The Wisdom Of Intelligent Investors

Insights from Some of Today’s Leading Investment Minds
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Dear Tribe Member,

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

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

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

With respect,
Vishal Khandelwal,
Founder – Safal Niveshak
The wisdom shared in the next few pages has been distilled from the several interviews we’ve had for our premium newsletter – Value Investing Almanack – with some of today’s best investing minds in India and abroad.

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

Insights from Some of Today’s Leading Investment Minds

Let’s start right away…
In investing, you can end up on top simply by living a very long life, rather than focusing on finding fastest growing companies.

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

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

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

Retraining your mind to not care if a position is making a 52-week high or is down 10% in a day will make you a better investor. You know you are doing it right when your wife is telling you about what happened in the market at dinner.
It is dangerous to read books especially on investing without reading about business history. It may cloud one’s view. Hence, read annual reports of companies for as far back as they can find. Read them across various companies over various time frames. You should be able to understand how companies have behaved over business cycles, how their valuations have changed, why did they succeed, why did they fail, etc.

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

Beyond that, remember what Vedas say on multidisciplinary thinking – आ नो भद्रः क्रतवो यन्तु विश्वकः (Let noble thoughts come to us from all sides).
Learn as much as you can about businesses. A lot of us have been guilty of reading way too much about how to become a better investor rather than spending time on learning businesses. I think it gives us some perverse pleasure to sit and hope that we’ll become great investors one day but the number one thing to do is to learn about businesses and how they make money.

I would urge everyone including myself to, after a point, spend more time on studying the businesses than on how to study the businesses.
My approach towards management is – you cannot do a good deal with a bad guy. Having said that, I am not looking for saints either but rather pragmatic entrepreneurs.

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

I am not bogged down by the idea of betting on a promoter and making a fool of myself in the process because eventually learning to bet on people is also an integral part of the process.
I don’t think there is a better starting point in investing than having an open mind.

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

Effectively, time is money, so when one is investing time in studying a business, the effort must be to make it count in an unbiased manner.
Once I am broadly excited about a business, my major analysis is on digging holes into my excitement. Once you like a stock, the natural tendency is to just jump in before the price runs up. When you take short cuts that’s exactly when risk crops in.

As part of my analysis, I avoid talking to co-investors who already have vested interest and are also excited about the stock. Talk mainly to the company’s competitors because they generally will give you a different point of view on the industry and about why certain strategy is inferior. Talk to analysts who have negative view on the company. Find a strong devil’s advocate who will try and destroy your hypothesis.
The great thing about investing is you don’t need many great ideas to do well over a career if you avoid catastrophic mistakes.

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

Source: Value Investing Almanack | Page 13
If valuation is the biggest factor for an investment, position-sizing is second. When all my mistakes are boiled down, it fits into either category, but my biggest are a combination of both.

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

These are external factors that certainly need to be analyzed, but the internal factors that can be controlled is via good valuation and allocation.
Discipline is one of the most important attributes of an investor. One should have the ability to articulate one’s investing philosophy, be clear in one’s mind what type of stocks one will gravitate towards and what one will avoid and then just religiously stick to that philosophy through different market moods.

At times, your investing style will be in favour in the market and that part is easy, the tough part is when the market does not reward your style. The temptation to jump ship is immense at these times and that’s where your investing fortitude is really tested.
I would suggest two ways to improve quality of decision making. First, a **focus on the process of investing rather than outcomes**. This will ensure that the right lessons are learnt from outcomes. Investing is about probabilities and following a good process will ensure good outcomes on average over time.

Second, an **emphasis on facts versus forecasting**. At any given time, the future can have a wide range of outcomes and therefore investments made on specific forecasts have a high probability of being wrong. It is better to focus on historical facts which are knowable and amenable to analysis to make intelligent guesses about a range of future outcomes.
Fewer investment decisions you make the better. You'll put that much more time and effort into arriving at that decision whereas if you're making a decision every day or every hour then seriousness doesn't go into that decision.

Most people get married once in their lifetime, and so you give a lot of thought to it – most people do. Marriage is an extreme example. Even when you take a job you plan to spend at least a few years in that company. People give serious thought to it. Why should it be different for stock investing? You can't be on a train and some guy sitting next to you says that this stock looks good and you go out and buy it. It can't be that.
Don’t ape anyone, because even if you ape someone’s investing style, how will you ape his conviction? If there is no conviction, you will never be able to make the best out of it. Be yourself, it will be more than enough. For example, I think understanding Warren Buffett is very easy, but implementing his style is virtually impossible. That’s why there is only one Buffett. Also, one should think whether it really necessary to invest like Buffett? Do we have his compulsions of size? If you read his partnership letters (when his size was much smaller), you will discover a very-very different Buffett.

Instead of talking about and aspiring to be like Buffett, spend time understanding about accounting and financial statements. Develop your own process and philosophy.
Whatever I have read about great investors, is that the masterly inaction they practice had to do a lot with other activities that they did to keep themselves busy. It’s not inaction. It’s action outside of investing. There is so much action outside of investing – reading, understanding, and thinking. The intellectual pursuits basically dominated their work. That’s why investing could be left only when it was required. They had to do it only when it was needed.

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

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

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

Sanjay Bakshi
(Adjunct Prof, MDI Gurgaon)

Source: Value Investing Almanack | Page 20
Learn to Say No

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

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

This to my mind should help in improving decision making and result in better investment results over time.
Risk is an under-taught subject. In fact, it is surprising that it is not taught in schools and colleges as a subject and very few books on risk management are written. Risk is personal, of character or judgment as also of loss of opportunities from fear or social impact. It is wrongly perceived that the risk and reward are directly related i.e., higher the risk higher the reward and lower risk means low reward. On the contrary, lower the risk is higher be the reward and vice versa.

Risk also lies in being a non-believer and falling prey to mass sentiment in times of market fall or exuberance in market prices. Risk is also of watching TV for investment calls and reacting to announcements. Risk is also of poor capital allocation and resilience to decisions even if factors suggest that the basis of decision is turning against you.
‘HOPE’ IS NOT A STRATEGY

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

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

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

Source: Value Investing Almanack | Page 23
People underestimate vastly the role of luck in investing. Everyone thinks that they strike it big because how smart they are.

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

If there is anything to wish for, if you’re starting out as an investor, wish for good luck. And of course work hard and have humility.
To compound wealth, you need to invest in businesses that are deploying capital at a high rate of returns for a long period and purchase them at reasonable prices. Since the time horizon of compounding at the above average rate of return has an exponential impact on wealth creation, it’s better to invest in a business with little lower compounding rate but far higher longevity of growth than in a business with higher compounding rate but lower longevity.

Also, it follows that a long-term investment horizon is an edge in obtaining superior returns as it allows the magic of compounding to work. Time, as Warren Buffett says, is the friend of a wonderful company and the enemy of a mediocre one. As we stand today around 96% of Buffett’s fortune was created after his 50th birthday and nearly 90% came after his 60th birthday.

Source: Value Investing Almanack
A great deal of investing success comes from temperament, which is (largely) inborn. **But every good investor I’ve ever met is a learning machine** – someone who eats information ravenously and who is obsessed not by how much he already knows but by how much he has yet to learn.

An underappreciated factor that great investors share, I believe, is that they relish being proven wrong. Most people dread making mistakes with a kind of visceral horror. But **great investors welcome making mistakes, because errors are opportunities to learn.** Whenever I encounter a professional investor with a track record of outperformance who boasts only about what he got right, I know I am in the presence of someone whose overconfidence is dangerous, if not deadly.
Accept Reality As It Is

Learn from your own mistakes. Most people try to cover up their mistakes, explain them away, or blame others. Those are defense mechanisms that allow us to look in the mirror and sleep at night.

The problem is that they dramatically distort reality and lead to a form of self-induced blindness. Reality is what it is, and no amount of wishing will change it. I’ve learned to be brutal with myself.
You need humility to prevent yourself from overcomplicating investing more than it needs to be and taking risks greater than you’re able to handle.

Lack of humility always catches up to you. In markets you’ll receive some return over the next 20 years, and most people who try to front-load those returns into shorter periods of time will cough up whatever excess short-term returns they earn down the road -- reversion to the mean.

It’s very similar with humility. Most ego you have today will be balanced out with humiliation down the road.

Source: Value Investing Almanack | Page 28
The biggest risk for me is opportunity cost. Everything I buy and do comes at the cost of not buying or doing something else. Talk with elders about their regrets, and you’ll find they misunderstood and poorly managed opportunity cost across their lifetimes.

I try to minimize time wasted on companies I’d never own at any price. I try to minimize all the noise and useless activities. I try to only invest in the opportunities and activities that have the best potential for future payoff.
It absolutely helps to maintain an investment journal. No doubt about it. The alternative is to be so rational that you’ll have no capacity to lie to yourself. Also, I’m not a huge fan of my own memory of decision making especially if the transaction has happened a while ago.

Writing thoughts down before investing or selling helps us in not over criticizing mistakes and not over celebrating our good investment outcomes. It teaches us to appreciate the role of luck as well.

Source: Value Investing Almanack | Page 30
There is simply no substitute to having your own conviction in every position you have. If you are riding on somebody else’s conviction, first you would not be able to bet big and miss out on the most important element of investing i.e., position sizing.

Secondly you can enter on someone’s conviction but you must still ride the position through thick and thin yourself. Most cloners get scared out of a position when it moves +/-50%, instead of averaging up/down.

Source: Value Investing Almanack | Page 31
When you research a company, you can often boil down the investment decision to a few key questions that you need to answer about the business’ prospects. Sometimes those questions are very hard to answer, and you will be tempted to cut corners if another smart investor has bought the stock. This is a classic mistake that I have made several times. Not only do you end up buying a stock you should not have bought, you end up owning a stock that you don’t understand as well as you need to. If you know a business inside and out, you know what to do when it does not perform how you expect it to. If you don’t know a company as well as you should, and then something bad happens, it’s easy to compound the initial mistake with another blunder.
It takes effort and practice to get good at this “craft.”

Some ingredients of being a successful value investor are: Lots of multi-disciplinary reading, building good understanding of businesses (not just financials) in which we are invested, avoiding mistakes in our larger positions (I try to do this by spending more effort and trying to be amongst the best-informed analyst on those positions), and not getting carried away by fads of the season.
Hang out and interact with people better than you and you cannot help but improve. And when I say better, I mean not only in terms of intellectual horsepower, but in terms of morals, values, ethics, character and discipline.

These are the attributes which ultimately lead to a very fulfilling and satisfying life.
It's so easy to drift away from value investing and into some lesser strategy, particularly when you first start out, because value takes some time to deliver.

**Over the long term, value really does seem to work best.** And remember, we live longer now. Many of us will see age 80, or 90. The long term has become our term. So we shouldn’t trade as if we had the lifespans of fruit flies.

Source: *Value Investing Almanack* | Page 35
“I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long run ahead of you.”

~ Charlie Munger

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

~ Epicurus
Safal Niveshak (Hindi phrase for ‘successful investor’) is a movement to help small investors become intelligent, independent, and successful in their stock market investing decisions. Started in 2011, Safal Niveshak is now a community of 40,000+ dedicated readers across 100+ countries. The site has been ranked among the best value investing blogs worldwide.

Safal Niveshak was founded by Vishal Khandelwal, who has 14+ years’ experience as a stock market analyst and investor, and 6+ years as an investing coach. 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.

You can visit safalniveshak.com or write to vishal@safalniveshak.com to know more about this initiative and how you can benefit from it and/or support it.
### About Value Investing Almanack

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

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

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

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

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

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