

What I've Learnt in 40 Years of Investing

"It's not supposed to be easy. Anyone who finds it easy is stupid."

- Charlie Munger

1. Fundamentals is the Only Reliable Anchor

- Difference between Investment and Speculation

*“An investment operation is one which, upon **thorough analysis**, promises **safety of principal** and a satisfactory return. Operations not meeting these requirements are speculative.”*

- Benjamin Graham

1. Fundamentals is the Only Reliable Anchor

- Short-term price behaviour is unpredictable

*“For some reason, people **take their cues from price action rather than from values**. What doesn’t work is when you start doing things that you don’t understand or because they worked last week for somebody else. The **dumbest reason in the world to buy a stock is because it’s going up.**”*

- Warren Buffett

1. Fundamentals is the Only Reliable Anchor

- Stock prices will ultimately reflect fundamentals i.e. earnings, cash flow, growth

*“The critical investment factor is determining the **intrinsic value** of a business and paying a **fair or bargain price**.”*

- Warren Buffett

2. Risk Management is Critical

- Warren Buffett's 2 rules on investing
 - No. 1: Don't lose money
 - No. 2: Don't forget rule no. 1
- Invest only in things you understand
- Embrace volatility but avoid permanent impairment of capital

2. Risk Management is Critical

- Four ways to permanently impair capital
 1. Investing in highly leveraged companies (Swiber)
 2. Vastly overpaying for a stock (Nikkei index 1989)
 3. Investing in businesses that become obsolete (Nokia, Kodak)
 4. Investing in fraudulent companies (Citiraya, China Milk, DBA)

3. Think Long Term

- The best returns are made from buying quality companies at attractive prices and holding them for long periods
- Harness the power of compounding – invest in compounders
- Think like a business owner, not just a security trader

4. Look Beyond the Obvious - 2nd Level Thinking

- If it is obvious it would be priced in already
- Examples of 2nd level thinking
- Difference between Level 1 and Level 2 thinking

Source: Howard Marks – The Most Important Thing

5. Be Humble

- There is a lot more we don't know than what we know
- Don't confuse luck with skill
- The danger of being too sure of yourself

“It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.”

- Mark Twain

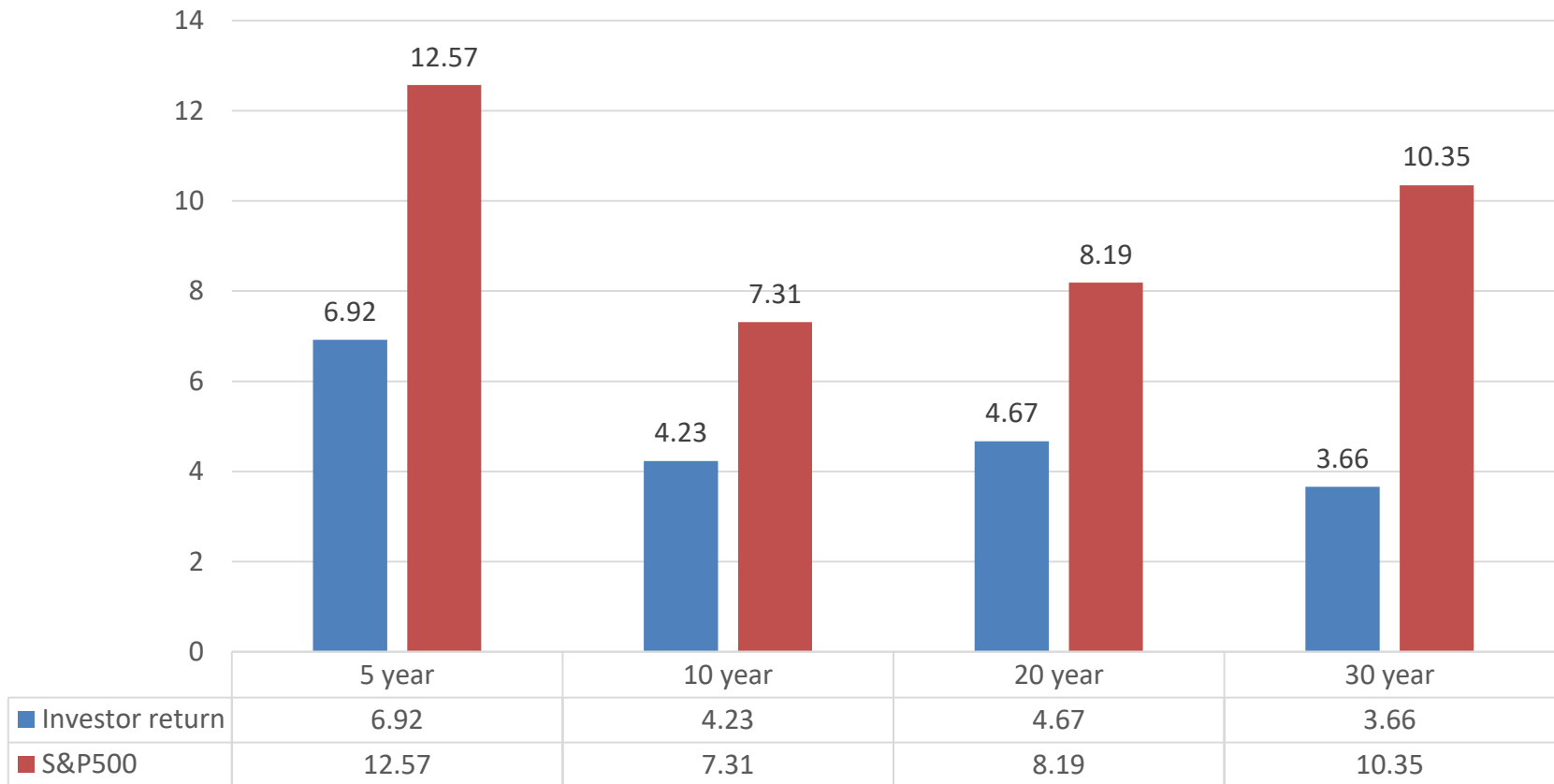
- While markets are not always efficient, one should never ignore the concept of market efficiency
- Always ask: What makes me think that I'm right and the “market” is wrong

6. Temperament is more important than IQ

- 2 biggest behavioural mistakes: Greed & Fear
- Sir Issac Newton and the South Sea Bubble
- The “Behaviour Gap”

Behavior Gap

Investors' Return v.s S&P500 (%)



Source: Dalbar – QAIB 2015

Behavioral Errors and Biases

- Cognitive (result of faulty reasoning)
 - Conservatism bias
 - Confirmation bias
 - Representativeness bias
 - Availability bias
 - Hindsight Bias
 - Gambler's Fallacy
- Emotional Bias (result of reasoning influenced by feelings)
 - Loss aversion
 - Overconfidence
 - Endowment effect
 - Status-quo bias

6. Antidote to Behavioral Investing Mistakes

- Be Rational

*“You’re neither right nor wrong because other people agree with you. You’re right because your **facts are right** and your **reasoning is right** – that’s the only thing that makes you right. And if your facts and reasoning are right, you don’t have to worry about anybody else.”*

- Warren Buffett

“I’m successful because I’m rational.”

- Charlie Munger

- Be Disciplined

“Investors need discipline to avoid many unattractive pitches that are thrown, patience to wait for the right pitch, and judgement to know when it is time to swing”

- Seth Klarman

6. Temperament is more important than IQ

“ To be a successful investor, you have to have a philosophy and process you believe in and can stick to, even under pressure. “

- Howard Marks

7. Bet Seldom, Bet Big

- When hunting for elephants don't get distracted chasing rabbits (Boone Pickens)
- Buffett's idea - Limit yourself to making only 20 investment decisions in your life time
- Bet big and only when the odds are heavily stacked in your favour

8. Read and Learn Continually

- Refresh basic investing principles
- Read (just to name a few)
 - Common Stocks and Uncommon Profits - Philip Fisher
 - Margin of Safety - Seth Klarman
 - The Essays of Warren Buffett - Lawrence Cunningham
 - The Intelligent Investor - Benjamin Graham
 - The Most Important Thing - Howard Marks
 - Fooled by Randomness - Nicholas Taleb
- Learn how to value businesses
- Learn from your mistakes

Recap 8 Lessons

1. Fundamentals is the only reliable anchor
2. Risk management is critical
3. Think long-term
4. Look beyond the obvious - 2nd level thinking
5. Be humble
6. Temperament is more important than IQ
7. Bet seldom, bet big
8. Read and learn continually