

Getting Back to Basics

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I am a student seeking wisdom. Whatever I am learnt is a result of my many mistakes and limited successes.

If you can keep your head when all about
you
Are losing theirs and blaming it on you,

If you can trust yourself when all men doubt
you,
But make allowance for their doubting too;

If you can dream—and not make dreams
your master;

If you can think—and not make thoughts
your aim;

If you can meet with Triumph and Disaster
And treat those two impostors just the
same;

If you can make one heap of all your
winnings
And risk it on one turn of pitch-and-toss,

And lose, and start again at your beginnings
And never breathe a word about your loss;

If you can talk with crowds and keep your
virtue,
Or walk with Kings—nor lose the common
touch,

Yours is the Earth and everything that's in
it,
And—which is more—you'll be a Man, my
son!

Basic building blocks of investing



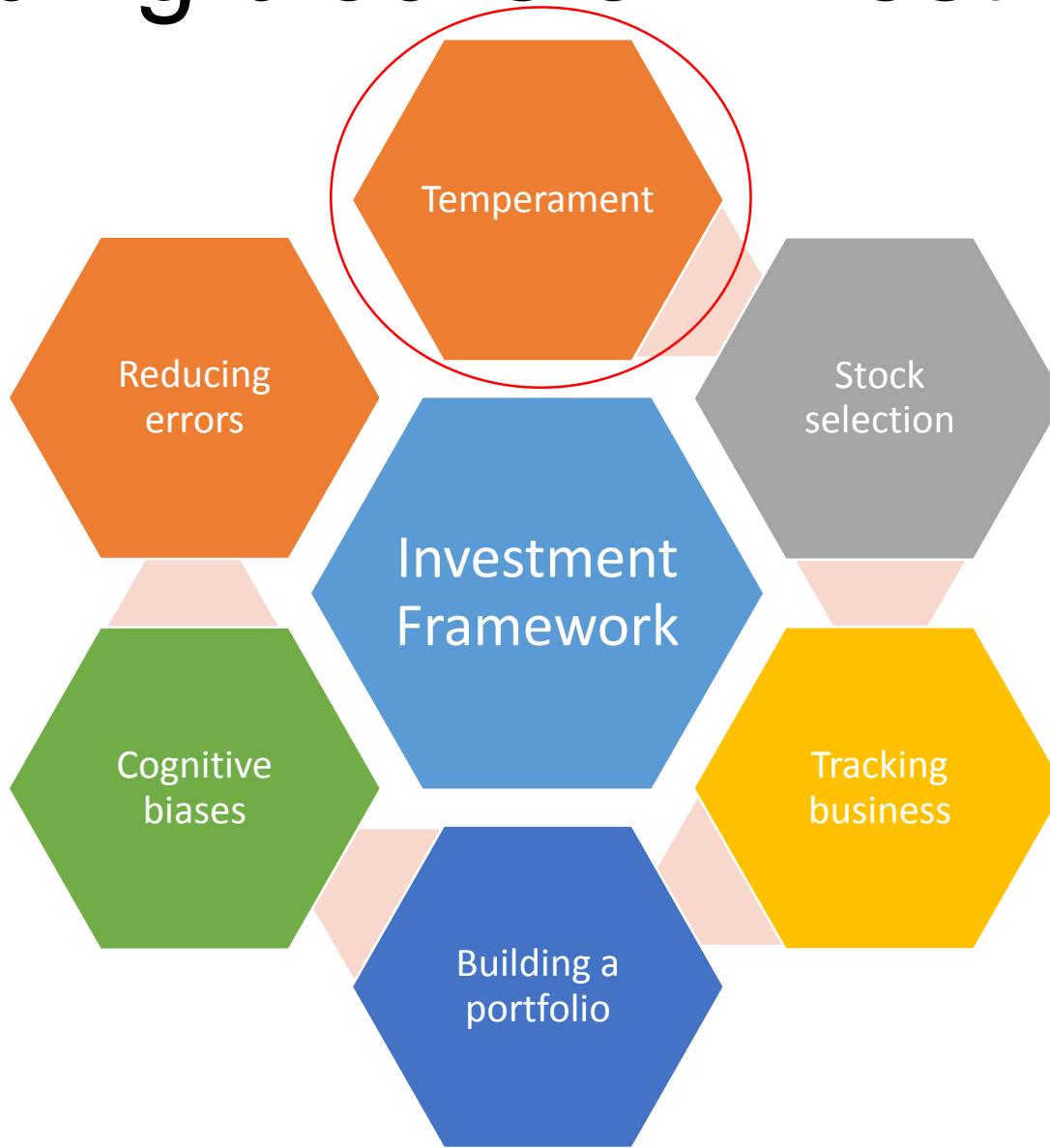
Learning to learn

The process will yield the outcomes

Temperament

Whoever we are, whatever we are, as people, as investors is an culmination of all our past experiences...

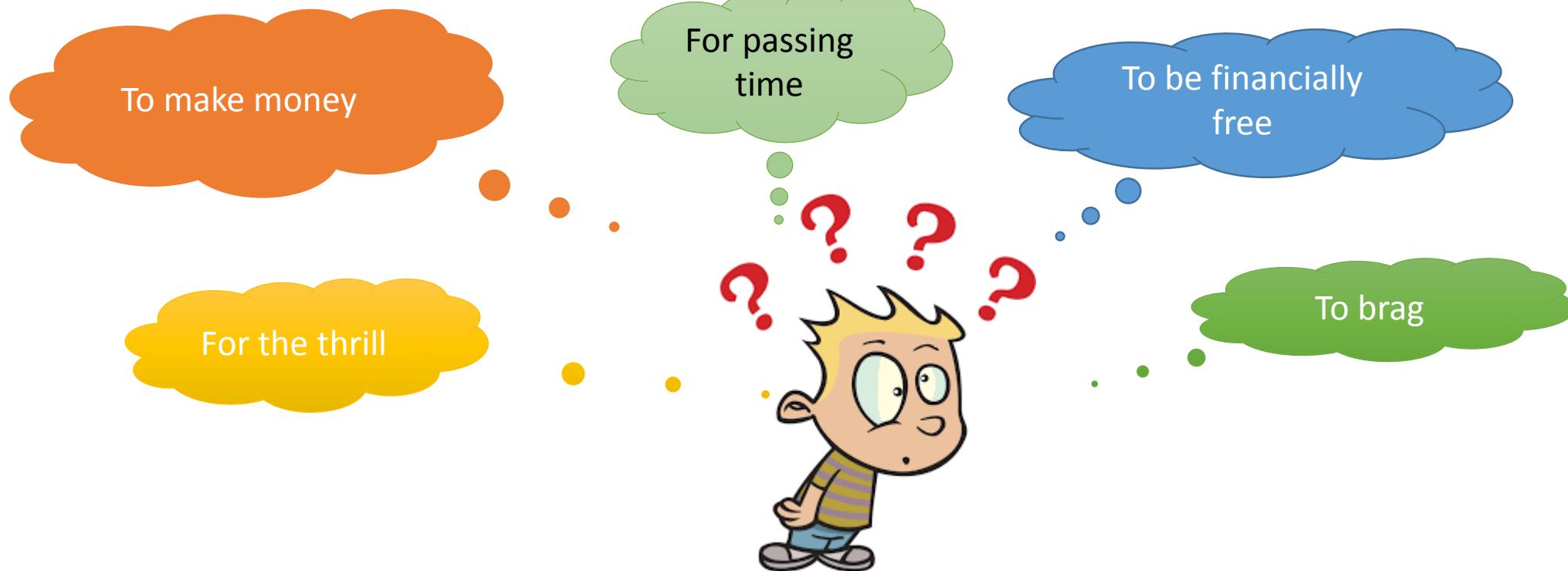
Basic building blocks of investing



Temperament

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Ask yourself why you are investing...



People usually get what they ask for.

You need to be clear what exactly you want and **what you are willing to give up to get it.**

Ask yourself why you should make money in the markets?

What **edge** do you bring to the table?

Information edge - Know about developments in an industry / company before others

Analytical or Knowledge edge - Skill, education and domain knowledge

Portfolio size edge - Can buy stocks which others cannot

Time edge - Can wait patiently without getting flustered

Institutional investors, people in the end-to-end value chain of company – suppliers / distributors

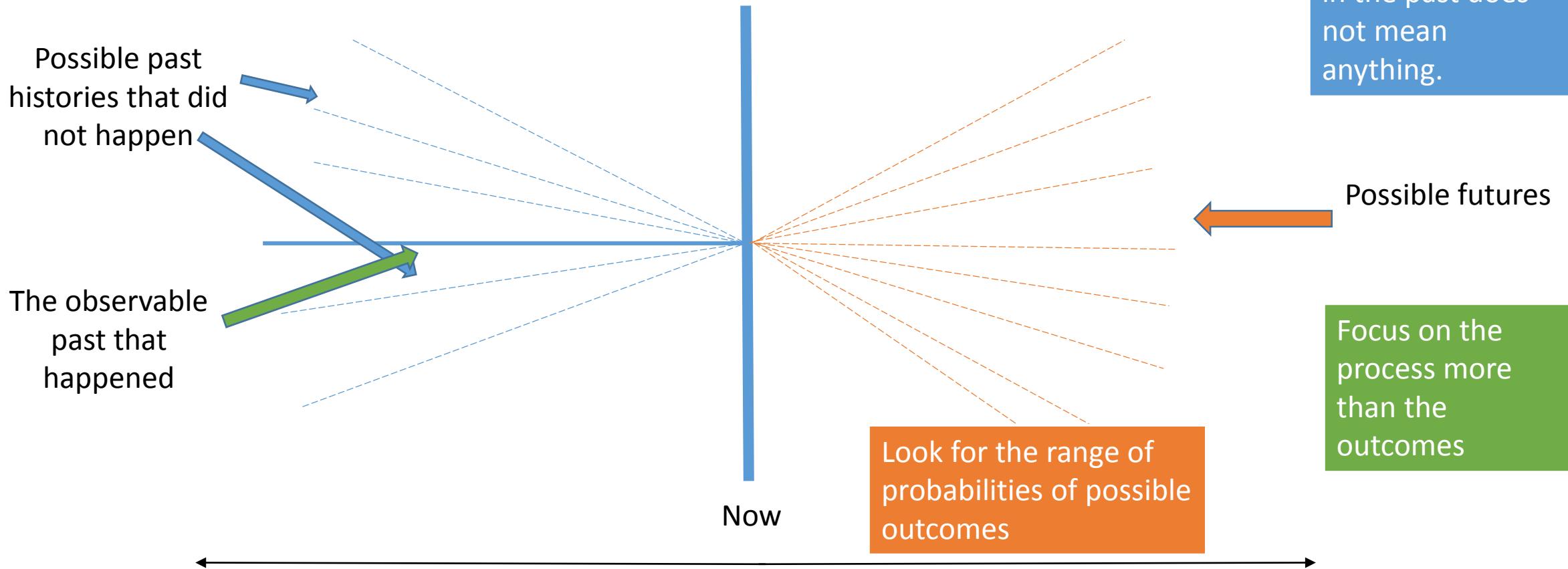
As a retail investor, you have the advantage here if you:

- 1) Specialize in an industry / sector / company
- 2) Don't need to withdraw money in crisis; have long term capital
- 3) Am not competing with fund managers on a quarterly NAV

People have 15-16 years of formal education to prepare for a profession.
How much time have you put to study investing?

Understanding that the future is uncertain is critical for investing

More things can happen than will happen



Forecasting is a fool's errand

“All of which is to say that I'm not sure what 2010 will look like, but I'm sure that it will be very little like what we expect, so we should plan accordingly.”

From US Defense Review Memo,
sent to President Bush in April of
2001, six months before 9/11.

Thoughts for the 2001 Quadrennial Defense Review

LIN WELLS
CF: Amdm

- If you had been a security policy-maker in the world's greatest power in 1900, you would have been a Brit, looking warily at your age-old enemy, France.
- By 1910, you would be allied with France and your enemy would be Germany.
- By 1920, World War I would have been fought and won, and you'd be engaged in a naval arms race with your erstwhile allies, the U.S. and Japan.
- By 1930, naval arms limitation treaties were in effect, the Great Depression was underway, and the defense planning standard said “no war for ten years.”
- Nine years later World War II had begun.
- By 1950, Britain no longer was the world's greatest power, the Atomic Age had dawned, and a “police action” was underway in Korea.
- Ten years later the political focus was on the “missile gap,” the strategic paradigm was shifting from massive retaliation to flexible response, and few people had heard of Vietnam.
- By 1970, the peak of our involvement in Vietnam had come and gone, we were beginning détente with the Soviets, and we were anointing the Shah as our protégé in the Gulf region.
- By 1980, the Soviets were in Afghanistan, Iran was in the throes of revolution, there was talk of our “hollow forces” and a “window of vulnerability,” and the U.S. was the greatest creditor nation the world had ever seen.
- By 1990, the Soviet Union was within a year of dissolution, American forces in the Desert were on the verge of showing they were anything but hollow, the U.S. had become the greatest debtor nation the world had ever known, and almost no one had heard of the internet.
- Ten years later, Warsaw was the capital of a NATO nation, asymmetric threats transcended geography, and the parallel revolutions of information, biotechnology, robotics, nanotechnology, and high density energy sources foreshadowed changes almost beyond forecasting.
- All of which is to say that I'm not sure what 2010 will look like, but I'm sure that it will be very little like we expect, so we should plan accordingly.



Certified As Unclassified
January 9 2009
IAW EO 12958, as amended
Chief, RDD, ESD, WHS

Lin Wells

Building the right temperament will yield better results over time than any other skill

Study both success and failure

- Try to note down lessons learnt from your own and others successes and failures
- See if there is a pattern in your success / failures over time

Don't chase returns

- Makes you more prone to mistakes and invest in riskier propositions
- "Someone will always be getting richer faster than you. This is not a tragedy." ~ Charlie Munger

Understand base rates

- Some things have a higher chance of happening than others

Cut out the noise

- Disconnect from facebook, twitter, whatsapp groups which generate unnecessary noise and most often block the actual signal which needs attention

Building the right temperament will yield better results over time than any other skill

It's waiting that helps you as an investor, and a lot of people just can't stand to wait. ~ Charlie Munger

Be patient with great businesses. Let them do the hard work for you. Just sit there.

There are no mistakes in life, only lessons learnt. Make sure you learn the lesson, else the mistake is wasted.

Use “inversion” to solve problems. If you want to make money, ask yourself, how not be lose money instead?

"Never adopt permanently any type of asset or any selection method. Try to stay flexible, open-minded, and skeptical." - John Templeton

Don't run after “multibaggers”

I get very scared every time hear the term “multibagger”. These days every body has multi bagger ideas and everybody only wants multibagger stocks in their portfolio.

People ignore great compounding stocks which are the real wealth creators in trying to run after “multi baggers”

If you are able to compound at 26%, you will make a 10x in 10 years.

The real trick is in finding long term compounding stories at reasonable valuations

Initial investment	100,000							
Time (in years)	8%	12%	15%	18%	22%	25%	30%	40%
3	125,971	140,493	152,088	164,303	181,585	195,313	219,700	274,400
5	146,933	176,234	201,136	228,776	270,271	305,176	371,293	537,824
7	171,382	221,068	266,002	318,547	402,271	476,837	627,485	1,054,135
10	215,892	310,585	404,556	523,384	730,463	931,323	1,378,585	2,892,547
15	317,217	547,357	813,706	1,197,375	1,974,229	2,842,171	5,118,589	15,556,810
20	466,096	964,629	1,636,654	2,739,303	5,335,764	8,673,617	19,004,964	83,668,255
25	684,848	1,700,006	3,291,895	6,266,863	14,421,013	26,469,780	70,564,100	449,987,958
30	1,006,266	2,995,992	6,621,177	14,337,064	38,975,789	80,779,357	261,999,564	2,420,143,236

Learning to learn

The process will yield the outcomes

Process for lifelong learning

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

- Read voraciously – annual reports, magazines, trade journals, biographies, non-fiction, fiction...
- Just reading will NOT help you. **You need to spend quiet time to synthesize your learning.**
- Try to jot down a short summary of whatever you have read / heard / seen so that a child of about 12 can understand
- Use a tool like OneNote or Evernote etc to keep all your notes in one place. I prefer electronic over paper as it is more easily accessible and searchable
- Try to do a weekly summary of your daily notes
- Bunch your reading of similar topics together to gain more insights initially

Asking the right questions is more important than getting the answers

- An investor who has all the answers doesn't even understand all the questions ~ Sir John Templeton
- Be Skeptical - "Blind faith in anything will get you killed". Learning to question what you are told and developing critical thinking skills are vital to long-term success and survival.
- Cycles Matter - We can't predict but we can prepare. An awareness of the economic, credit and sentiment cycles can help with investment.
~ Howard Marks
- History Matters - The four most dangerous words in investing are "This time it's different". A knowledge of history and context can help avoid blunders of the past.

How much research and analysis is sufficient?

- No matter how much research is performed, some information always remains elusive; investors have to learn to live with less than complete information.
- Information generally follows the well-known 80/20 rule: the first 80% of available information is gathered in the 20% of the time spent. The value of in-depth fundamental analysis is subject to diminishing marginal returns.
- The time other investors spend delving into the last unanswered detail may cost them the chance to buy in at prices so low that they offer a margin of safety despite the incomplete information.

Don't boil the ocean. Try to simplify your analysis process and not overcomplicate it

