

THE SAFAL NIVESHAK STREAM | 2ND MARCH 2019

DEALING WITH STUPIDITY IN INVESTING,
SEVEN POINT INVESTMENT ALGORITHM
THAT WORKS, NAVAL RAVIKANT ON
WEALTH, MONEY AND STATUS, AND
SECRETS OF LONG AND HEALTHY LIFE

SAFALNIVESHAK.COM

Book I'm Reading

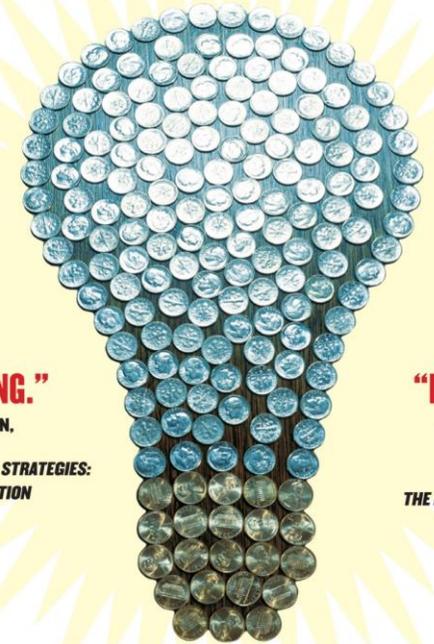
Jason Zweig is an investment journalist and a long time investing columnist for Wall Street Journal. He is best known for editing and adding commentary to the revised edition of Benjamin Graham's investment classic [The Intelligent Investor](#). Graham's book, considered as investing bible by many, was 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 and 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. He 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.

YOUR MONEY & YOUR BRAIN

HOW THE NEW SCIENCE OF **NEUROECONOMICS**
CAN HELP MAKE YOU RICH



"PIONEERING."

—DAVID DREMAN,

AUTHOR OF

**CONTRARIAN INVESTMENT STRATEGIES:
THE NEXT GENERATION**

"ILLUMINATING."

—PETER L. BERNSTEIN,

AUTHOR OF

**AGAINST THE GODS:
THE REMARKABLE STORY OF RISK**

**"THIS SHORT AND ENTERTAINING BOOK PACKS A VAST AMOUNT OF
SERIOUS INFORMATION ABOUT YOUR BRAIN, ABOUT YOUR MIND, AND ABOUT YOUR MONEY."**

—DANIEL KAHNEMAN, WINNER OF THE 2002 NOBEL PRIZE IN ECONOMICS

JASON ZWEIG

EDITOR, *THE INTELLIGENT INVESTOR*

Book I'm Reading – Your Money and Your Brain

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. Zweig writes –

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.

The most unexpected section in Zweig's book is on the topic of happiness. Although Daniel Kahneman spends quite a bit of time on the same topic in his book [Thinking Fast and Slow](#), I really enjoyed reading Jason's take on the subject of happiness. He concludes this chapter thus –

The best “value investment” of all is channeling money into goals that will make your life more valuable: drawing out your innate gifts to make yourself matter to other people and to make the world around you a better place. Given the way the brain works, your happiness ultimately depends not on finding out how much you can buy but on learning how much you can be.

If you could read just one chapter in [Your Money and Your Brain](#), Chapter 10 should be it.

Articles I'm Reading

1. An Investment Approach That Works

There are as many investment strategies as there are investment opportunities. Some are good; many are terrible. Farnam Street's Shane Parrish talks about a strategy he leans on the most when he is looking for low risk and above average returns. Here are just three of his seven elements of equity investing –

A Few Simple Variables – *Allowing for the difficulty of predicting the future, candidates should have just a few reasonably predictable economic variables that will dominate their outcomes. In the words of Warren Buffett, “There are all kinds of businesses where we have no idea what they’ll earn this year, let alone any future year.” Look for boring investments, sexy is usually complicated and full of competition. Look for what’s staying the same.*

Long Runway – *You should be able to foresee an indefinite period of growth ahead, through some combination of market creation, market penetration, and pricing power.*

Priced Attractively – *Stock should be priced so that stock returns \geq business returns, always including a margin for error in forward-looking estimates.*

[[Read More](#)]

Articles I'm Reading

2. Markets Make Everyone Feel Stupid at Some Point

At some point in investing, everyone is not just wrong; we're stupid. The real question is, how long are you willing to stay with a trade if you're sure you're right? Barry Ritholtz shares some insights based on his interactions with a few investors at a recent conference –

"Stupid" manifests itself in many ways. How comfortable are you holding a position that isn't working, and hasn't worked for several years or even longer? In order to do so, you must have a belief rooted in evidence that the investment thesis isn't merely a temporary source of alpha (above-market performance) soon to be arbitrated away.

Barry also touches upon what makes Warren Buffett and Berkshire so successful –

The success of Berkshire teaches us a couple of lessons: First, you must have a process for deploying capital in which you have a high degree of justified confidence; and second, you must be comfortable holding onto a position that isn't working and possibly looking stupid, perhaps for years, as you wait for the cycle to turn.

[[Read More](#)]

Articles I'm Reading

3. If You Make a Trade, Who is on the Other Side?

Michael Mauboussin is one of Wall Street's most creative and influential minds who offers provocative new ways of thinking about the stock market, investing, and how we make decisions.

He recently wrote a paper titled – [Who is on the other side?](#) – where he describes a number of inefficiencies that exist in the market, which are driven largely by the optimism or pessimism of investors. A few really important questions he helps answer in this paper include – “If you make a trade, who is on the other side? What does he or she know that you don't? Why do you think you have the best of it?”

He also includes a checklist for identifying market inefficiencies.



Checklist for Identifying Market Inefficiencies

<input type="checkbox"/>	Are investors overextrapolating from recent results, leading to unrealistic expectations?
<input type="checkbox"/>	Is there evidence of performance chasing in a security, sector, or asset class?
<input type="checkbox"/>	Do sentiment indicators suggest extreme fear or greed?
<input type="checkbox"/>	Do investors have correlated views that create fragility in the market?
<input type="checkbox"/>	Do you have a different time horizon, allowing you to take advantage of time arbitrage?
<input type="checkbox"/>	Are you more analytically skillful than the other investors you are competing with?
<input type="checkbox"/>	Are you placing different, and more precise, weights on information?
<input type="checkbox"/>	Are you accurately updating your views based on new information?

[[Read More](#)]

Articles I'm Reading

4. Do MBAs Make Better CEOs and Do CEOs Really Help Create Value?

Three decades ago, an influential Harvard Business School professor Michael Jensen co-wrote an article making the then-bold claim that CEO compensation should be tied to stock price performance. The point, Jensen and his co-author argued, was to better align incentives and ensure that corporations were able to attract “the best and brightest individuals to careers in corporate management.” But was he horribly wrong?

A central premise of business education is that leadership and management can be taught in the classroom. Harvard Business School says its mission is “to educate leaders who make a difference in the world,” where a difference is defined as creating “real value for society.” And so, Jensen’s logic makes sense: Harvard attracts the very best students and, presumably, is good at educating them to be better business leaders, so corporate America should want more Harvard graduates running companies — and this logic should extend to MBA programs beyond just Harvard.

But regression results suggest a different result entirely...We found no statistically significant alphas — despite testing every possible school with a reasonable sample size. MBA programs simply do not produce CEOs who are better at running companies, if performance is measured by stock price return.

[[Read More](#)]

Articles I'm Reading

5. Seek Wealth, Not Money or Status

An insightful discussion that Naval Ravikant recently had with Babak Nivi –

Nivi: *What's the difference between wealth, money, and status?*

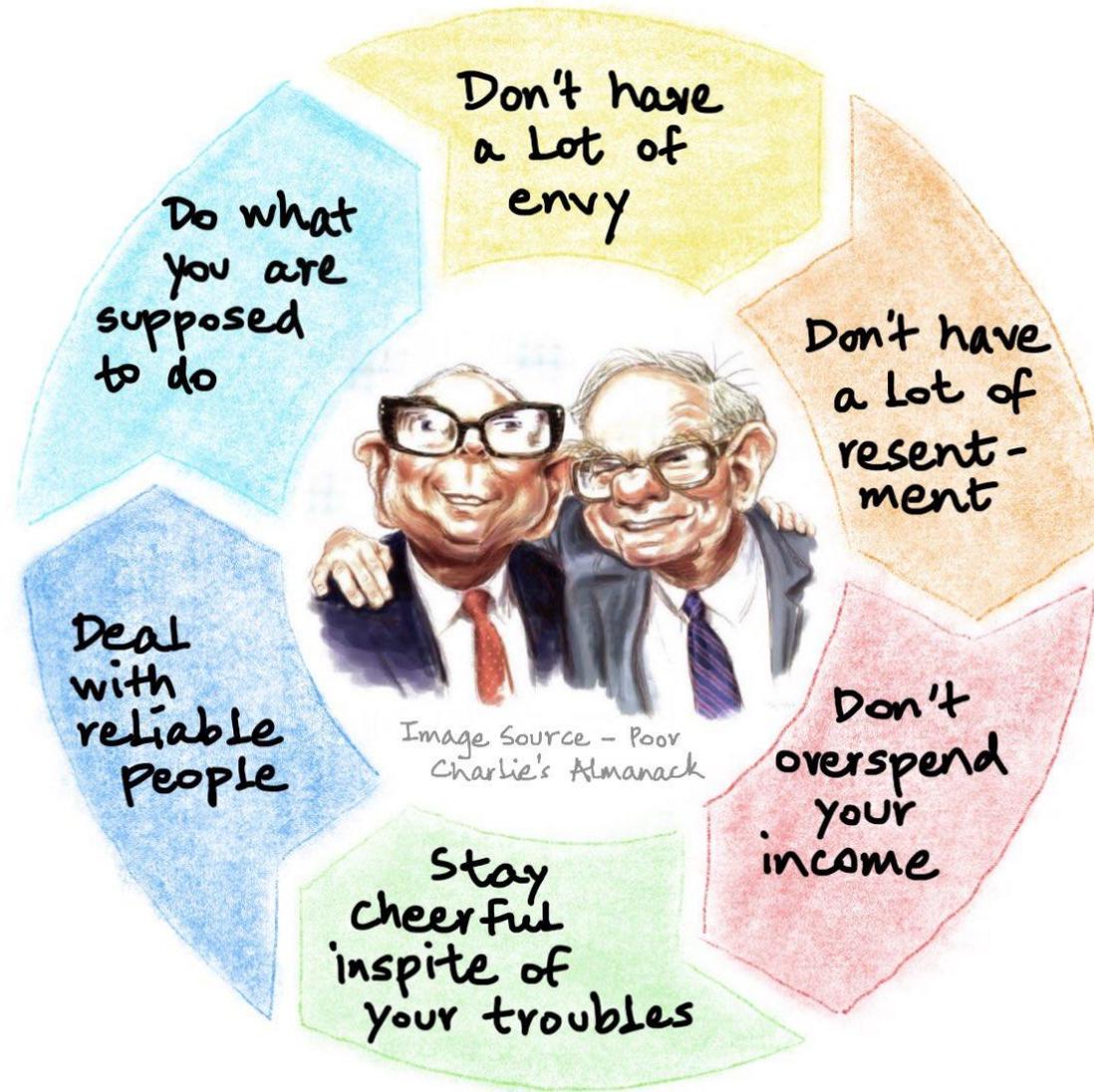
Naval: *Wealth is the thing that you really want. Wealth is assets that earn while you sleep. Wealth is the factory, the robots that's cranking out things. Wealth is the computer program that's running at night, that's serving other customer. Wealth is... even money in the bank that is being reinvested into other assets, and into other businesses. Even a house can be a form of wealth because you can rent it out, although that's probably a lower use of productivity of land than actually doing some commercial enterprise. So, my definition of wealth is much more businesses and assets that can earn while you sleep.*

But really the reason you want wealth is because it buys you your freedom. So, you don't have to wear a tie like a collar around your neck. So, you don't have to wake up at 7:00 AM, and rush to work, and sit in commute traffic. So, you don't have to waste away your entire life grinding all the productive hours away into a soulless job that doesn't fulfill you.

[[Read More](#)]

Secrets to A Long & Healthy Life

**An Idea,
Illustrated –
Secrets to A Long
and Healthy Life,
the Warren
Buffett & Charlie
Munger Way**



"All these rules work so well to make your life better. And they are so simple."
~ Charlie Munger

Thought I'm Meditating On

Ekknath Easwaran writes in [Your Life is Your Message](#) –

Around the world – even in some of the countries most troubled by poverty or civil war or pollution – many thoughtful people are making a deep, concerted search for a way to live in harmony with each other and the earth. Their efforts, which rarely reach the headlines, are among the most important events occurring today.

Sometimes these people call themselves peace workers, at other times environmentalists, but most of the time they work in humble anonymity.

They are simply quiet people changing the world by changing themselves.

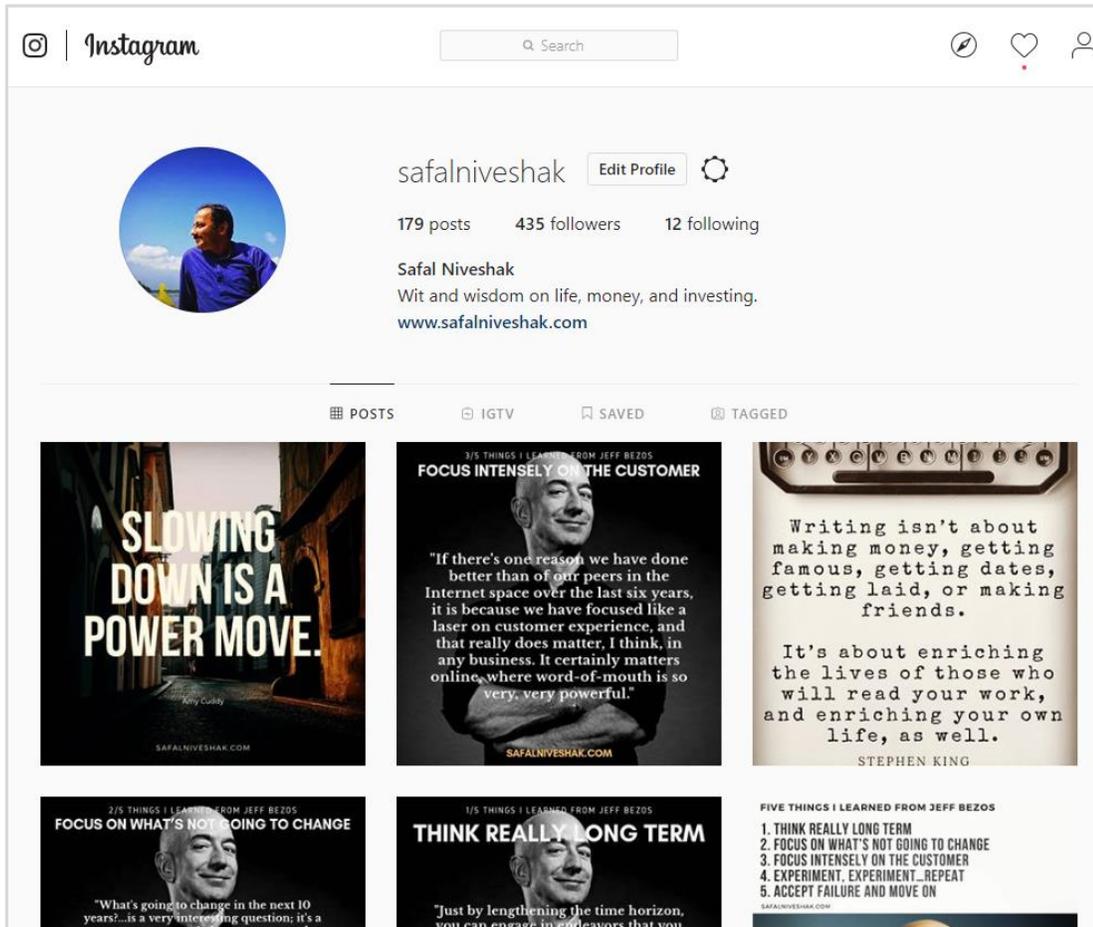


YOU MUST
BE THE CHANGE
YOU WISH TO
SEE IN THE WORLD

MAHATMA GANDHI

Safal Niveshak Updates

- **Twitter Q&A is on Sunday, 3rd March (will announce time on my timeline on [Twitter](#)).** Ask me anything on – long term investing (no specific stocks pls), investing process, personal finance basics, starting up, failing, writing, blogging, minimalism, etc.
- **I am finally active on [Instagram!](#)** See you there if that's where you hang out.



THANK YOU!

Website: safalniveshak.com

Twitter: [@safalniveshak](https://twitter.com/safalniveshak)

Instagram: [@safalniveshak](https://www.instagram.com/safalniveshak)

Email: vishal@safalniveshak.com