Incremental Learnings over the past 12 months

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Views strictly personal and do not represent the views of the organizations I have worked/am working for. The points made here are inferences based on personal experiences, please do your due diligence before applying these to your unique investment scenario. I am not a SEBI registered Investment Advisor and none of this constitutes investment advice

Where am I now – skill set on various parameters

Idea generation – lot of scope for improvement, no clear cut process in place for this

Business Analysis – respectable amount of competence, improving

Macro economic framework – respectable amount of competence, improving

Identifying risks in a business – Satisfactory

Scuttlebutt, channel checks & accounting forensics – Lot of scope for improvement

Translating business reality into investment hypothesis – respectable amount of competence

Understanding expectations baked into stock prices – respectable amount of competence

Financial modelling & DCF – learning, satisfactory as of now

Overall process & check list – Satisfactory, will continue to fine tune

Position sizing & capital allocation – Strong

The art of buying – well tuned in though improvements are possible

The art of selling – lot of scope for improvement

Portfolio hedging – novice but learning

Framework of mental models and abstraction of learnings – naturally talented, need more application

What areas have I prioritized over the past 12-18 months

Accounting Forensics & Channel checks

Start by asking myself what is the easiest way to siphon off money from the business?

With that perspective go through every action with a lens

Make it a point to speak to at least one industry professional to validate hypothesis

Use of Options to hedge portfolio for tail events

Set aside corpus to learn the ropes

See the option pricing screen multiple times daily, get a sense of the mood the market is in

Develop a mindset/mental model that is optimized for options

Networking and seeking out counter views

Run my investment ideas past people who can expose the blind spots in my current thinking

One of them exposed a basic flaw in my DCF modelling which I have since corrected

Now have a reference class to judge my own performance and quality of thinking

Evaluating management sans interaction

Have a story line approach in place to judge quality of management decisions over past decade

Special attention to how management has/has not walked the talk in the past

In combination to accounting forensics, have gotten better at evaluating promoter action and intent

Articulating Key Learnings

Each flavour of investing calls for a different mindset and models optimized for that

- In long only investing time is not a critical factor since one has a lot of time to be proven right
- In options a value investing mindset appears to be a sure way to lose money since being right within a time period is what really counts. Theta kills the option buyer
- The mental models maybe diametrically opposite, know your self and build ability to switch models based on the specific objective

One needs to decide to what extent will one's approach change per market conditions

- During the 2011-13 period not too much hard work was needed to pick multibaggers
- Since 2014 the search has gotten tougher, a 2011-13 mindset would have meant sitting out?
- As markets do better, do you tighten or relax your screening parameters? For an investor who swears by quality, will you buy the same stock at a 30+ PE or tweak your approach?
- Will I continue to look at sub 700 Cr market cap ideas only? Preferable, but not set in stone (Finolex Cables was 5000 Cr market cap when I started buying)
- Are you a templates person or are you comfortable experimenting? A second level thinking mindset is very important to prepare for shifts

Articulating Key Learnings

How clear is your mirror?

Events like Feb 2016 correction, Brexit day, Demonetization are the true test of a long only investors temperament and fortitude

The Aug 2015 China crash day is when I realized that I am a natural optimist and also that I am most vulnerable to lose big money in a secular crash! <u>(always consider both +ve and -ve implications)</u>

What is your real fear? FOMO or fear of letting go? Is your investment process optimized to adjust for this bias?

<u>One needs to have his own process and a template that is optimized for his own behaviour</u>

Cross pollination of concepts can work very well

Scientific concept of resonance – virtuous cycle in market parlance

Concept of local and global maxima – trade off between sales & margins in corporate parlance, trade off between short term and long term performance for investors

Combination of skills is what matters – If you can combine an analytical edge with a behavioural edge, it can create magic in your portfolio though you may only be above average at both individually

Articulating Key Learnings

Always abstract learnings to a higher level

A very smart trader who is a master at stop loss execution professionally could not put a stop loss in place in his personal life

Example – "I will not invest in pharma" does not help. A better way of framing this learning is "I will not invest in a business where the regulator can change things overnight"

Human memory & learning is very context sensitive – unless learnings are consciously abstracted to a higher level the mind does not tap into them when the operating context is different

Understand path dependence of outcomes

Sequence of hits and misses matters in addition to the strike rate

Chaos Theory – What happens at time t =1 has a great bearing on the state of affairs at time t = 10

Minimize fragility, beware of situations where the cost of being wrong can be very high no matter how low the probability is

Magnus Carlsen, Rafael Nadal, Floyd Mayweather Jr know this all too well – a small advantage at the opportune time can tip the scales most of the time. They do this by staying within striking distance and never being out of the game

Articulating Key Learnings

Diversification – think deeper (if you must)

Think anti thesis, not just sectors and market cap

New age business models/mature business models

Undervalued businesses/fairly valued businesses

FII ownership/DII ownership

Domestic focus/Export focus

Businesses in the same value chain (Pondy Oxides/Nile & Amara Raja/Exide)

Do not ignore reference classes

Classic examples of people taking undue credit – Small cap investors from 2011 onward, IT

Professionals who started their careers in the late 90's, current breed of e-comm entrepreneurs

Humility comes from perspective, it does not evolve from your value system or upbringing