For next 2 million years, these human-like animals continued to co-exist with millions of other species of other organisms without having any significant impact on the environment. But today homo sapiens rules the planet.

For a long time, historians attributed human dominance to homo sapiens' intelligence and superior abilities, at the individual level. However, the history of human dominance began with cognitive revolution (70,000 years ago) when this obscure species of an ape in the corner of Africa developed cognitive abilities like thinking, remembering, learning, and communicating. With these new abilities, humans started creating and believing in imagined stories, like God and life after death.

These myths facilitated large-scale collaboration between strangers and paved the way for human dominance.

Now, humans aren't alone who collaborate in large scale. Social insects like bees also collaborate but they do so in a very rigid manner. They are driven by instincts and DNA hardwiring. There are other animals like Chimpanzees who can collaborate with much more flexibility but only in small numbers. A chimpanzee will only deal with another of its kind if they know each other intimately.

But humans are different. Today we don't have to know a stranger before striking a deal with him or her. Both of us individually believe in some common stories about business ethics, money, economy, etc. And these shared beliefs make our collaboration frictionless. A chimpanzee can't ask for 10 bananas from another chimpanzee in exchange for securing a place in animal heaven.

So, humans live in dual reality. One is the objective reality, like nature i.e., trees, mountains, river, air etc. This objective reality is shrouded by another layer of imagined reality i.e., our myths like nation-state and culture. If you think about it, entities like Google (or any corporation for that matter), or even a country (the idea of a nation state) don't exist in reality. They are stories, created using legal and political rules, which themselves are again shared beliefs.

Money is probably the most powerful myth that exists in the modern world. The basic raw material for making money is human trust. It's especially more true today where most money doesn't get printed much. It's largely electronic data. Two countries may remain in conflict with each other for decades but when it comes to believing in the story of economic growth, another powerful myth, they are in complete agreement. It seems the answer to every problem is economic growth and when this fictional story about economic growth gets translated to an individual level, it becomes consumerism. Similarly, the belief in humanism and basic human rights is a story that almost every country in the world has come to believe, wholeheartedly, in last few centuries.

On one hand, this belief in fictional narrative and myths has rapidly advanced humanity, but on another hand, when these myths differed between large groups of people, it resulted in wars, genocides and concentration camps. So, there are both sides to the coin.

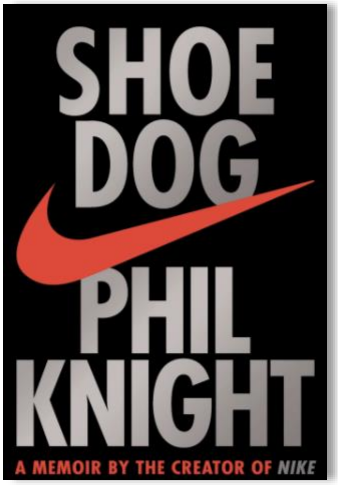
Sapiens is basically an investigation of what impact the three most important events of history, i.e., cognitive, agricultural and scientific revolution, have had on human life, animals, and the environment. However, what makes this book so insightful is the deep philosophical commentary which accompanies the narrative. And Harari's style is so engaging and entertaining that you would never feel for a second that you are reading a book on history. Sample this –

"Medieval nobleman wore colourful robes of gold and silk, and devoted much of their time to attending banquets, carnivals and glamorous tournaments. In comparison, modern CEOs don dreary uniforms called suits that afford them all the panache of a flock of crows, and they have little time for festivities."

Panache of flock of crows! That's so vivid and funny. I wish my history textbooks, back in school, had these nuggets of humor. Reading this book rekindled my interest in history so much that, if I had a time machine, I would go back to history than traveling to the future.

I have covered less than one percent of the usefulness of Sapiens above, but I hope I have helped seduce you to read this book for yourself.

Shoe Dog by Phil Knight



It was 2005 when I bought my first pair of Nike. I wore them to work, for running, for outings and almost everywhere. I waited five years for those pairs to get torn so that I could buy new ones. They never did. Sturdy brats! I eventually donated them to make way for the new ones - another Nike - and since then I have never used any other brand.

I am sure millions trust Nike for its comfort, sturdiness, innovative designs, and cutting edge technology. Nike's reputation is simply unparalleled. Its trademark - the swoosh - is more than a logo. It's one of the few icons instantly recognized in every corner of the world.

However, I never knew that Nike was the brainchild of one man, himself an athlete. He borrowed fifty dollars from his father and launched a company with one simple mission: import high-quality, low-cost running shoes from Japan.

The man was Phil Knight. And Shoe Dog is Knight's candid and riveting memoir. He shares the inside story of Nike's early days as a fearless start-up and its evolution into one of the world's most iconic, game-changing, and profitable brands. Shoe Dog is nothing less than a business thriller and perhaps the best business book that I have ever read.

In 1962, Knight started selling shoes from the trunk of his beaten up car. In the first year, Knight's company, which was called Blue Ribbon back then, grossed eight thousand dollars. Today, Nike's annual sales top $30 billion.

Bill Gates recently recommended this book on his blog. He writes - *"Shoe Dog, is a refreshingly honest reminder of what the path to business success really looks like: messy, precarious, and riddled with mistakes."*

Shoe dog is an autobiography in its purest form. Unlike most biographies, this one doesn't come with any clear- cut lessons. It's obvious that the author's intention was never to teach the reader anything. There are no tips, no bullet points, no checklists about how to be a successful entrepreneur. Nevertheless, I picked up few ideas while reading the book. Here are some of my learnings from Knight's memoir.

Have A Beginner's Mind
Phil's book starts with a quote from Shunryu Suzuki - *"In the beginner's mind there are many possibilities, but in the expert's mind there are few."*

When Blue Ribbon started, Adidas, a German company, was an established brand among athletes. Adidas had already been dominating the shoe market for a couple of decades. But Knight's advantage was about having a beginner's mind. He was willing to experiment and stay on the edge. Adidas had much to lose in terms of its reputation, leadership, money etc. But for Nike, every step was either do or die.

In fact, the brand Nike was born because Knight's primary Japanese supplier cut him off abruptly. Knight started all over again with a new brand i.e. Nike. And in a matter of few decades, Nike was bigger than Adidas.

Let People Surprise You
The first full-time employee hired by Knight was a guy called Jeff Johnson, an old acquaintance from Knight's Stanford days. Jeff, an athlete himself, was selling Adidas shoes before he started working for Phil at Blue Ribbon.

Johnson was constantly coming up with ideas for the company and wanted to talk to Phil about every small decision. However, Phil believed in the philosophy - *Don't tell people how to do things, tell them what to do and let them surprise you with their results.* And that's the strategy Phil adopted not just with Johnson but with all his employees later. Knight recalls -

"The typical Johnson letter would invariably close with a lament, either sarcastic or pointedly earnest, about my failure to respond to his previous letter. And the one before that, etc. …Don't tell people how to do things, tell them what to do and let them surprise you with their results. So I didn't answer Johnson, and I didn't pester him. Having told him what to do, I hoped that he would surprise me...To Johnson's credit, though he craved more communication, he never let the lack of it discourage him. On the contrary, it motivated him...he saw that my managerial style gave him freedom. Left to do as he pleased, he responded with boundless creativity and energy. He worked seven days a week, selling and promoting Blue Ribbon."

The book is deeply personal and authentic. The only two things that drove Knight through all the ups and downs of building a worldwide business was his passion for running and his strong desire to create something of his own. Something he could point to and say, "I built this."

Until this book came out, Knight had always been a mystery. But with this beautifully crafted story, the world now knows how one of the strongest brands came into existence. Reading business biographies makes the businesses look more humane because you get a chance to put a real face behind the inanimate business. Now, whenever I see the swoosh, I can't help but imagine the blood and sweat that went into it. It makes me appreciate the power of human creativity and enterprising spirit.

In the final pages, despite all of the hardships he experienced along the way, Knight says, "God, how I wish I could relive the whole thing." And I too wanted to say, "God, I want to read this book again and again."

Epilogue

The importance of reading books can never be overemphasized. The purpose of reading isn't just to become more knowledgeable but to become a better human being.

Remember, there is no secret to reading more. It's all about the game of setting the right priorities. You just have to change your perception so that reading becomes an extension of who you are and what you do.

We wish a day would come soon when we'll buy hundreds of copies of our favorite books and gift them to everyone we know. But for today all we hope is that you gift to yourself on our behalf.

One of our favourite authors Nassim Taleb says, "Any book worth reading, is worth reading twice." So when you find an interesting book don't just read it once. Re-read it. Underline and highlight the text, scribble your thoughts on the margins, make your own notes, and basically own the book. That would be the most effective way to assimilate the learnings.

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

Happy reading!

With respect,

Anshul and Vishal

About Safal Niveshak

Safal Niveshak (Hindi phrase for 'successful investor') is a movement to help you, the small investor, become intelligent, independent, and successful in your stock market investing decisions. It's about a new way of thinking about investing that can unleash the smart investor within you, and lead you to prosperity and financial peace of mind.

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

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

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

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