Investment Lessons

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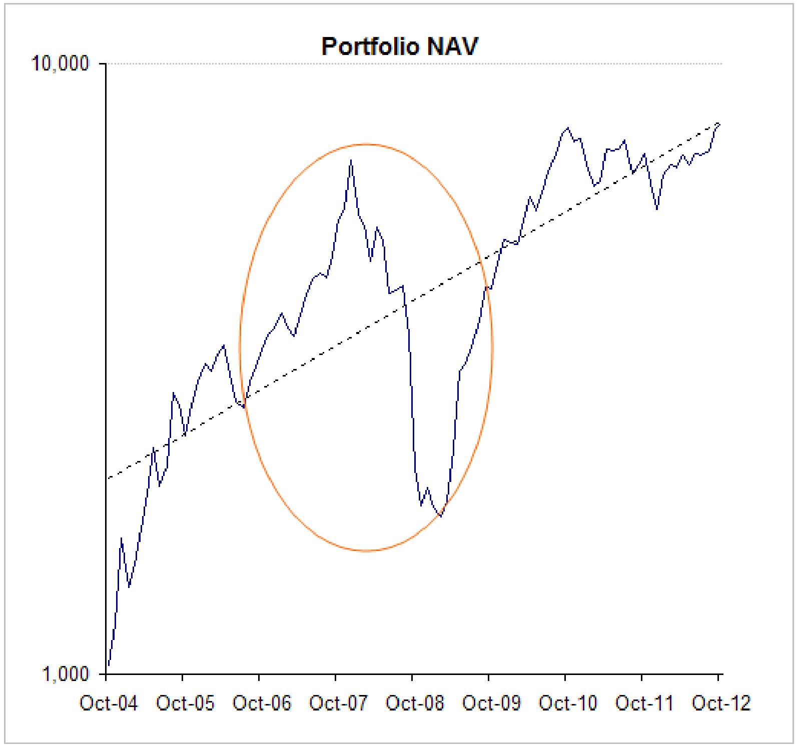
One trick pony businesses

- In 2002 invested in a company that made home gym equipments.
- Sales was growing 30-40% per year.
- There was no repeat purchase as this was a niche product that customers did not purchase or upgrade regularly.
- Once all potential customers bought the product, sales (and stock price) plummeted.
- **Lesson Learned –** Never invest in a one trick pony business.
- **Action Taken –** Invest in companies whose products are purchased regularly.

Opportunity Size

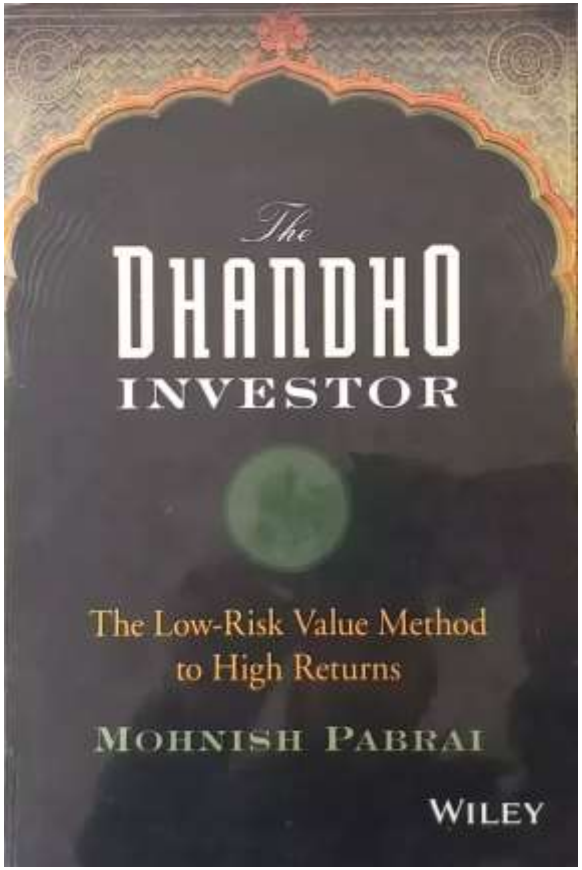
- In 2003 iPod was catching on in US like a wildfire.
- Tagged it as a one trick pony product.
- Didn’t distinguish between potential customer base of a gym equipment and a music player.
- Didn’t realize potential for product improvement and upgrades from customers.
- **Lesson Learned –** Opportunity size varies dramatically from business to business.
- **Action Taken -** Make an effort to estimate opportunity size and compare it to the company size.

Notion of Fair Value



- In 2007-2009, stock prices gyrated widely.
- Could not decide if stocks are overvalued or undervalued even at market extremes.
- In hindsight, that was a once in a lifetime opportunity to build a portfolio.
- **Lesson Learned –**
  - Always have a notion of fair value.
- **Action Taken –**
  - Built a valuation model.
  - Built a‘temperature-of-the-market’ tool to decide if market is too hot, too cold or somewhere in between.

Buying Cheap Stocks



- Inspired by Dhandho Investor by Mohnish Pabrai, started buying cheap stocks in 2012.
- Did not try to find out why the business was cheap.
- Ended up buying low quality small-cap businesses.
- Suffered losses in liquidity squeeze of 2013.
- **Lesson leaned –** Pay attention to quality of business, not just valuation.
- **Action Taken –**
  - Built a framework for analyzing quality of business.
  - Became a second-order thinker.

Liquidity & Global Macro

- Taper tantrum of 2013 caused a big loss in small cap portfolio.
- Macro factors like CAD, INR depreciation etc resulted in volatility.
- **Lesson learned –** Liquidity has higher impact on volatility than earnings.
- **Action Taken –**
  - Built a watch list of macro indicators to get a sense of global liquidity.
  - Added liquidity risk into valuation model.

Exit Strategy

- Until 2014, always sold a stock only when found another one to buy.
- Invented new reasons to hold on to expensive stocks.
- Ended up selling late at a loss (of profits).
- **Lesson Learned –** Don’t be Abhimanyu.
- **Action Taken –** Always have an exit strategy before entering a stock.

Concentrated Investing

- Too many stocks in the portfolio was causing lack of depth of analysis.
- Small allocation to a stock was a result of lack of confidence rather than diversification.
- Many stocks in the portfolio were marginally attractive.
- Winners didn’t move the needle.
- **Lesson Learned –** Money is made when you bet big and not just bet.
- **Action Taken –**
  - Built a process to understand a business and build conviction.
  - Concentrated on 8-10 high conviction ideas.

Consumer Facing Businesses

- Could not distinguish between good and great investments.
- Sold many great investments early.
- Many of the investments sold early were direct-to-consumer businesses.
- **Lesson learned –**
  - Market always pay a higher price for b2c business than a b2b business.
  - Many great investments are b2c businesses.
- **Action Taken –**
  - Increased proportion of b2c businesses in portfolio.
  - Widened valuation tolerance for b2c businesses.