

Life Of A Full Time Investor

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What Drives One To Become A Full Time Investor?

- ▶ Increased appeal due to success of several Indian and International investors
- ▶ Technology acted as an enabler. This may not have been possible 25-30 years ago
- ▶ Working with institutional buy/sell side teaches you what not to do
- ▶ Better work - life balance
- ▶ time demanding jobs that are not intellectually satisfying
- ▶ Misplaced confidence about your own abilities?

Preparation before becoming Full Time Investor

Financial	Psychological	Social
<ul style="list-style-type: none">• How much liquid money do I have for my daily needs?• What is the size of my assets? Have I prepared my Balance Sheet? What is my NAV at market prices?• Do I have enough insurance?• What will be the % of my assets in equity? What is my exposure to other asset classes? How liquid are they?	<ul style="list-style-type: none">• This job can be really lonely.• You will become a nobody form a highly paid, recognized and rated person.	<ul style="list-style-type: none">• Get your family involved in the decision. Tell them what to expect for the first 12-24 months.• Ideally rent a small office and keep work and home life separate.

Creating An Investment Philosophy

- ▶ Decisions relating to what to buy? When to buy? How much to buy? When to sell? Number of stocks you want in the portfolio?
- ▶ Keep a written record of your thinking when you buy and sell a stock. “Palest ink is better than greatest memory”
- ▶ Focus Vs. Diversification - an unending battle
- ▶ Absolute return focus is essential. Beating the market may not help you achieve your life goals
- ▶ Stop comparing your performance with your friends, neighbors. You are competing only against yourself
- ▶ Only two things should really matter - IRR and cash flows

Research Process and Decision Making

- ▶ You have to create your own process for stock identification, evaluation of business and valuation
- ▶ Create a template for your report and follow it diligently
- ▶ Let facts lead you to conclusion; Never have a conclusion and then hunt for facts that suit your conclusion
- ▶ Broker research is readily available for many stocks but small cap stocks remain uncovered by sell side
- ▶ You can outsource fact finding but valuation and opinion has to be your own
- ▶ Find your circle of competence to start with even if it is only one company. You can expand this circle to a few companies or sectors over time. Don't be shy to accept that you know only a few stocks well.

Broker Selection and Back-office Work

- ▶ If execution is the only thing that broker does for you, take the decision based on cost alone
- ▶ Have a back up broker. Make sure that you give a few orders a quarter to see if the system works perfectly
- ▶ Make sure you understand all terms used in terminal provided by the broker. Create systems that will manage your risks against wrong orders
- ▶ Create a system for placing orders, price levels and quantities to be bought in a day
- ▶ Purchase software that will help you in accounting purchase, sales, calculation of capital gains, calculate NAV and show IRR
- ▶ Regularly reconcile balance in DP with your records

Review Of Investments

- ▶ This could be driven by several things:
 - ❑ Time (Quarterly results)
 - ❑ Action by the company (M&A, Entering new business, Corporate governance issues)
 - ❑ Stock reaching your target price
 - ❑ Objective for which investment was made becomes a reality
- ▶ Create a review process similar to investment process
- ▶ Be objective in the review process and take corrective action
- ▶ Be open to new information and accept your mistakes quickly

Challenges and Risks

- ▶ Most of the challenges are psychological -
 - ❑ A long period of inactivity in a rising market
 - ❑ Inability to find stocks that fit your investment philosophy
 - ❑ Stock declines sharply after your purchase without any changes in fundamentals
 - ❑ Giving up on investment ideas due to prolonged period of poor returns though business is performing as per your expectations
 - ❑ Inability to say “NO” to marginal ideas
 - ❑ Drowning yourself in activities to fill the work day; competing with your own past self or past colleagues. Focus on “results” is lost.

▶ **Risks:**

- ❑ **Liquidity management - Deciding between too much and too little cash**
- ❑ **Not running the activity like a business; treating it like a hobby or stop gap arrangement till you find another job**
- ❑ **Not 100% committed to this activity**

A Few Ideas From Experience

- ▶ Get SEBI registration as Research analyst. It will allow you explore avenues of non-fund based activities
- ▶ Work with someone who has PMS business. This will help you get paid for your research work and you can invest in these ideas as well
- ▶ Create a network of fellow investors who can become your source of ideas and information, critics for your work
- ▶ Find a mentor who can guide you through various phases of this journey as well as bull/bear phases of the market
- ▶ Allocate a part of your working day for reading. It is your raw material for your action. Decide actively what you want to read
- ▶ Hire qualified people to work for you when you start finding it necessary.

Ten Attributes Of Great Investors - Michael Mauboussin

- ▶ Be numerate and understand accounting
- ▶ Understand value (present value of free cash flow)
- ▶ Properly assess the strategy (how the business makes money)
- ▶ Compare expectations Vs. fundamentals
- ▶ Think in terms of probabilities (Take the probability of loss times the amount of possible loss from the probability of gain times the amount of possible gain.)
- ▶ Update your views effectively when evidence suggests that it should be
- ▶ Beware of behavioral biases (learn concepts of behavioral economics)
- ▶ Differentiate between information and influence (take your own decision)
- ▶ Building a sizeable position when odds are in favour
- ▶ Read (a lot).