Practitioners' Insights : Investing Wisdom from a Library of Mistakes

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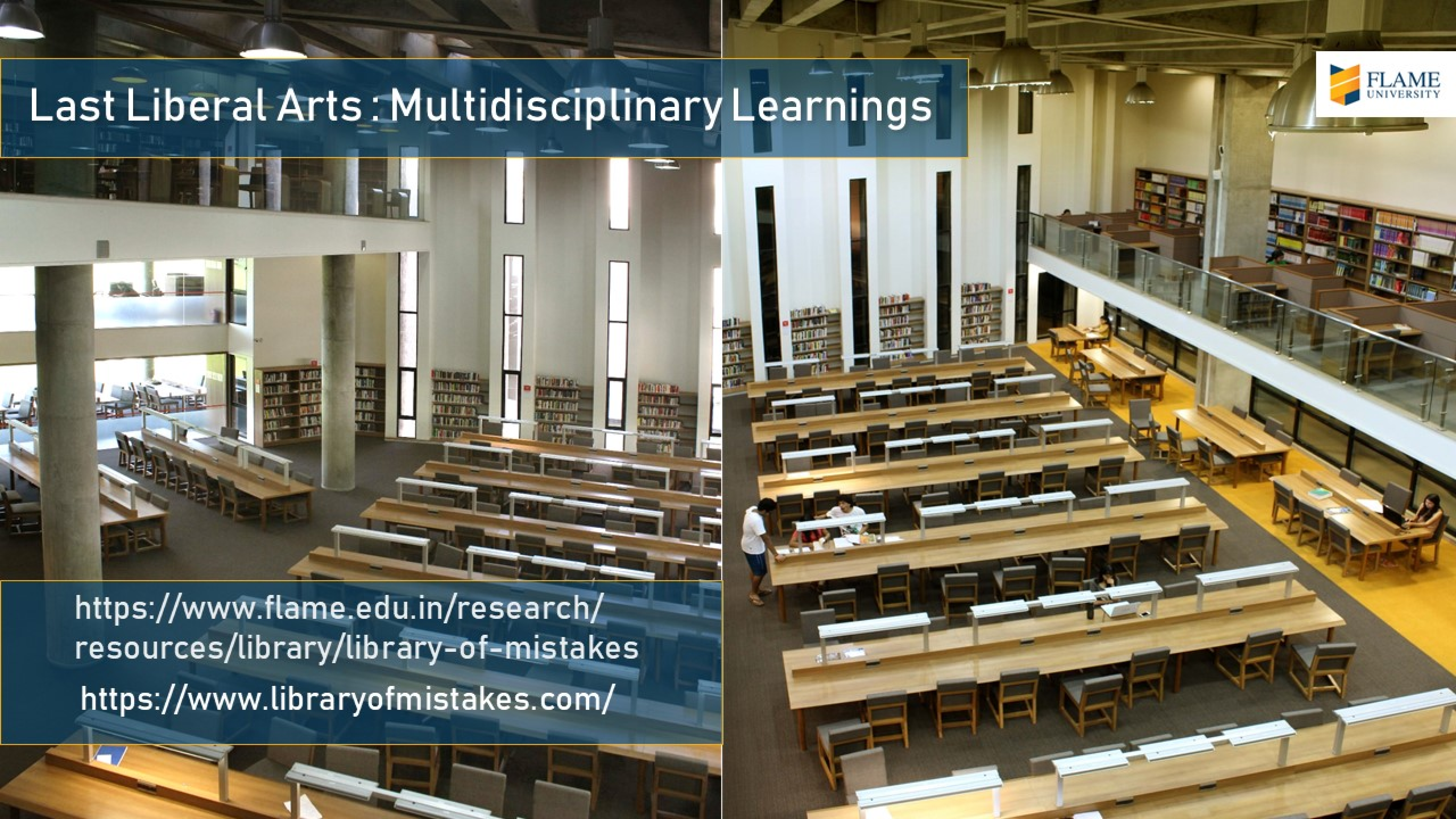
"It is remarkable how much long term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent"

- Charlie Munger

Kuntal Shah

September 2019

Webinar at the CFA Institute


Last Liberal Arts : Multidisciplinary Learnings
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https://www.flame.edu.in/research/
resources/library/library-of-mistakes
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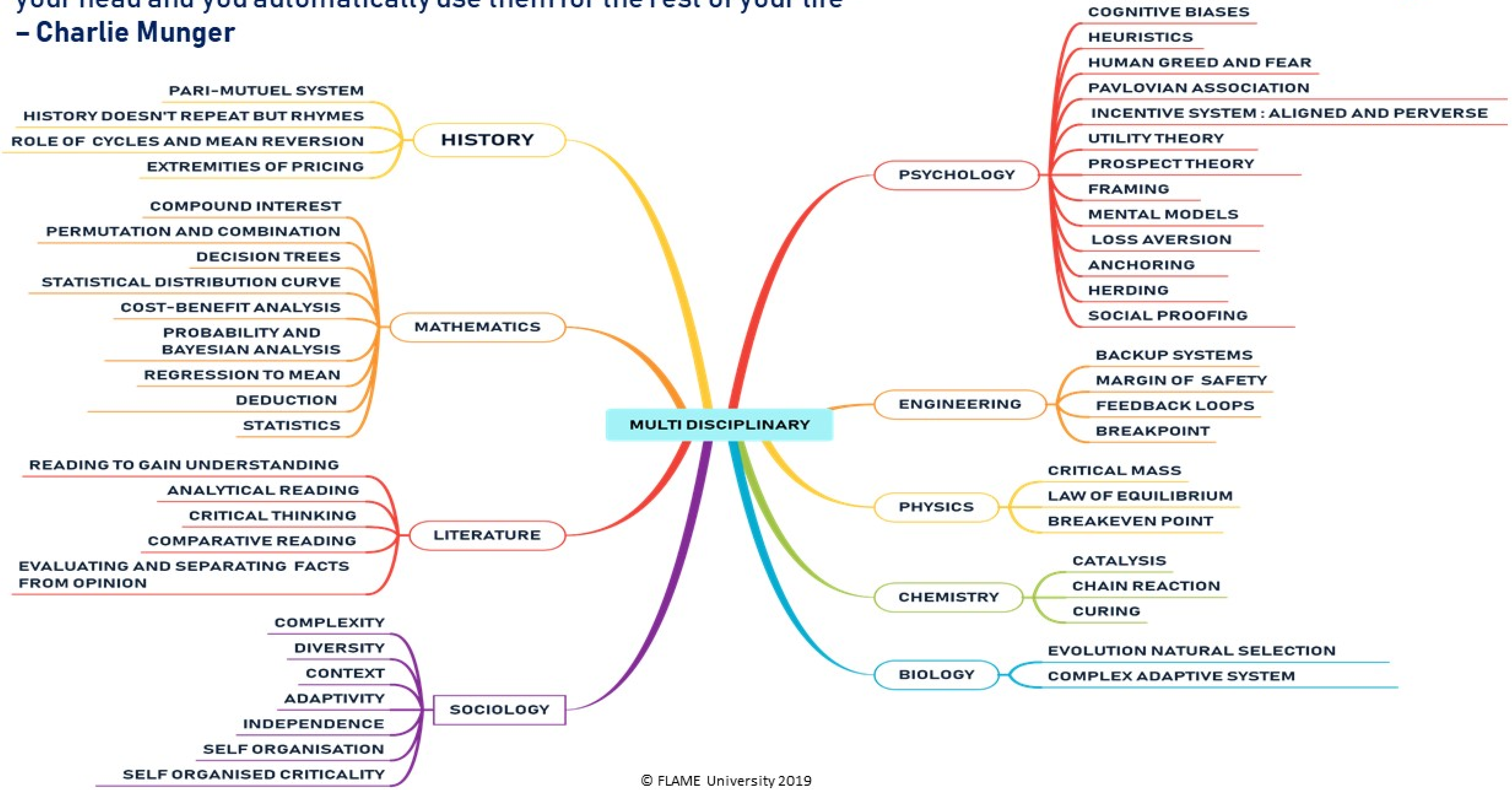
"You have to learn all the big ideas in the key disciplines in a way that they're in a Mental Latticework in your head and you automatically use them for the rest of your life"
– Charlie Munger



Investing : Simple but not Easy

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Business ↔ Management ↔ Accounting ↔ Process and Valuation ↔ Investor

Business

- Industry structure
- Reinvestment need for growth
- Structural vs. Temporary tailwinds
- Rate of change/stability
- Lobbying - Adjusting to regulatory landscape
- Identifying earnings' drivers
- Value migration

Management

- Efficient capital allocation
- Focus/prioritisation
- Scalability
- Thinking long term but have ability to suffer short term pain
- Ability to pivot & inclination to disrupt current business models/practices
- LT orientation (exceeding tenure in office)
- Models/Practices

Accounting

- Expenses & liabilities are rarely understated
- Income & assets are likely overstated
- Linking three statements with nature of business
- Cash is king but still prone to manipulation

Process and Valuation

- Static portfolio allocation, under-allocation, over-allocation
- Excessive focus on relative performance
- Market timing
- Catalyst for re-rating
- Over-diversification & Index hugging
- Active Monitoring – value shift v/s change in odds
- Position sizing – Selection vs. Allocation
- Sell discipline
- Embedded expectations : Reverse DCF

Investor

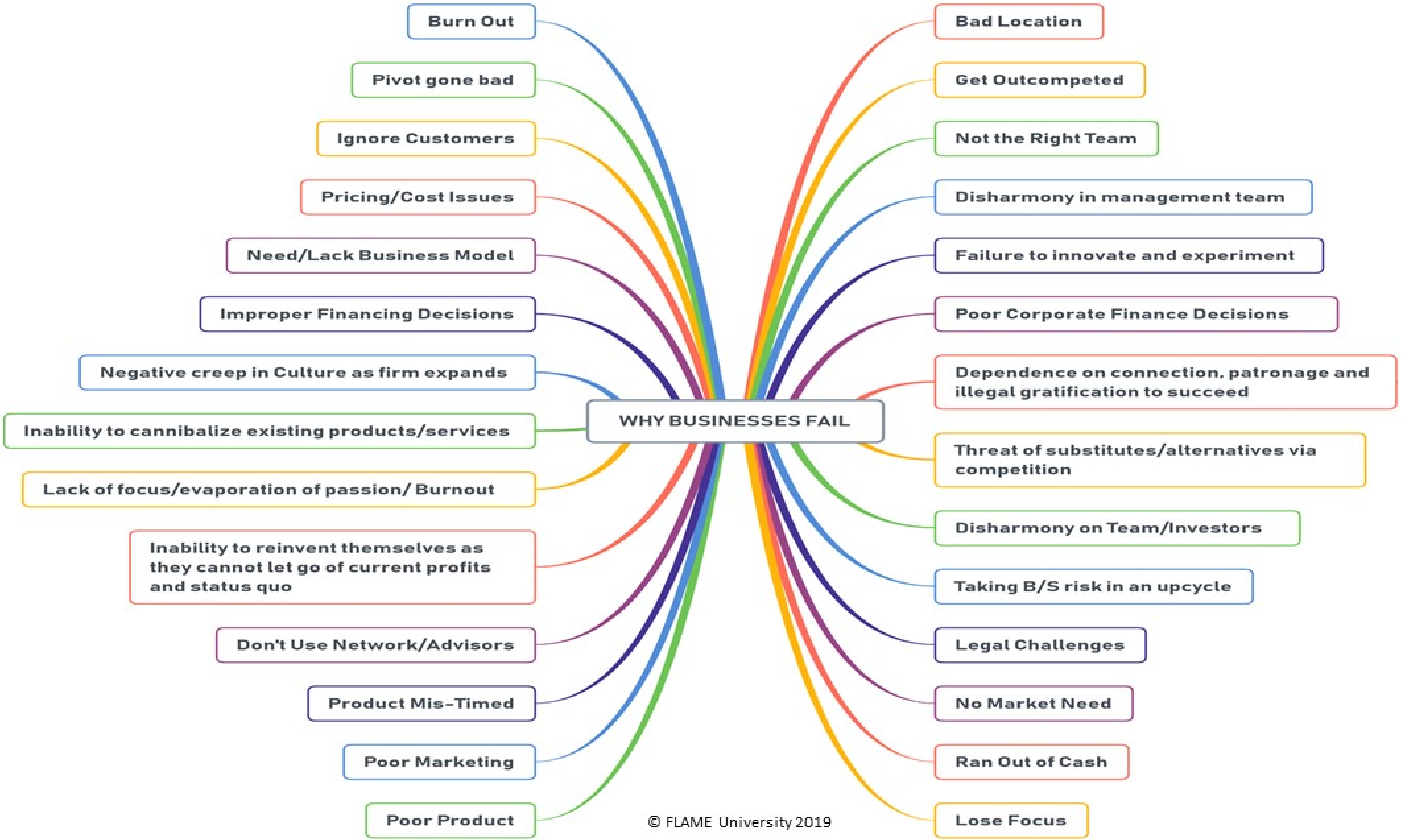
- Over-staying with winners & losers
- Complexity avoidance
- Luck vs. Skill
- Managing information overload (Relevance, reliability, understandability, comparability, diversity of Information)
- Seeking disconfirming evidence
- Dealing with extremes of bubbles & crashes

Businesses First

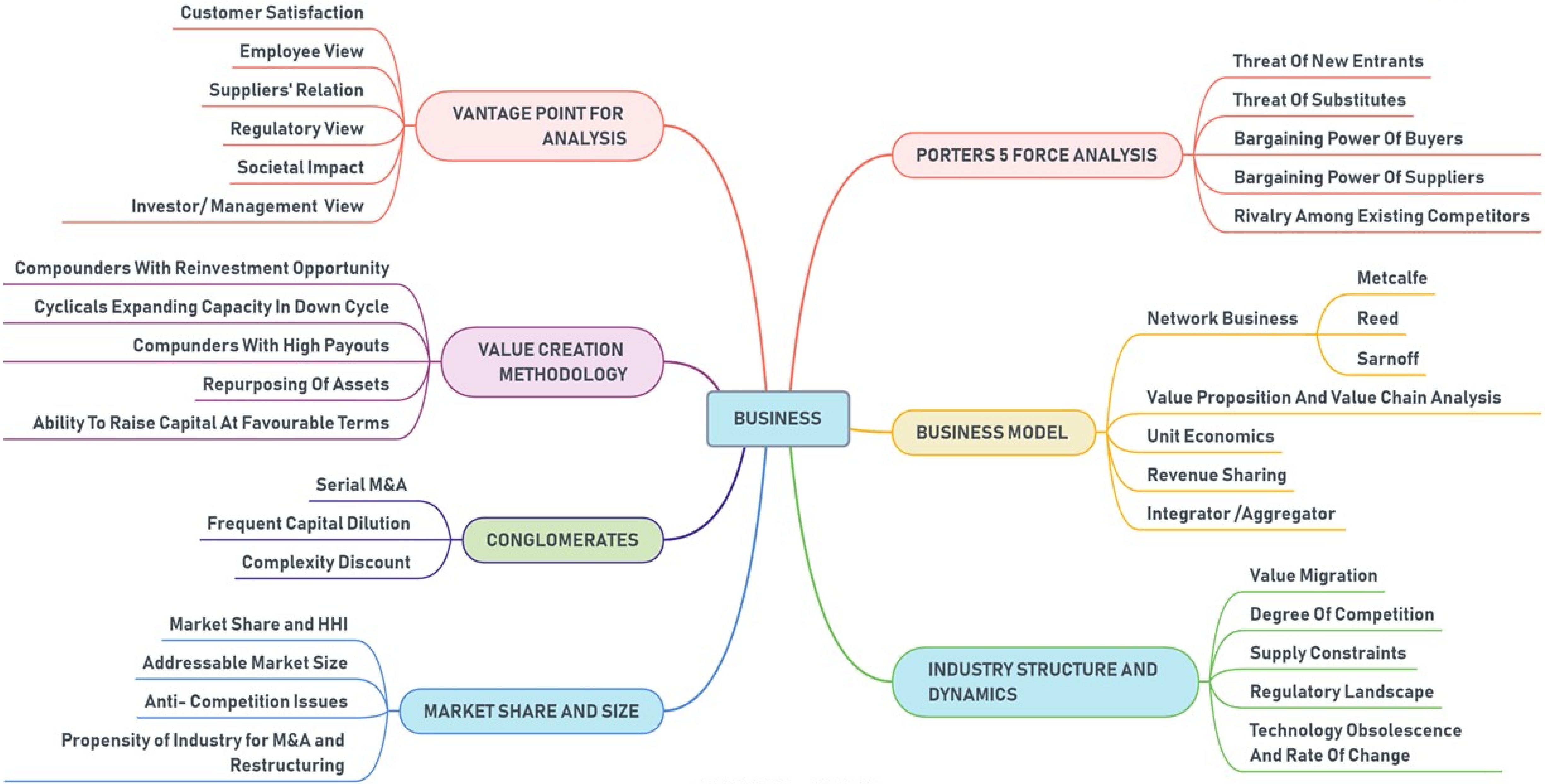
"The bitterness of poor quality remains long after the sweetness of low price is forgotten"

– Benjamin Graham

"Learn to deal with failures but fail fast, frequently and cheaply" – **Abraham Lincoln**



Evaluating Businesses



Profit Margin Value Drivers

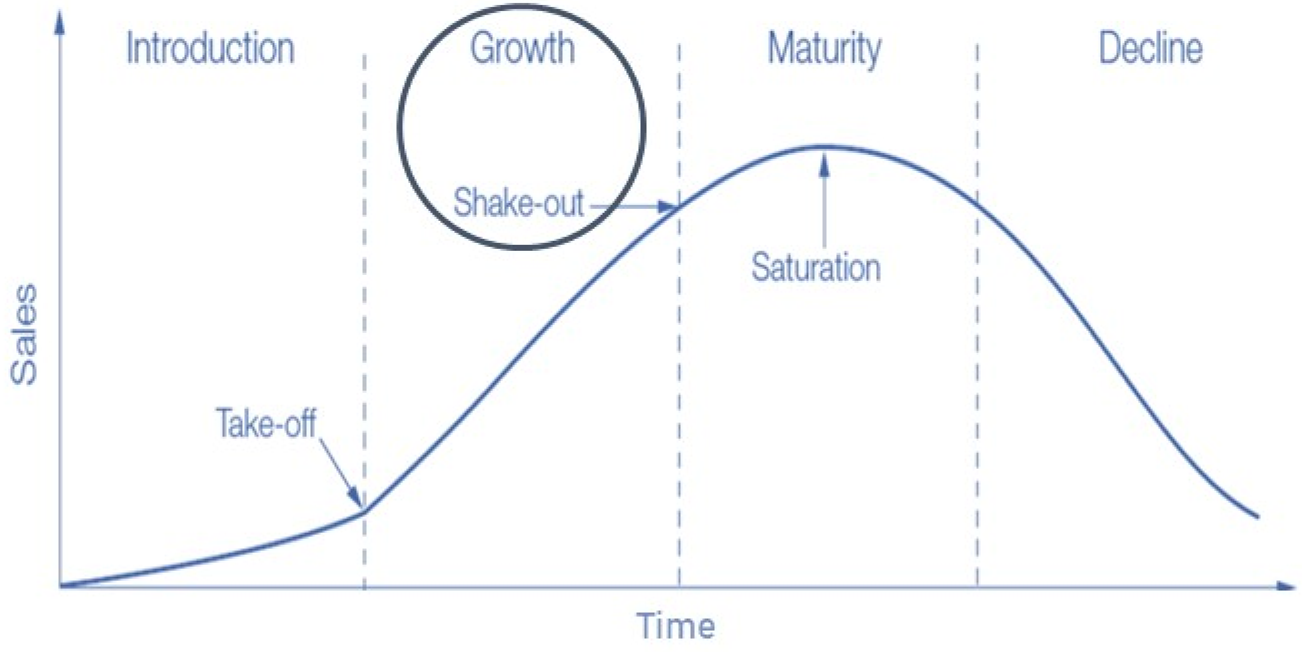
VALUE DRIVERS	INCOME STATEMENT ACCOUNTS
• Markets • Customers • Advertising and marketing policy • Product and volume mix	Sales
• Pricing mix • Production capacity • Production efficiency • Product design • Raw material choices and costs • Labour costs	Cost of goods sold
• Overhead costs and utilization • Warehousing & distribution costs and efficiency • Marketing, advertising, and selling costs • General administration policies and costs	Operating expenses
• Attributes • Strategies • Rates	Income taxes

Asset Turnover Value Drivers

VALUE DRIVERS	BALANCE SHEET ACCOUNTS
• Customer base • Industry practices • Credit policy • Collection procedures • Discounts and allowances • Credit loss exposure	Accounts receivable
• Supplier capabilities • Purchasing and handling vs. carrying costs • Customer loyalty and stock out risks • Production requirements • Distribution capabilities • Obsolescence threats	Inventory
• Supplier base and purchasing power • Industry practices • Payment policy • Cash flow capacity • Discounts and allowances • Credit availability	Accounts payable
• Production and scheduling efficiency • Current and anticipated capacity • Warehousing and distribution efficiency • Capital constraints • Vendor/supplier capacity and reliability • Make or buy options	Fixed assets

There are no Growth Companies, but there are only Companies in the Growth Phase

Company Life Cycle:



"Frequently, you'll look at a business having fabulous results. And the question is, "how long can this continue?" Well, There's only one way I know to answer that. And that's to think about why the results are occurring now – and then to figure out what could cause those results to stop occurring"
– **Charlie Munger**

Source : Marketing Insider

Reasons for Slowdown in Growth:

Competition:
Competition gets attracted to high growth. Competition leads to decrease in margin and eventually growth slows.

Inefficiency:
Very few companies can continue with same efficiency, as the size of the organization increases. Bankruptcy tends to slow down growth.

Stall Out:
The companies capture all the market available to it. Because of this the companies start to slow down.

Self Disruption : Ability and Inability to Pivot - A Tale of Two Market Leaders

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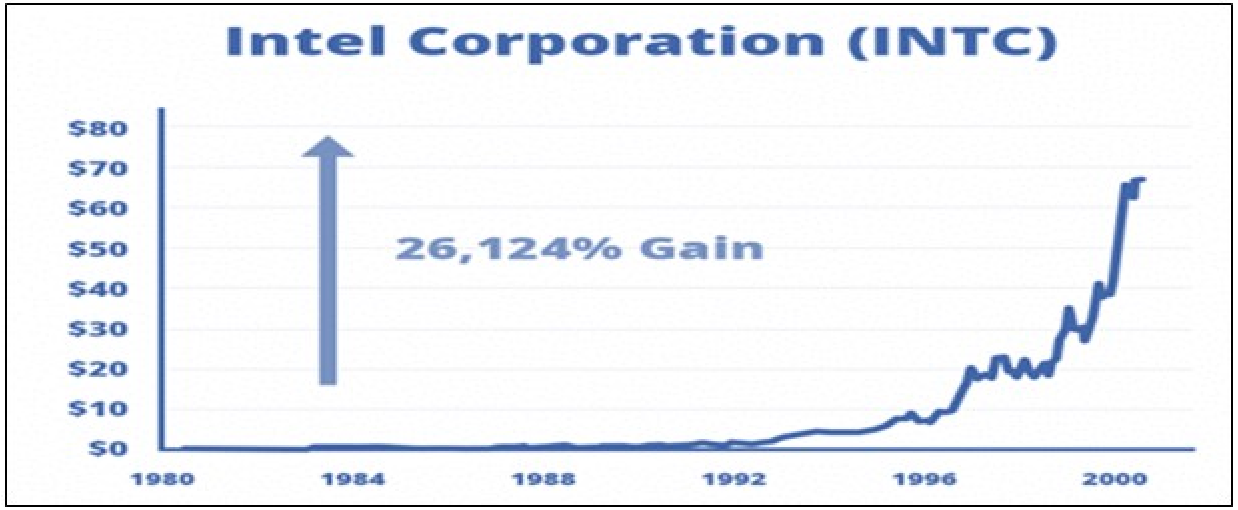


INTEL CORPORATION

- ✓ DRAM at one point in time accounted for over 90% of Intel's revenue and had 82.9% market share in 1974
- ✓ Over time Japanese companies designed a superior product causing Intel's market share to drop to a paltry 1.3% in 1984
- ✓ Andy Grove himself is quoted as saying, "The fact is that we had become a non-factor in DRAMs, with 2-3% market share"
- ✓ Management was faced with a 100 million dollar capital investment decision for a 1 MEG product
- ✓ From 1985-1986, Intel closed 7 factories, abandoned several businesses & cut head count by 1/3rd
- ✓ Continued investing in R&D & Capex to the tune of 30% of revenues in 1986
- ✓ Introduced MICROPROCESSORS in 1986
- ✓ Dramatic growth began in 1987

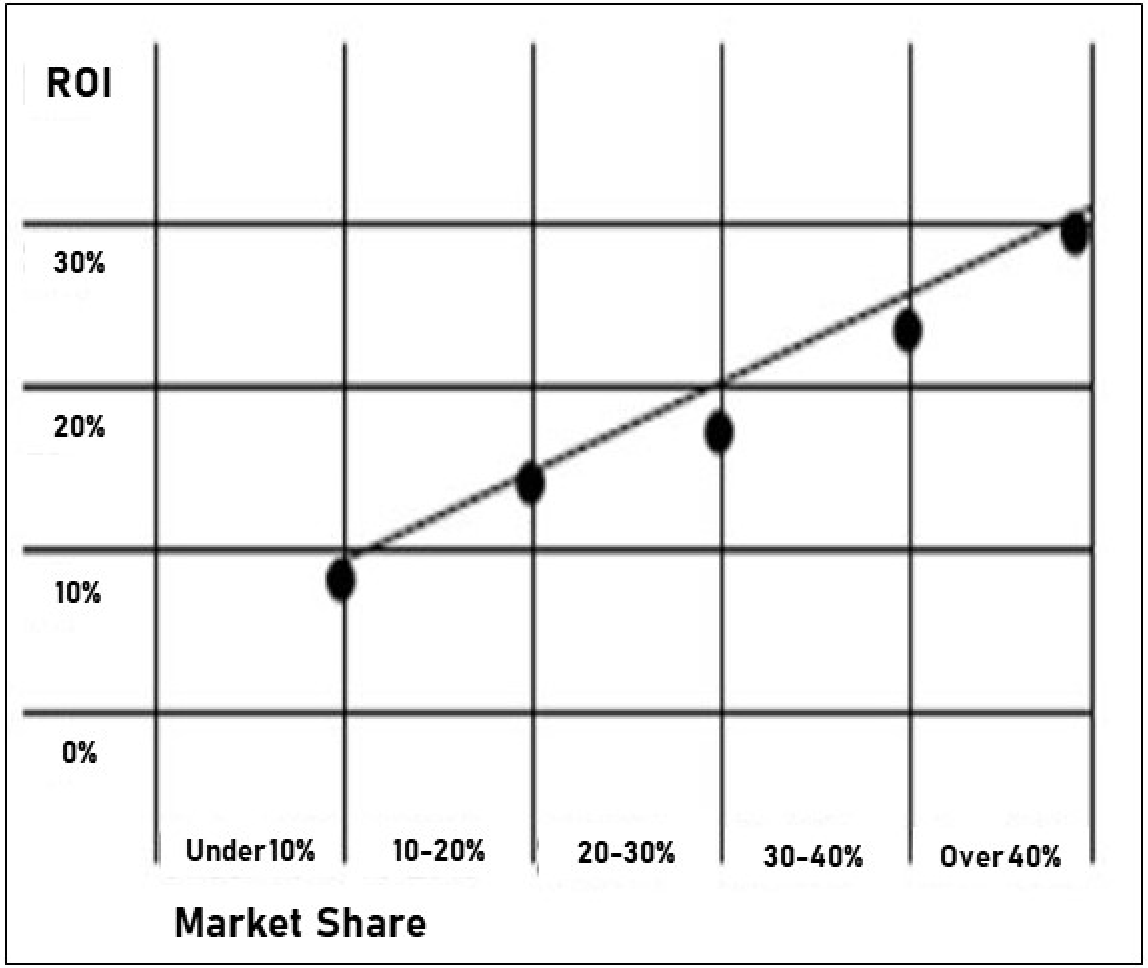
BLACKBERRY LIMITED

- ✓ Producer of the world's first widely-adopted premium smartphone brand
- ✓ At its peak, Blackberry owned over 50% of the US and 20% of the global smartphone market, sold over 50 million devices a year, had its device referred to as the "CrackBerry", and boasted a stock price of over $230
- ✓ Today, BlackBerry has 0% share of the smartphone market and has a stock price that has hovered in the high single digits for most of the past few years
- ✓ Even after the competitive entry of the iPhone in 2007 and Google's Android OS in 2008, BlackBerry was certainly not destined for failure. In fact, BlackBerry continued to dominate the smartphone market through 2010, when it still held over 40% of domestic and nearly 20% of global market share

Source : YCharts, Conversionxl

Correlation Between High Market Share and Return Metrics

Relationship between Market Share and Pre-tax ROI



How ROE is Affected by Market-Share Changes

	Market - Share Strategies		
Market share 1970	Building up : 2 points or more	Holding : less than 2 points up or down	Harvesting : down 2 points or more
	Average ROE, 1970-1972		
Under 10%	7.5%	10.4%	10.0%
10%- 20%	13.3%	12.6%	14.5%
20% - 30%	20.5%	21.6%	9.5%
30% - 40%	24.1%	24.6%	7.3%
40% or over	29.6%	31.9%	32.6%

Source : HBR - Market Share a Key to Profitability

Management

"The two most important things in any company do not appear in its balance sheet : Its reputation and its people"

– Henry Ford

Investors' Checklist for Evaluating Management

- **Assessing the Quality of Management- Background and Classification: Who Are They?**
  - What type of manager is leading the company?
  - What are the effects on the business of bringing in outside management?
  - Is the manager a lion or a hyena?
  - How did the manager rise to lead the business?
  - How are senior managers compensated, and how did they gain their ownership interest?
  - Have the managers been buying/selling the stock?
- **Assessing the Quality of Management-Competence: How Management Operates the Business**
  - Does the CEO manage the business to benefit all stakeholders?
  - Does the management team improve its operations day-to-day or does it use a strategic plan to conduct its business?
  - Do the CEO and CFO issue guidance regarding earnings?
  - Is the business managed in a centralized or decentralized way?
  - Does management value its employees?
  - Does the management team know how to hire well?
  - Does the management team focus on cutting unnecessary costs?
  - Are the CEO and CFO disciplined in making capital allocation decisions?
  - Do the CEO and CFO buy back stock opportunistically?
- **Assessing the Quality of Management- Positive and Negative Traits**
  - Does the CEO love the money or the business?
  - Can you identify a moment of integrity for the manager?
  - Are managers clear and consistent in their communications and actions with stakeholders?
  - Does management think independently and remain un-swayed by what others in their industry are doing?
  - Is the CEO self-promoting?

Role of a Leader

Management Agenda

- No "your guts and my glory" situation
- Go quickly and alone or go further and together
- Military History: Highest possible stakes - winner takes all
- Usually leaders are borne but leadership skills can be sharpened
- Gratitude * Right Aptitude = Permanently High Altitude
- Right people: Intellect, energy and Integrity... if last one is absent it will kill you
- How: Hire slowly fire quickly.
- Ability to raise money at favourable terms is source of largest wealth creation
- Avoid zero outcome paths. ANYTHING x 0 = 0
- Employer Mix - a dreamer, a realistic executioner and a critic
- Guidance: informational feedback loop from your ecosystem
- Incentives - simple, timely, significant, certain. Group vs Individual level
- Hire right people and incentivize them well.
- Win-Win works in the long term

Outsider CEO vs. The Typical CEO

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Principles of the Outsiders

- Capital allocation is a CEO's most important job
- What counts in the long run is the increase in share value, not growth or size
- Cash flow, not reported earnings, is what determines long term value
- Decentralised organisations release entrepreneurial energy and keep both costs and "rancor" down
- Independent thinking is essential to long term success, interactions with outside advisors (Wall Street, the press etc) can be distracting and time consuming
- Sometimes the best investment opportunity is your own stock
- With acquisitions, patience is a virtue… As is occasional boldness
- The CEOs chronicled in the outsiders produced returns of over 20x the S&P and over 7x their respective peer groups

THE OUTSIDER CEO

✓ Primarily focused on **capital allocation**

✓ Strived to maximise **long term per share value**, rather than overall growth or size

✓ Favoured **cash flows over quarterly earnings**, never provided Wall Street guidance

✓ Fostered a **decentralized** workplace to encourage **independent thinking.** Often **first-time CEOs**

✓ They were **frugal and humble**, rarely appearing on covers of business publications, etc.

✓ Were more like **investors** than **managers**. Generated far **higher returns** than non-outsiders

THE TYPICAL CEO

X Focused on **business operations** over capital allocation

X More concerned with **growing the business**, rather than maximizing long term per-share value

X Obsessed with growing **short term quarterly results**, Wall Street's preferred norm

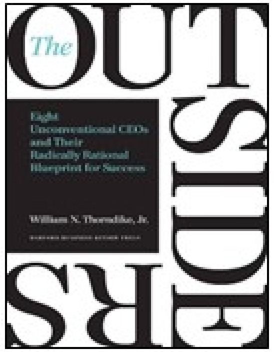
X Held MBAs and had **worked their way to the top**

X Lacked independent thinking

X Appeared on magazines covers, flew in private jets, attended conferences, met with Wall Street analysts

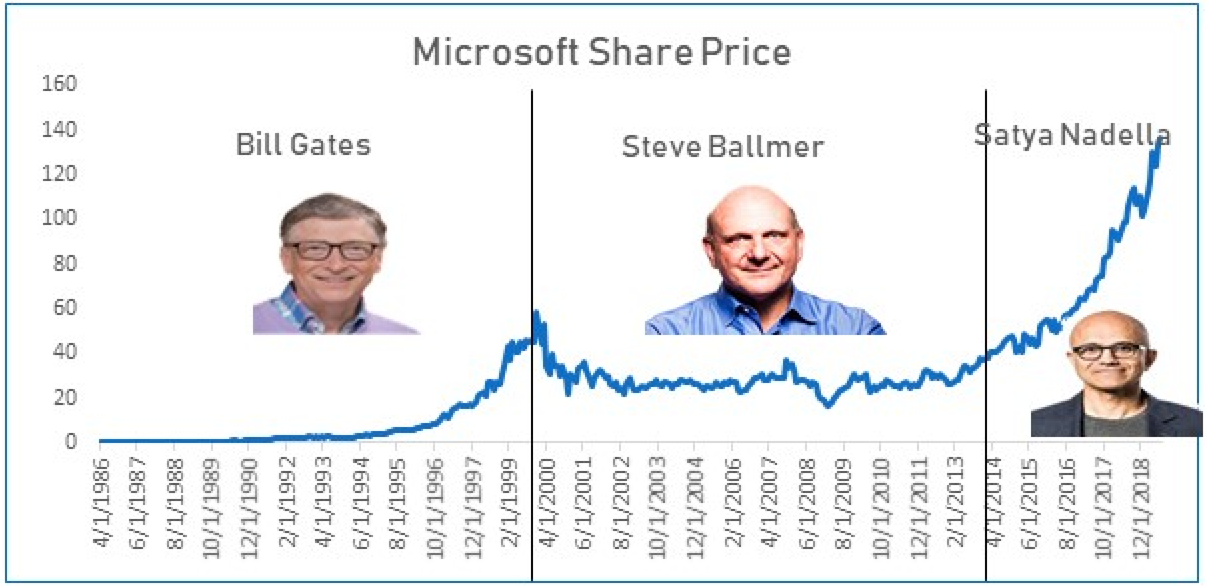
X Were **high-profile** charismatic leaders. Generated far **lower returns** than the outsiders

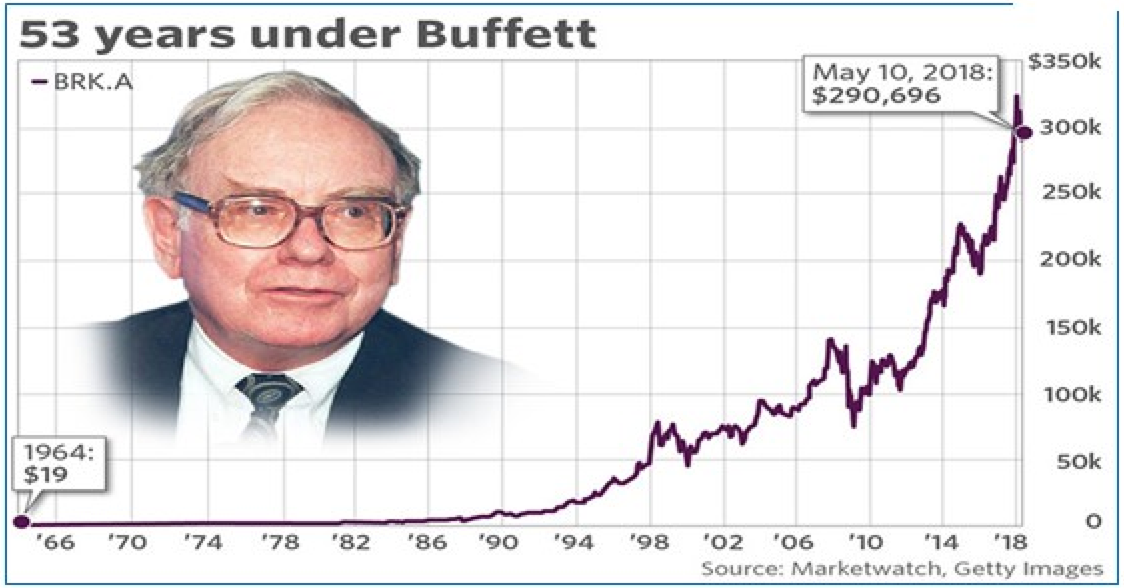
THE OUTSIDERS	
John Malone, TCI	Dick Smith, General Cinema
Tom Murphy, Capital Cities	Bill Anders, General Dynamics
Warren Buffett, Berkshire Hathaway	Katharine Graham, The Washington Post
Henry Singleton, Teledyne	Bill Stiritz, Ralston Purina

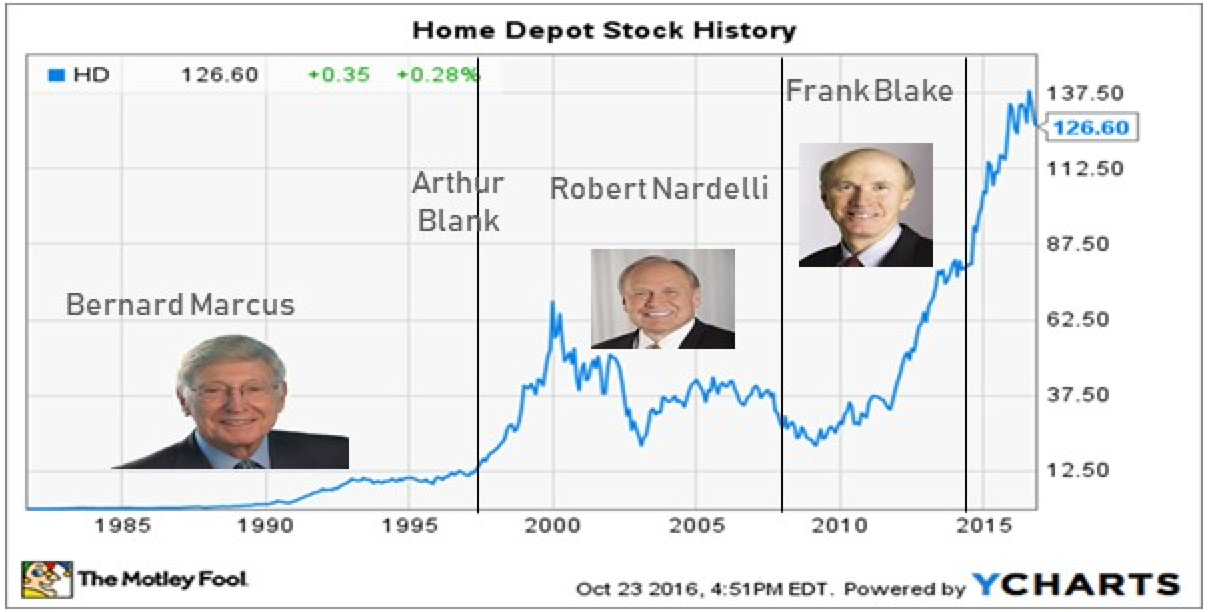


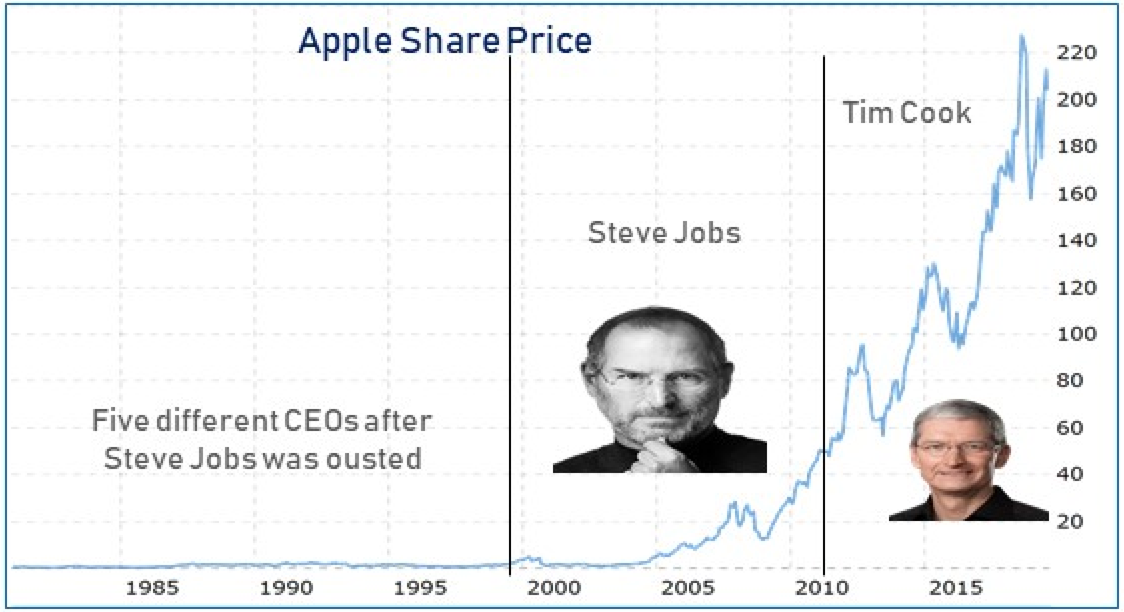
Source : Outsiders, William Thorndike

Leadership Matters !!!



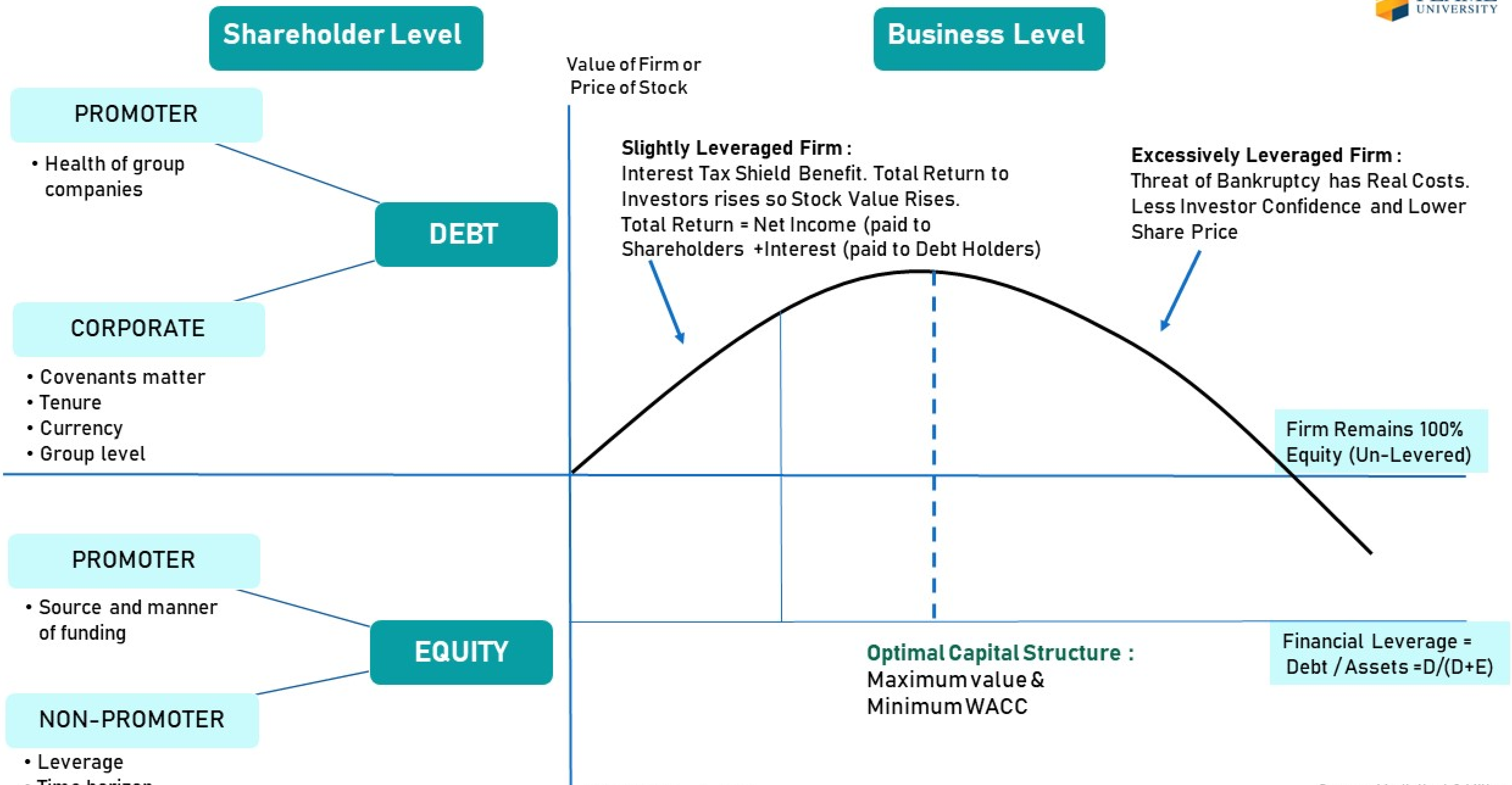




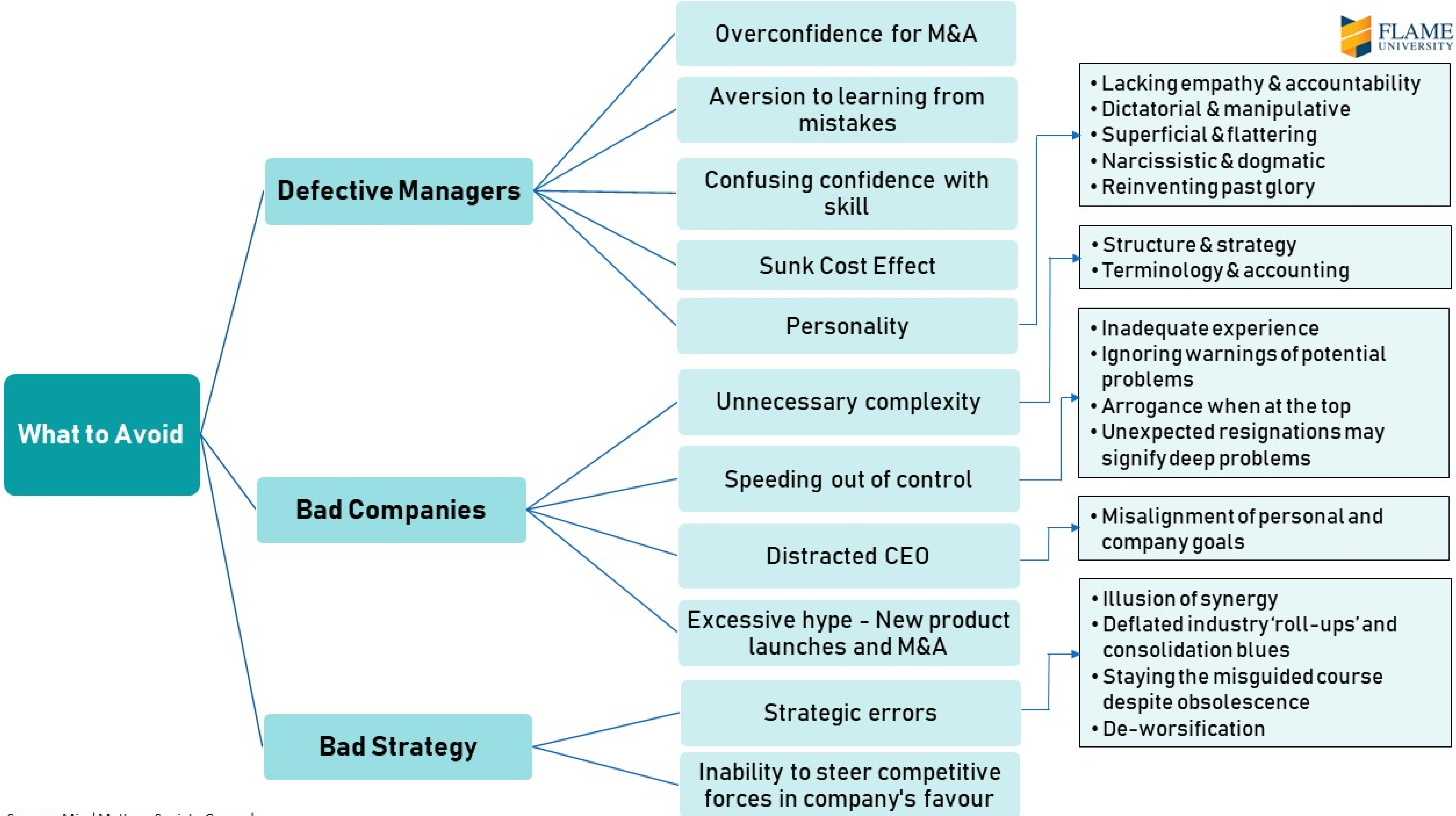


Source: The Motley Fool, Yahoo Finance, Images - Google

Capital Structure Matters - Trade-Off Theory



Source: Modigliani & Miller



Source : Mind Matters, Societe General

"You can't have a good deal with a bad person" – Warren Buffett

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Grading Shades of Mis-Governance

Cheating Existing Partners

- Siphoning off cash or value
- Manipulation of stock prices
- Conflicted covert related party transactions
- Differential ownership in similar businesses
- Differential ownership of new ventures
- Unethical business practices
- Misaligned interest
- **Examples**
- Numerous across sectors
- Certain commodity companies
- State-owned enterprises

Cheating Investors at Large

- Complicated and opaque shareholding structure
- Inadequate regulatory system e.g. Internal & external auditors, independent board members
- Numerous conflicts related to associates e.g. Key related parties, nature of their businesses
- Stock price manipulation
- Price rigging followed by bespoke placements
- Talking up prospects ahead of insider sales

Unethical or Illegal Business Conduct

- Loss hiding e.g. losses written directly to BS, "one-offs", etc.
- Balance sheet risk e.g. contingent liabilities, debtors, creditors, capitalised expenses etc.
- Aggressive accounting e.g. – early revenue recognition etc.
- Unethical means of procuring contracts
- Illegal links with authorities
- Illegitimate cartelization

Poor Quality of Accounting

- History of unfair/ unethical conduct
- Share price manipulation prior to key events
- Management focused on stock price rather than business
- Aggressive accounting instructions
- Transactions without business merit
- Front loading revenues and back loading expenses

Misaligned Interests or Objectives

- Gold plated capex
- Differential ownership in similar businesses or new ventures
- Siphoning off cash by contracts
- Business run for controlling shareholders
- Limited concern for shareholder interest
- Abusing companies for family planning reasons

Accounting

Accounting is different from finance, which is different from investing. Accounting and finance were developed to work within the company while investing must be able to rise above a particular company and compare an overall operating efficiency measure between many companies.

"Shenanigans is a financial model on the catwalk "– **Toba Beta**

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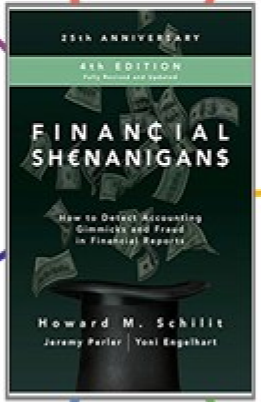
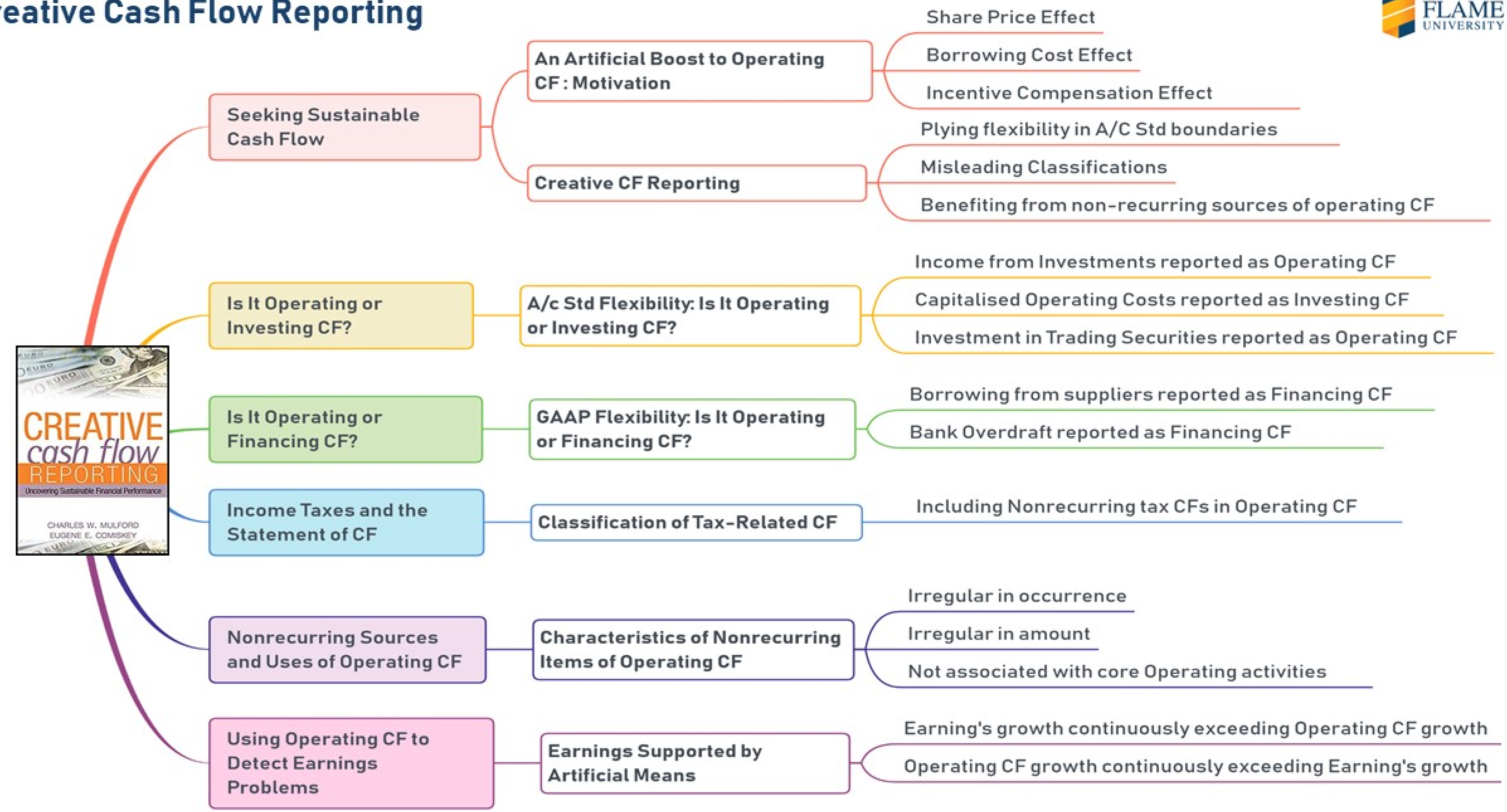


- Recording Revenue before it is Earned
  - Recording revenue when future services are still to be done
  - Shipping goods before a sale is finalized
  - Recording revenue when important uncertainties exist
- Shifting Current Income to a Later Period
  - Creating reserves to shift sales revenue to a later period
- Shifting Current Expenses to a Later Period
  - Improperly capitalizing costs
  - Depreciating or amortizing costs too slowly
  - Failing to write-off worthless assets
- Failing to record or disclose liabilities
  - Reporting revenue rather than a liability when cash is received
  - Failure to accrue expectant or contingent liabilities
  - Failure to disclose commitments and contingencies
  - Engaging in Transactions to keep debt off the books
- Creating Fictitious Revenue
  - Recording Refunds from Suppliers as Revenue
  - Recording Income on the exchange of similar assets
  - Using bogus estimates on interim financial reports
- Shifting Future Expenses to an Earlier Period
  - Accelerating discretionary expenses into the current period
  - Writing off future years depreciation or amortization
- Boosting Profits with Non-Recurring transactions
  - Boosting profits by selling undervalued assets
  - Boosting profits by retiring debt
  - Failing to segregating unusual and non-recurring gains or losses from recurring Income
  - Burting losses under non-continuing operations

Creative Cash Flow Reporting

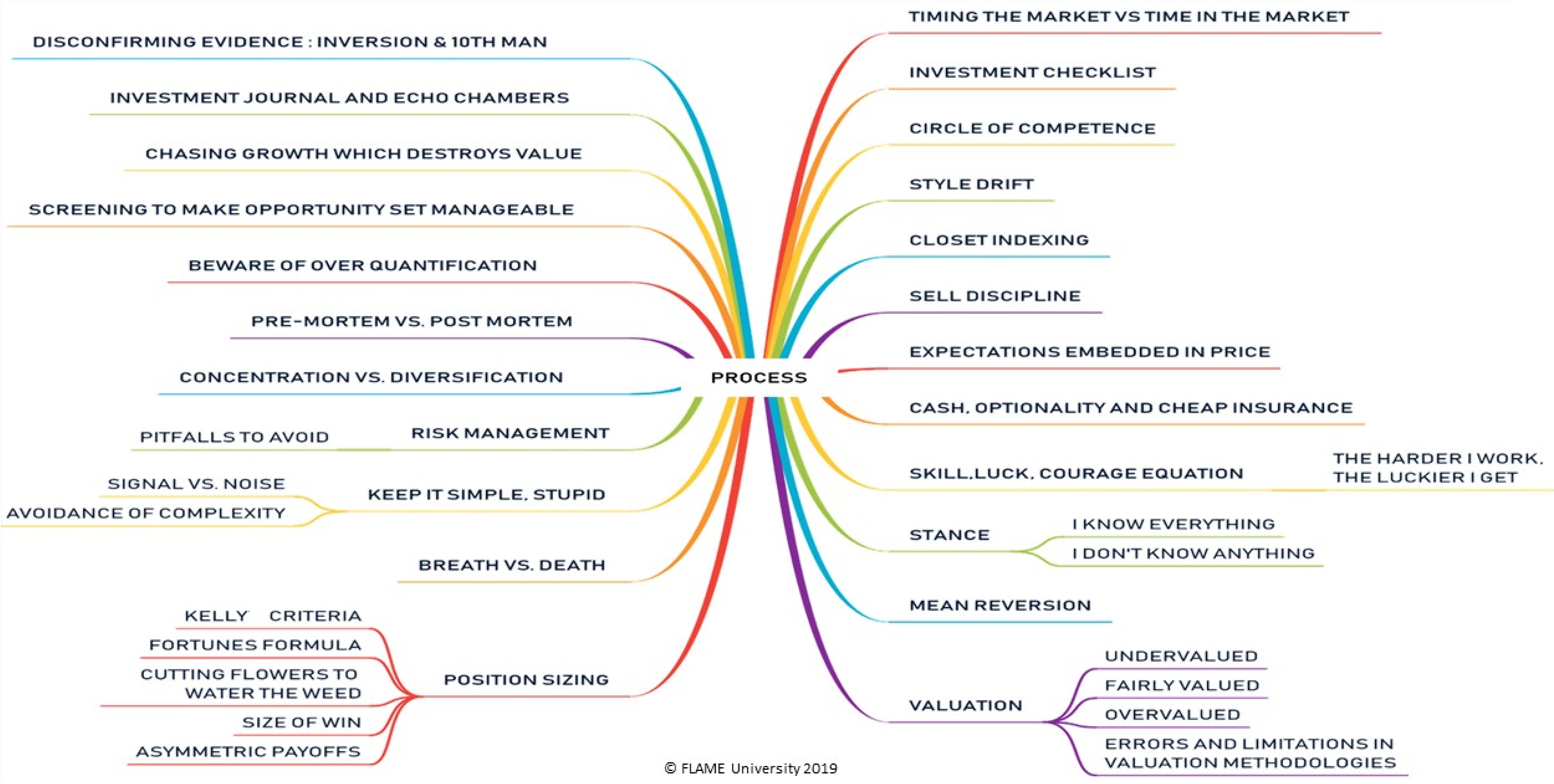


Process and Valuation

"The essence of investment management is the management of risk, not the management of returns"

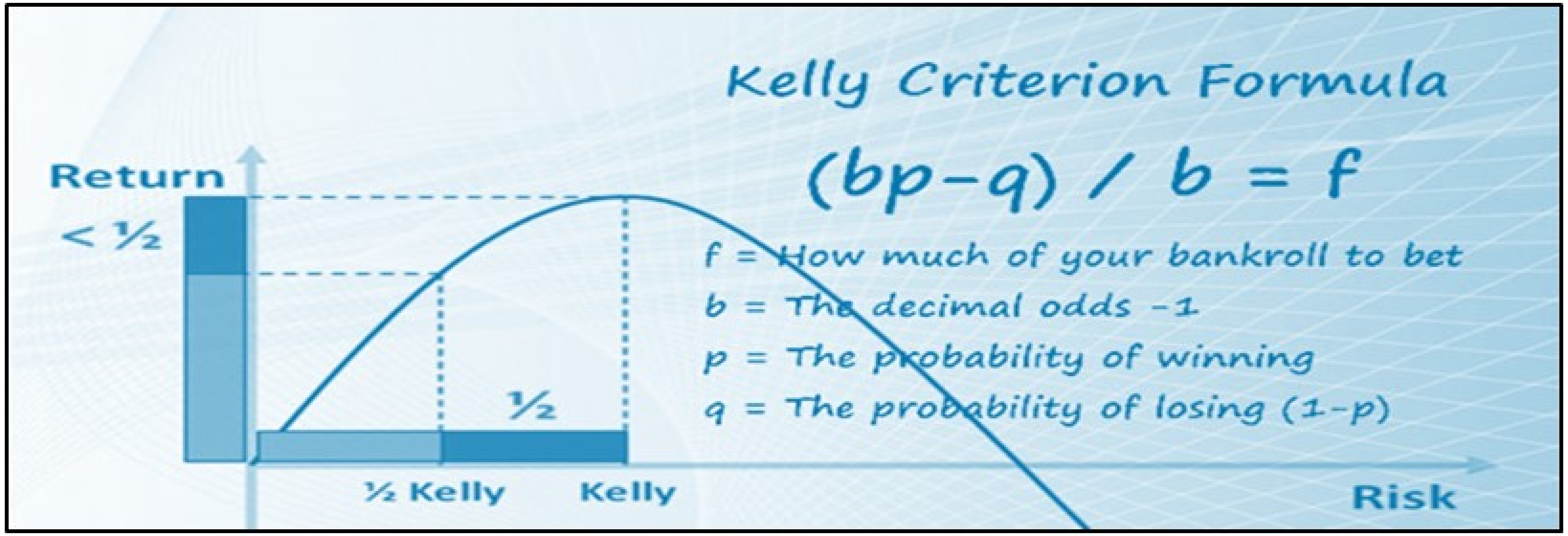
– Benjamin Graham

Success is a Process



Invest Big when the Odds are in your Favour

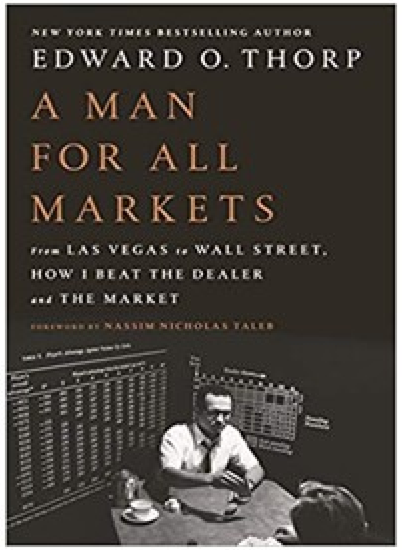
$$\text{Position Size} = \frac{\text{Expected return}}{\text{Range of Outcomes}}$$

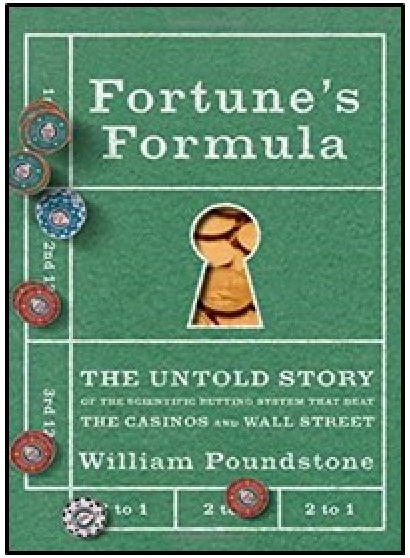


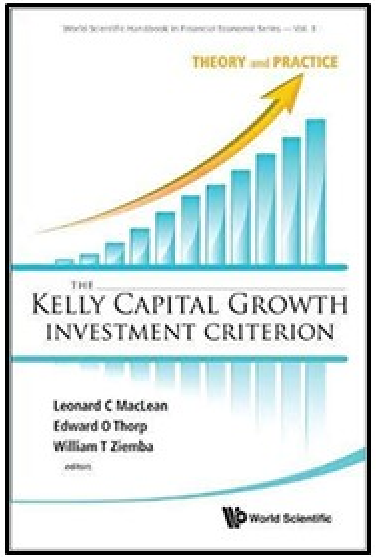
Position Sizing

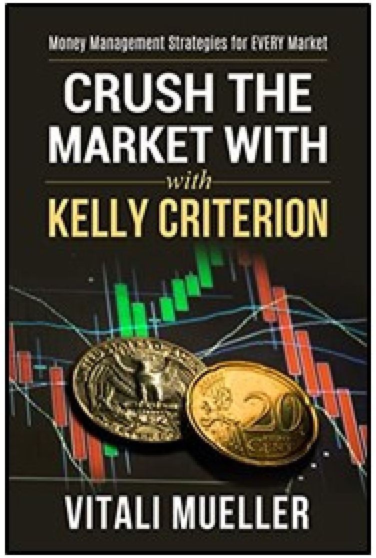
The math implies to two important points, the first being more obvious than the second

- The larger the expected return, the bigger the position should be
- The larger the possibility of ranges, the smaller the position should be







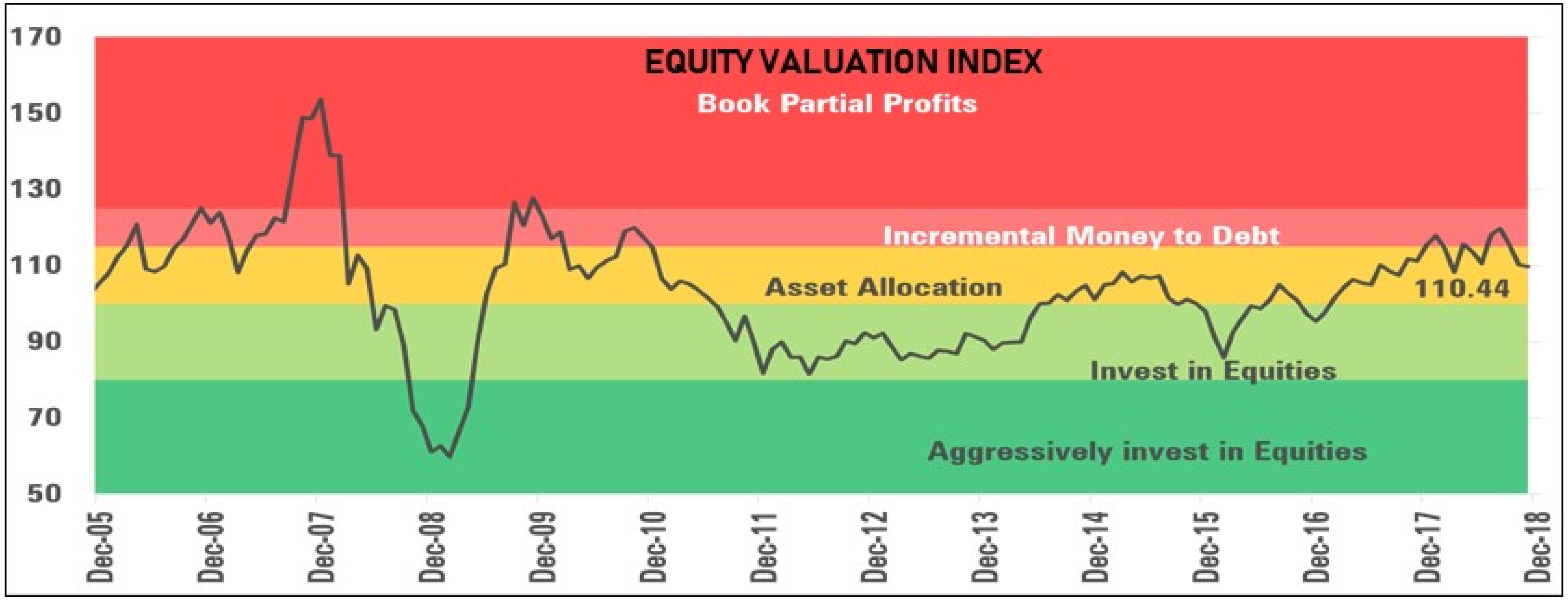


Source : VSRE Collective

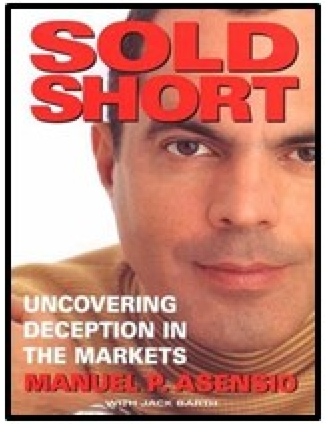
Sell Discipline

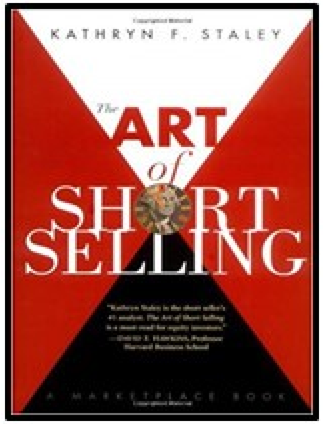
"Well bought is half sold" - **Howard Marks**

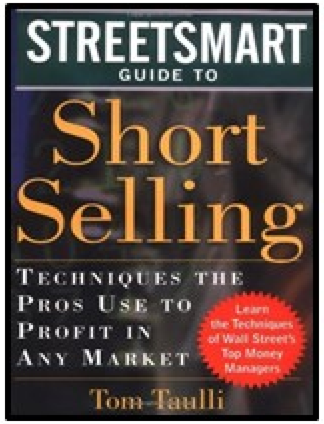
- Fundamentals & financials of businesses have deteriorated, and our original assumptions are no longer valid including obsolescence risk
- Recent corporate actions or governance shocks that indicate diminished focus on creating shareholder value or harm to the interest of minority shareholders
- Another stock with similar fundamentals (or valuation) but with more attractive valuations (or fundamentals) has appeared on the horizon
- Reducing exposure in the stock/sector due to overvaluation or changing equity allocation

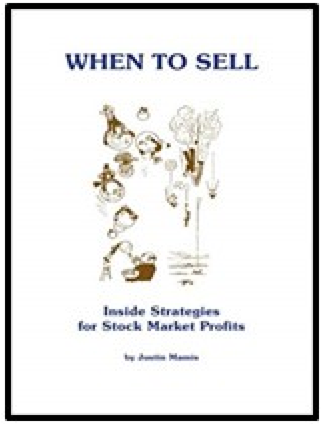


Equity Valuation index is calculated by assigning equal weights to Price-to-Earnings (PE), Price-to-Book (PB), G-Sec*PE and Market Cap to GDP ratio. Asset Allocation –Invest in both equity and fixed income









Source : ICICI Prudential Asset Management

Types of Risks

Risk Related Frameworks in Place

"The essence of investment management is the management of risk, not the management of returns"
– **Benjamin Graham**

Risk Elimination

- Concentration risk
- Over-diversification risk
- Custody & settlement
- Counterparty risk
- Liquidity risk
- Forex risk
- Complex investment strategy
- Stock pricing risk
- Sunrise sectors & SME business risk
- Fund manager risk
- Tax impact

Risk Mitigation

- Composition risk
- High taxes & transaction costs
- Economic risk
- Corporate governance risk
- Concentration risk
- Information risk
- Capital loss risk
- Currency risk

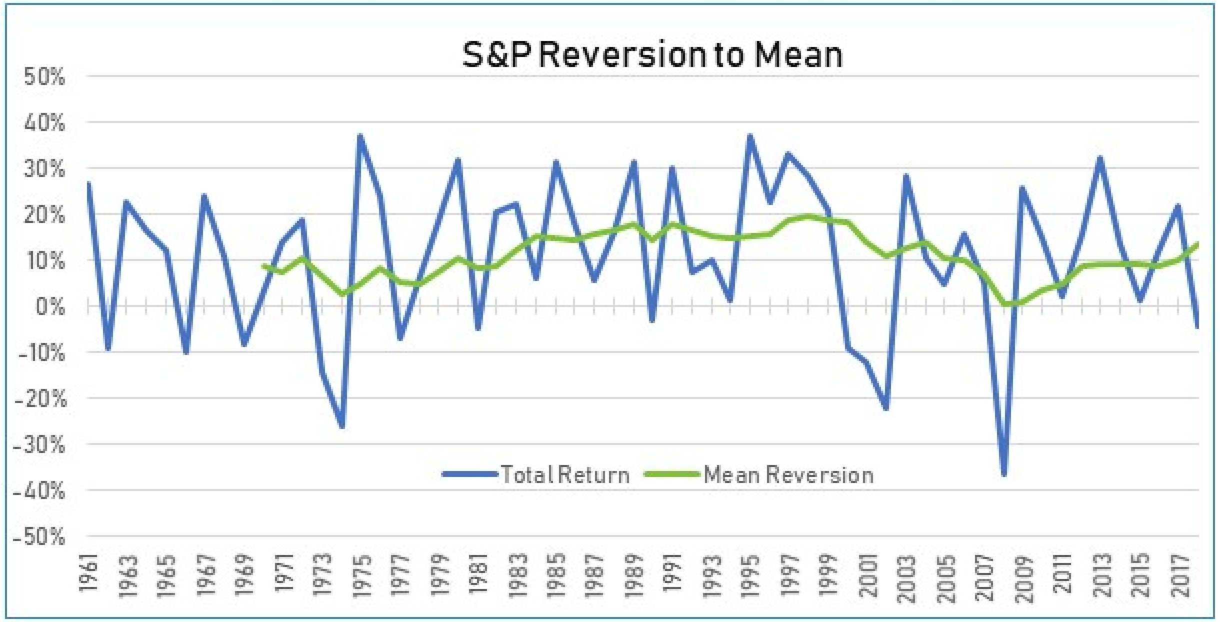
Risk Management

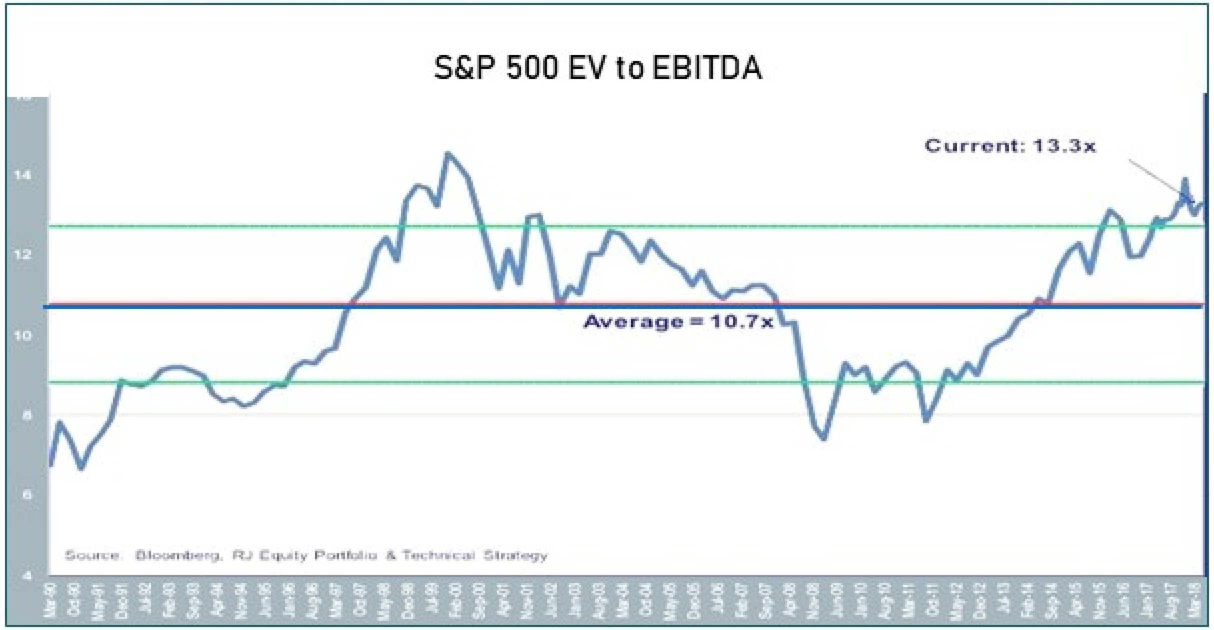
- Market risk
- Allocation risk
- Corporate governance
- Trading risk
- Agency risk
- Economic cycle risk
- Event risk
- Correlation risk
- Concentration risk

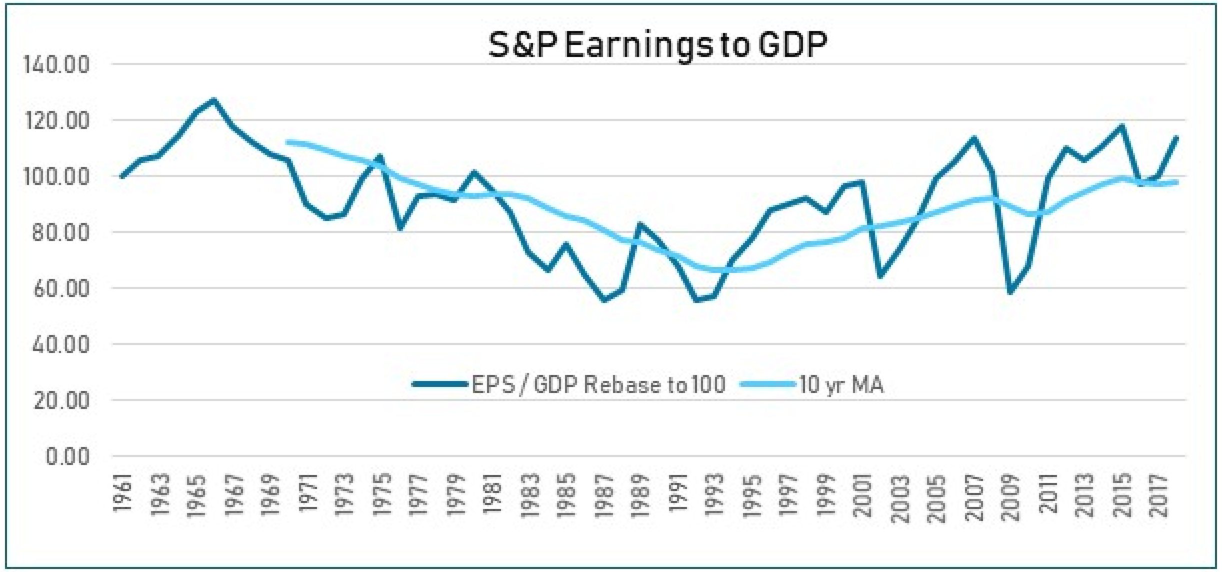
Return Maximisation

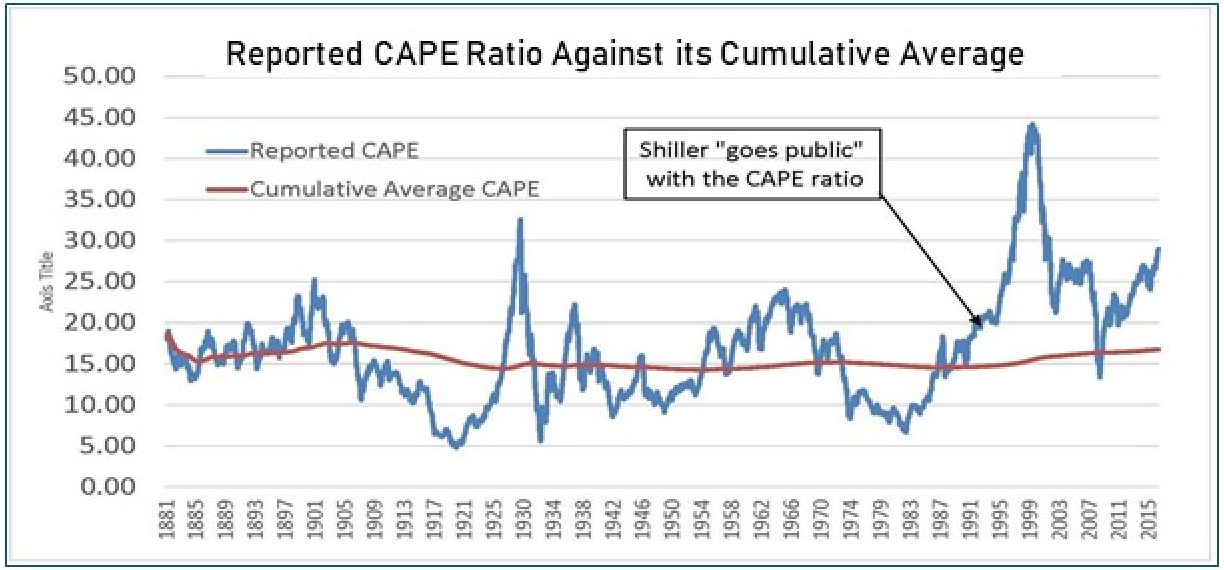
- Buy & hold
- Compounding effect
- Low churn, taxes & execution cost
- Market leadership & good corporate governance
- Proper accounting, strong B/S & returns
- Good capital allocation
- Zero tax through long term gains
- Lower turnover
- Value investing philosophy

Reversion to Mean : Nature, Business and Psychology are all Cyclical



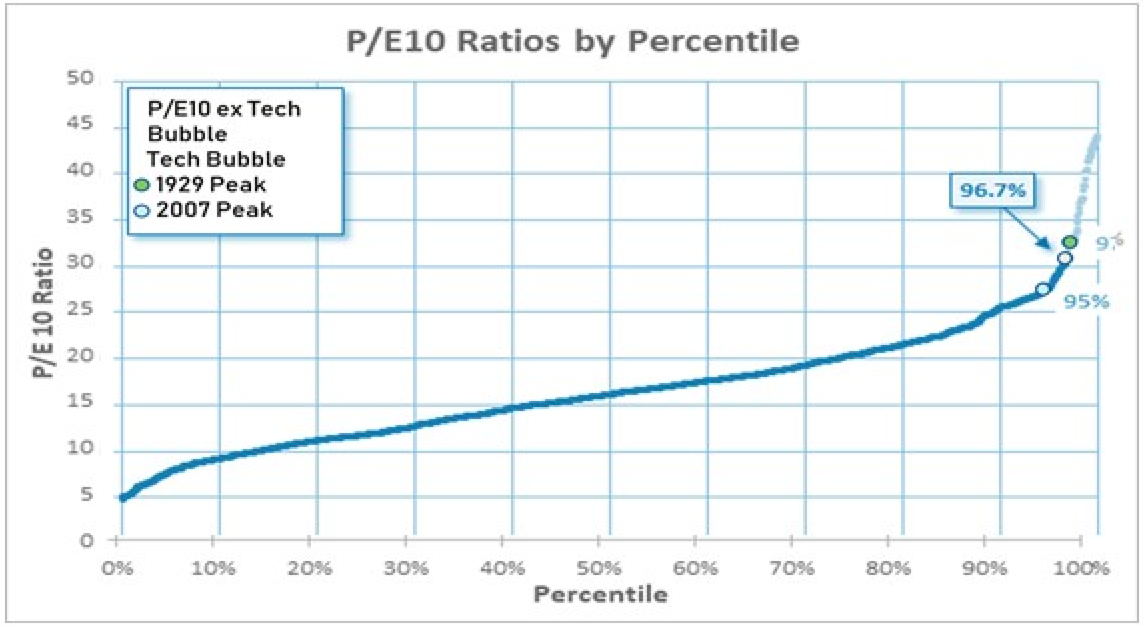


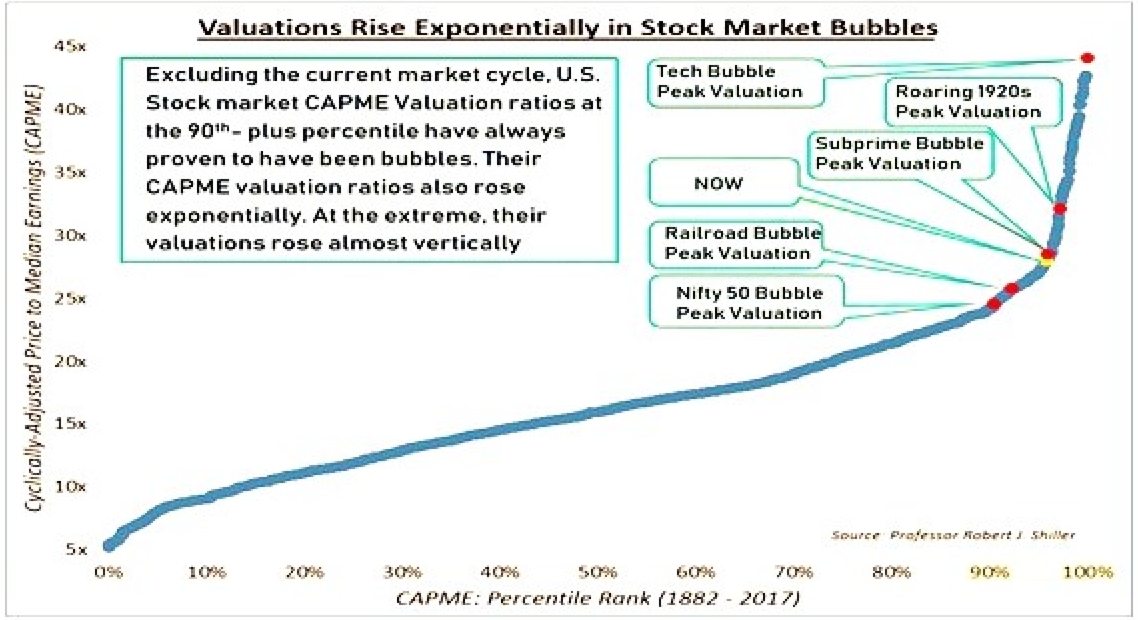


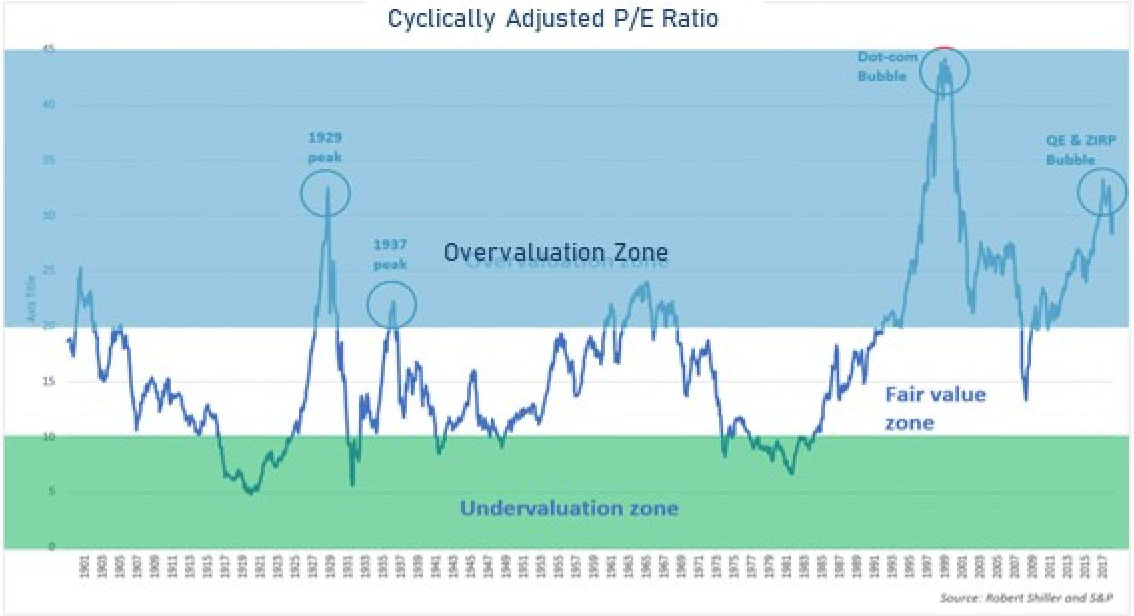


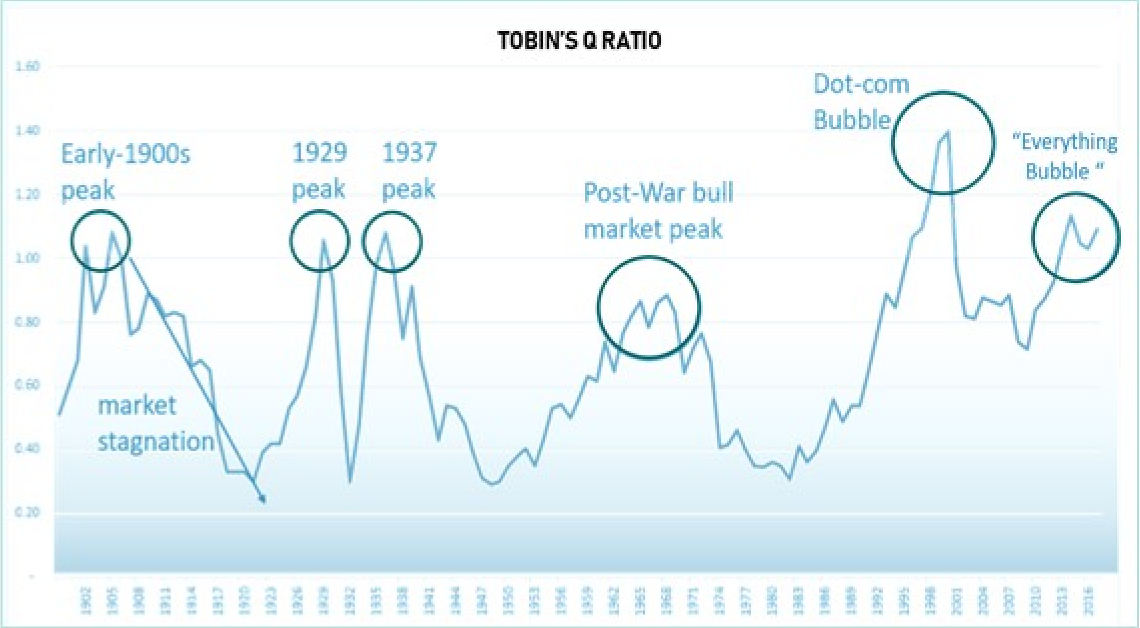
Source : FRED, Bloomberg

Easy Money and Congenial Interest Rates are Necessary Conditions for Bubbles









Source : Advisor Perspectives , Meritocracy , Robert Shiller and S&P, Forbes

There are No Shortcuts to Valuation

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BSE / NSE Ticker	Company Name	Industry	PAT 10 yr. CAGR	P/E	P/B	Share Price 10 yr. CAGR
511218 / SRTRANSFIN	Shriram Transport Finance Company Ltd.	Finance	14.83	20.99	2.60	13.88
500096 / DABUR	Dabur India Ltd.	FMCG	15.06	42.53	10.29	21.36
500940 / FINPIPE	Finolex Industries Ltd.	Polymers	15.08	26.38	2.89	27.10
517354 / HAVELLS	Havells India Ltd.	Capital Goods	15.17	46.03	8.18	39.52
500104 / HINDPETRO	Hindustan Petroleum Corporation Ltd.	Refineries	15.76	7.27	2.05	15.01
500165 / KANSAINER	Kansai Nerolac Paints Ltd.	Paints	15.81	52.82	8.67	31.46

Source : AceEquity

Common Errors in DCF

Most Frequent Errors	Implications
Forecast horizon	• Too long : Any forecast beyond a few years is suspect, with higher probability of estimation error Too short : Intelligent capital allocators take a long term view • The forecast period should capture at least 1/3rd of corporate value
Uneconomic continuing value	• A high % of value accorded to the continuing value reflects that • Explicit forecast periods are too short
Cost of capital	• Estimating cost of equity is more challenging than debt. CAPM factors stale inputs for Beta and ERP. Both are non-stationary so which period's historical estimate must be used is a problem
Risk free rate	• Difficult to make estimates for long forecasting periods
Mismatch between assumed investment & earning's growth	• Underestimates the investment necessary to achieve an assumed growth rate • Fails to explicitly link growth & investments via ROI
Improper reflection Of other liabilities	• Other liabilities like ESOPs, employee benefit plans are trickier to capture in an economically sound way. So the model fails to capture true shareholder value
Discount to private market value	• Model lacks transparency because it conflates the base & synergy cash flows
Double counting	• Common problem with share repurchases, causing miscalculations of future stock price
Scenarios	• Small changes in assumptions can lead to large changes in value • Sensitivity analysis fails to capture interactivity between value drivers

Source : Michael Mauboussin & Aswath Damodaran

What is Priced in for Coca Cola Inc? Reverse Engineering a Simple Solution

FLAME UNIVERSITY

Cost of Capital is 9%, terminal growth rate of FCF forecasted at 5% p.a. The value of debt at the end of 1999 is $4435 million.
No. of outstanding shares is 2472 million.

	2000 ($M)	2001 ($M)	2002 ($M)	2003 ($M)	2004 ($M)
Cash from Operations	3657	4097	4736	5457	5929
Cash Investments	947	1187	1167	906	618
Free Cash Flow	2710	2910	3569	4551	5311

Reverse Engineering : What forecasts are implied by the Current Market Force ?

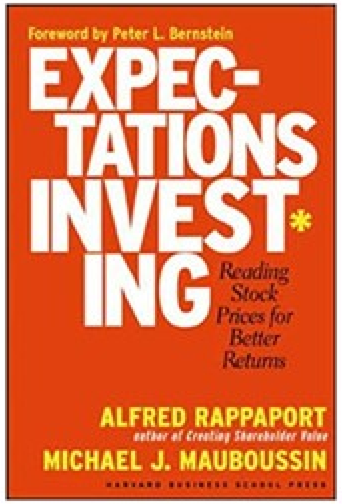
Assuming the current price per share for coke is $57 :
MV = $57 x 2472 shares = $140,904 M

Reverse engineer as follows :

$$\$140{,}904 = \frac{2710}{1.09} + \frac{2910}{1.1881} + \frac{3569}{1.2950} + \frac{4551}{1.4116} + \frac{5311}{1.5386} + \frac{\frac{5311 \times (1+g)}{0.09 - g}}{1.5386} - 4435$$

$\Rightarrow$ g= 0.062 (a 6.2% growth rate)

Can Coke maintain this growth rate ?



Investor

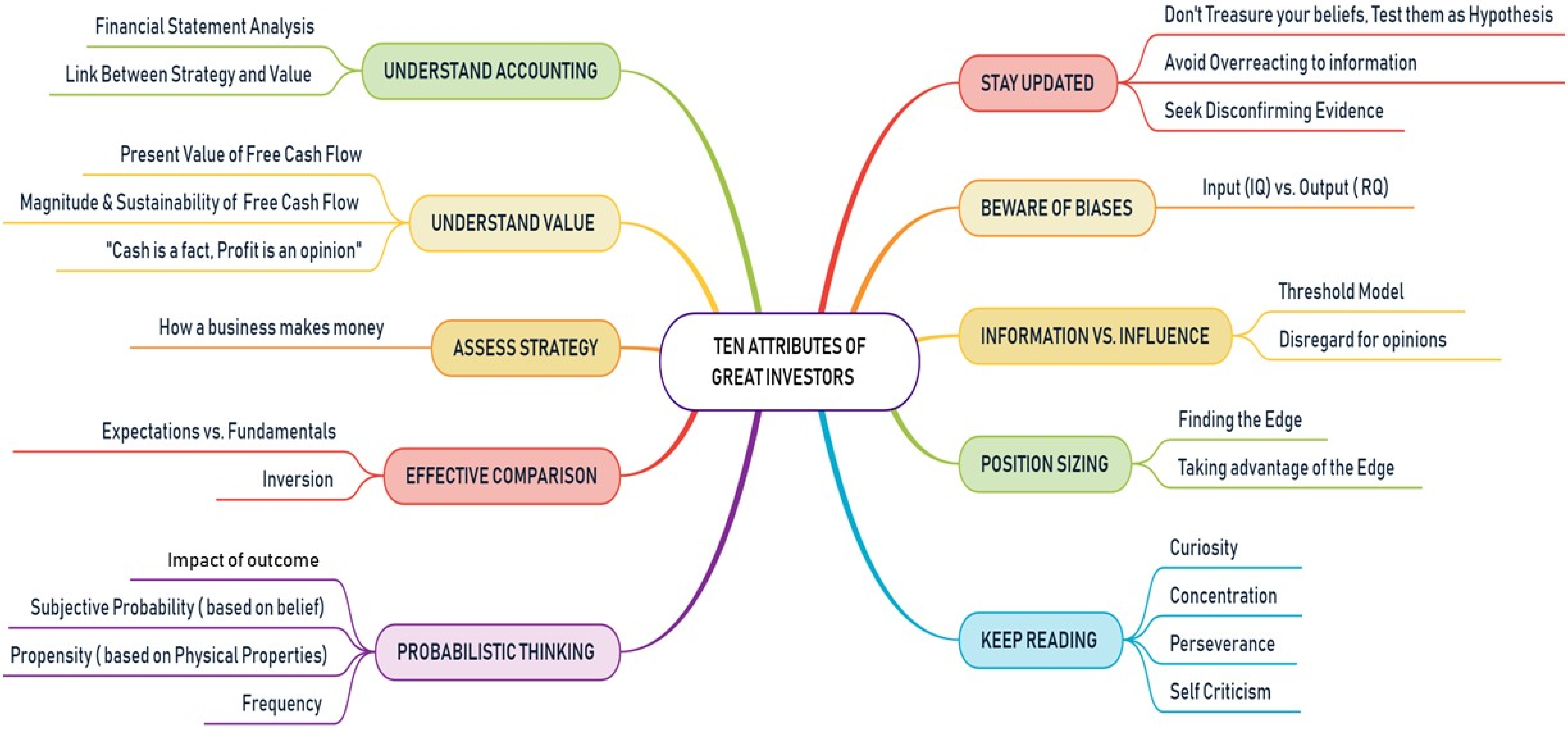
"In bear markets, stocks return to their rightful owners. That's cause they leased it for a fee during bull markets"

– JP Morgan (modified)

What's Your Edge?

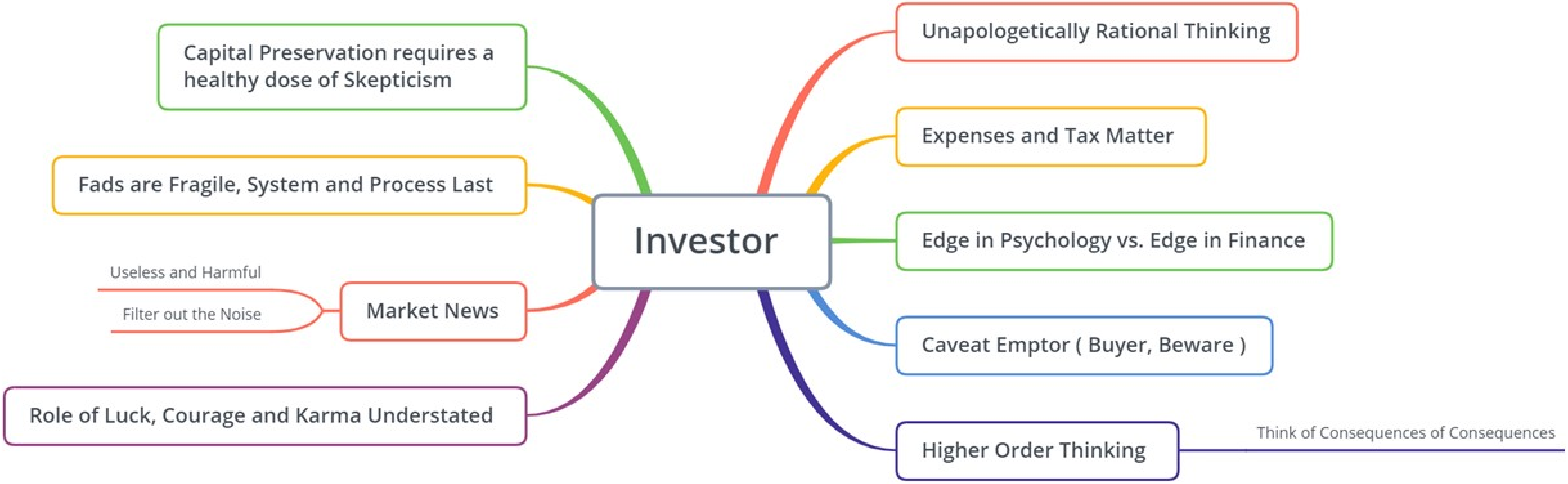
What's Your Edge?	
Psychological	✓ Discipline ✓ Patience ✓ Avoidance of common biases and misjudgements ✓ An extremely difficult advantage to have, but is probably the most common among good investors (Easier said than done)
Analytical	✓ The ability to look at the same data as everyone else and come to a better, or more accurate conclusion ✓ This is probably the advantage that most investors think they have, but I believe it's the most difficult one to have an edge in
Informational	✓ Better, or more privileged access to information : ▪ Information obtained by scuttlebutt ▪ Being a company insider, or ▪ Illegal use of insider knowledge (of the Ivan Boesky type)
Inefficient Domain	✓ Investing in inefficient, less liquid markets such as : ▪ Private businesses ▪ Micro-cap equities ▪ Illiquid bonds, and ▪ Certain real estate markets
Risk Management (portfolio)	✓ The ability to limit overall portfolio risk through asset allocation or hedging practices
Cost of Capital (portfolio)	✓ A bonus advantage of cheaper capital for professional money managers ▪ Explicit cost of capital: Low-cost debt financing, low expectations from equity investors, or low-cost insurance float (think Berkshire Hathaway) ▪ Implicit cost of capital: Having investors, partners, or shareholders who don't equate risk with volatility. The ability to have a rather permanent, long term capital base
Odds in Your Favour	✓ Asset prices reflect a set of expectations ✓ Investors understand those expectations (Expectations are analogous to the odds—and the goal of the process is finding mispricings. The single greatest error in the investment business is the failure to distinguish between knowledge of a company's fundamentals and the expectations implied by the price)

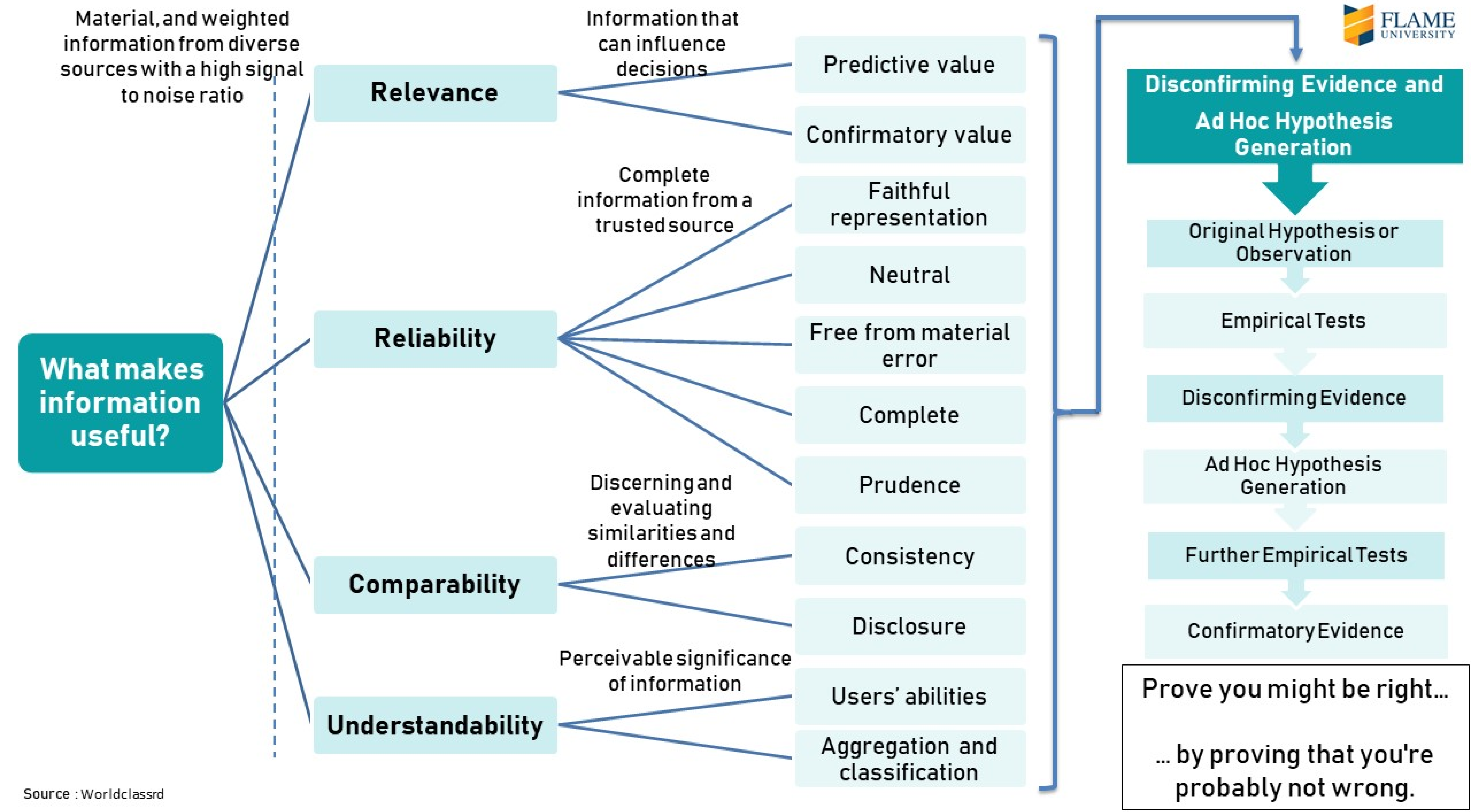
Ten Attributes of Great Investors



Source : Reflections on the Ten Attributes of Great Investors

Distractions for Investors




Material, and weighted information from diverse sources with a high signal to noise ratio
What makes information useful?
Relevance
Reliability
Comparability
Understandability
Information that can influence decisions
Predictive value
Confirmatory value
Complete information from a trusted source
Faithful representation
Neutral
Free from material error
Complete
Prudence
Discerning and evaluating similarities and differences
Consistency
Disclosure
Perceivable significance of information
Users' abilities
Aggregation and classification
Disconfirming Evidence and Ad Hoc Hypothesis Generation
Original Hypothesis or Observation
Empirical Tests
Disconfirming Evidence
Ad Hoc Hypothesis Generation
Further Empirical Tests
Confirmatory Evidence
Prove you might be right...
... by proving that you're probably not wrong.
Source : Worldclassrd

7 Sins of Investing Bible : Investment Implications

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PRIDE / ARROGANCE

- Thinking one can outsmart the best
- Balancing confidence with humility to build conviction
- Acknowledging that one can be wrong & smarter competition exists

GLUTTONY

- Inadequate efforts to gain insight and conviction
- Chasing hot ideas/themes by carpet bombing

ENVY

- Feeling left out when others have made money
- Individual improvement

COWARDICE

- Absence of courage to act during times of extreme dislocations
- "CASH combined with COURAGE in a CRISIS is priceless."

GREED / FEAR OF MISSING OUT

- Greed of making money and fear of losing opportunities
- Inadequate selling at peaks due to chasing higher valuations
- Market timing

MYOPIA

- Driven by short term considerations
- Premature sales on flimsy criteria
- Card with punch hole / limited activity

SLOTH

- Inadequate efforts to gain insight and conviction
- Chasing hot ideas/themes by carpet bombing

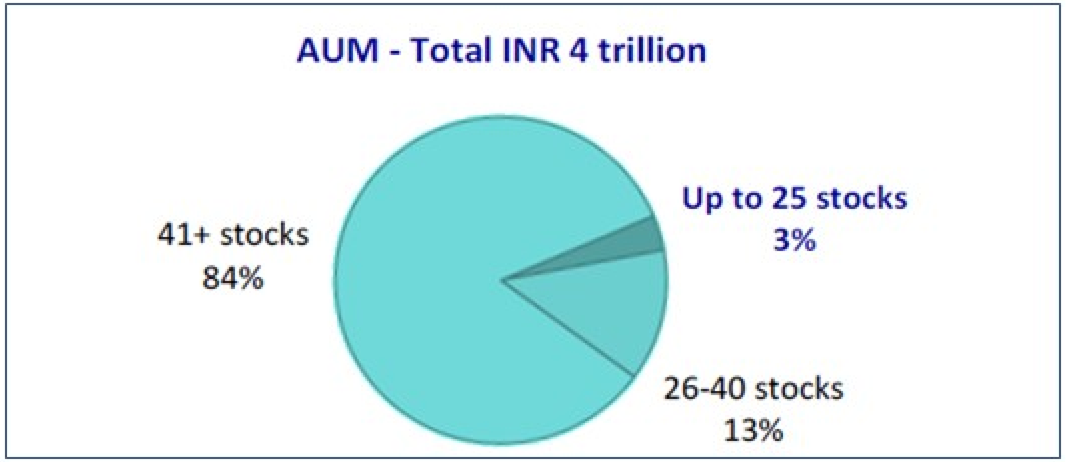
GREED + ENVY + FEAR

- Herding & seeking comfort in group thinking

Closet Indexing

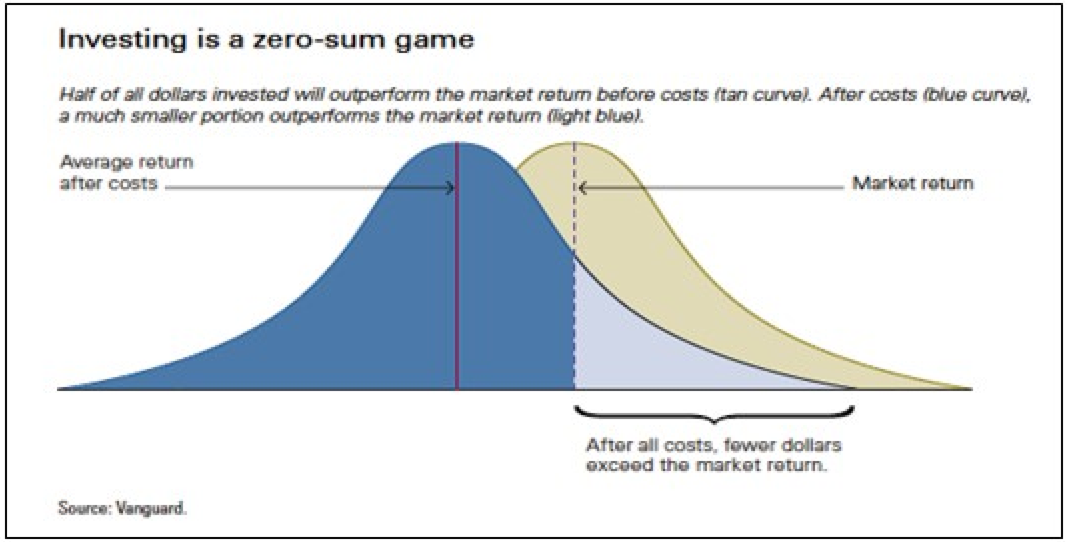
"With closet indexing, you're paying a manager a fortune and he has 85% of his assets invested parallel to the indexes. If you have such a system, you're being played for a sucker " – **Charlie Munger**

- Two decades ago, a portfolio manager would say he "owned" a stock. Now he is more likely to say he is "overweight" it, always implicitly comparing with the index



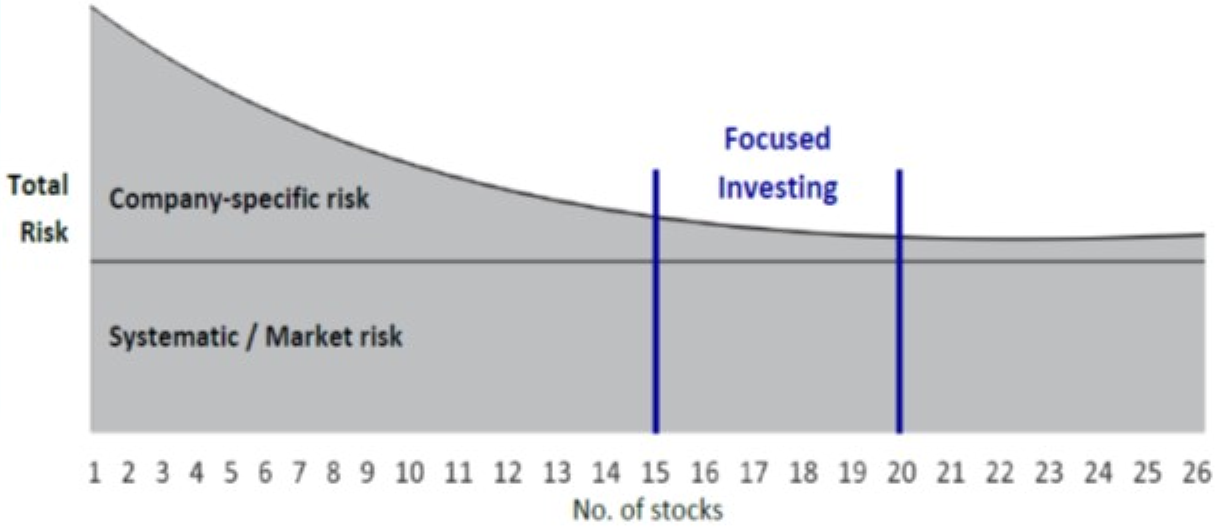
Negatives of Closet Indexing

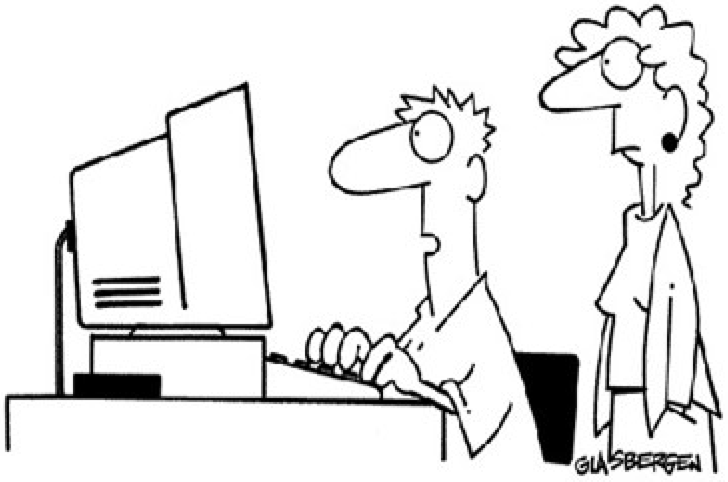
- Contradicts the fiduciary duty of fund managers towards their investors
- Works in an efficient market, which does not exist. A wise investor should ask himself whose risk is being diversified, the investor's or the fund manager's?



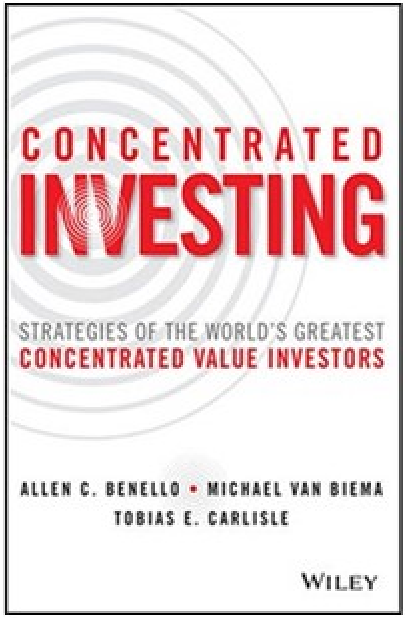
Concentration vs. Diversification

CONCENTRATED	DIVERSIFIED
Managing patient, permanent capital	Average investor with little time to devote to managing capital
Wait for the fat pitches & potentially look foolish for extended periods of time	Over diversification leads to closet indexing index hugging by fund managers
Hold cash as protection value and avail opportunities during periods of dislocation	Potentially fully invested with little or no capital to deploy during periods of dislocation





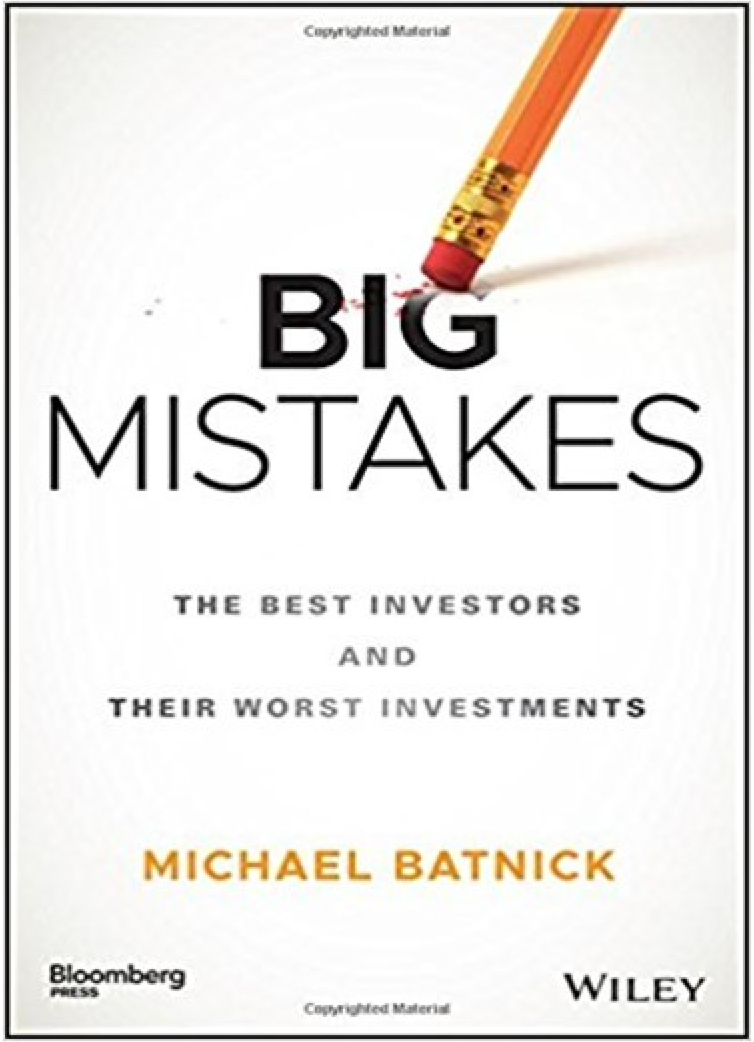
"Yes, our investments are diversified: 20% out the window, 65% down the drain, and 15% gone with the wind."



Source : Safal Niveshak, Value Investor Interview: Kuntal Shah

Big Mistakes : The Best Investors and Their Worst Investments by Michael Batnick

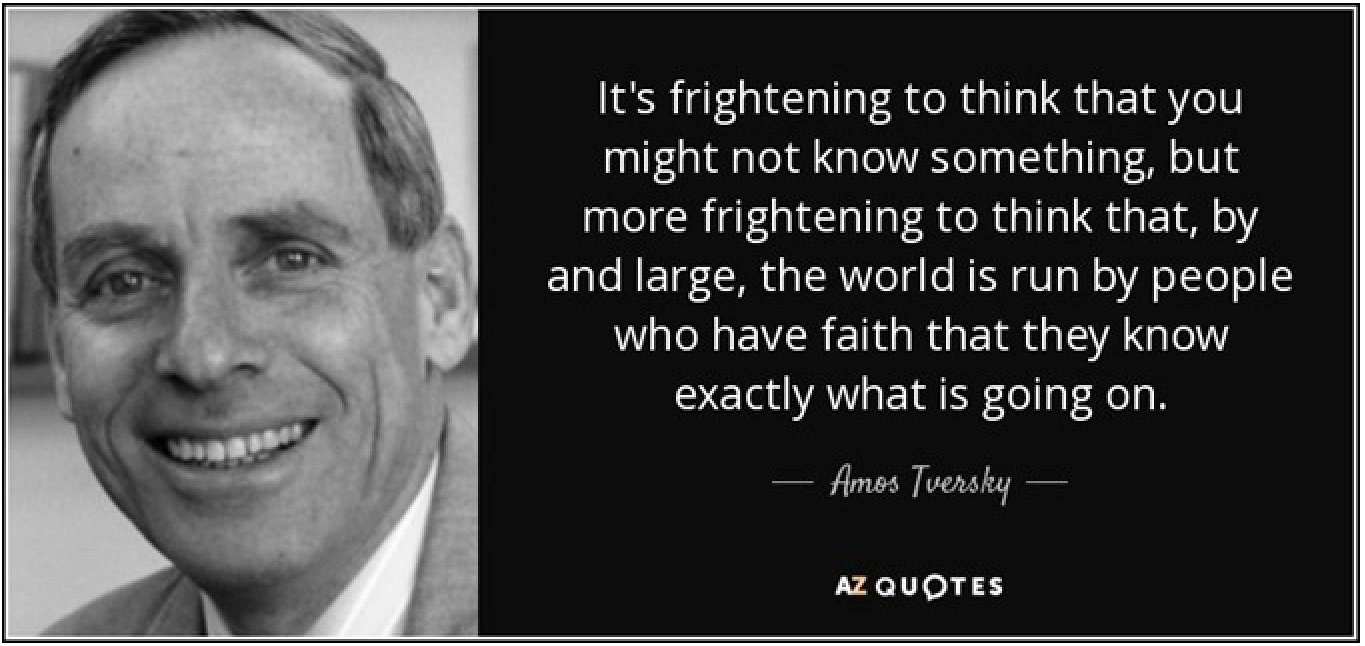
- Graham (value traps)
- Jesse Livermore (timing the short & over leverage)
- Mark Twain (holding on wrong position too long)
- John Meriwether (trusting the models & risk management)
- Isaac Newton (intelligence does not give success)
- Jack Bogle (can't beat the market)
- Michael Steinhardt (investing outside your Zone)
- Jerry Tsai (momentum investing)
- Warren Buffett (Dexter Shoes - overconfidence and bad deal structuring)
- Bill Ackman (Herbalife - ego)
- Stanley Druckenmiller (tech stocks - FOMO)
- Sequoia (concentration)
- John Maynard Keynes (macroeconomics vs market)
- John Paulson (searching for next big bet)
- Charlie Munger (handling big loss)
- Chris Sacca (dealing regret)



While experience is a good teacher, she sends in terrific bills!

"The market isn't an accommodating machine. It won't give you high returns because you want them."
– Peter Bernstein

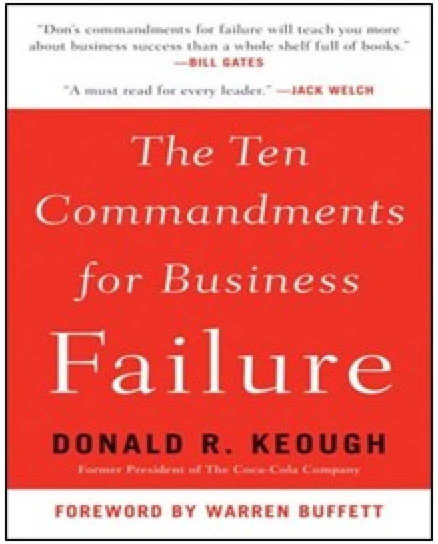
Questions?

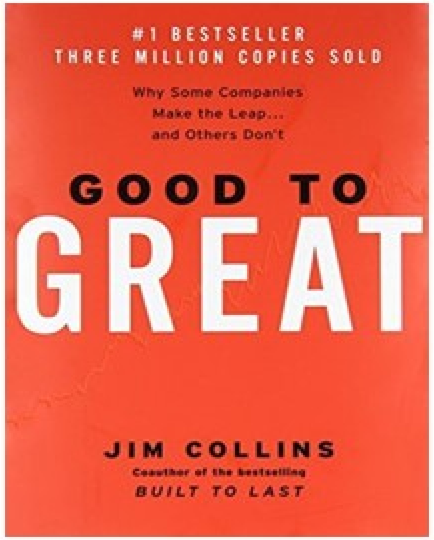


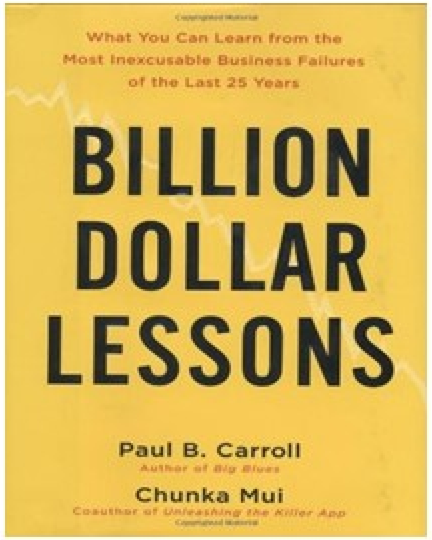
Thanks to the Team at Oaklane Capital Management LLP :

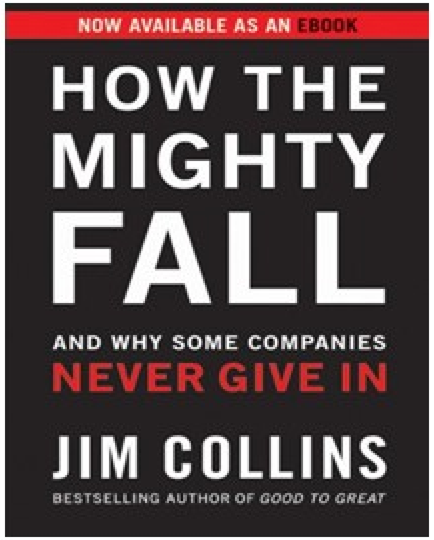
Mr Ankit Shah | Ms Upasna Lamba | Mr Utsav Adani | Ms Neharika Bayas | Mr Raj Agrawal

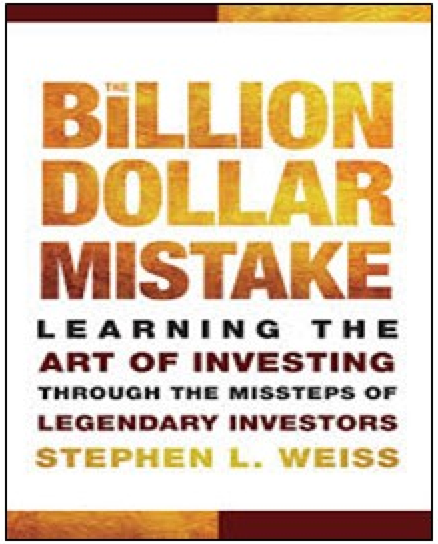
Books on Business Failure

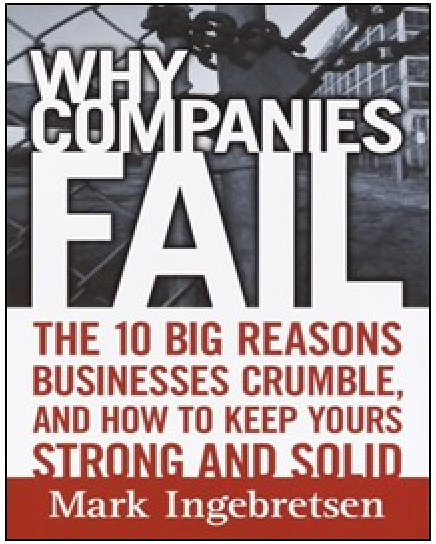


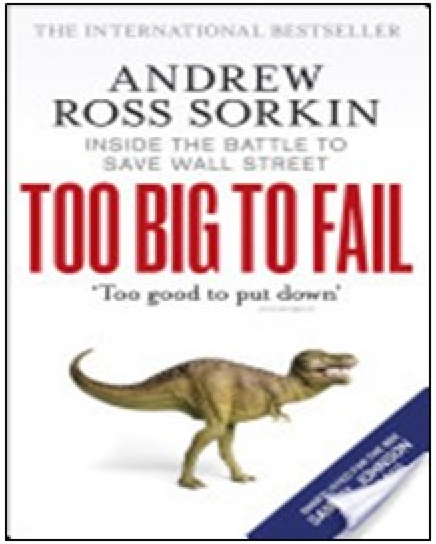




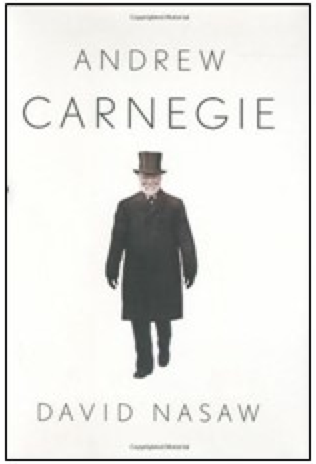


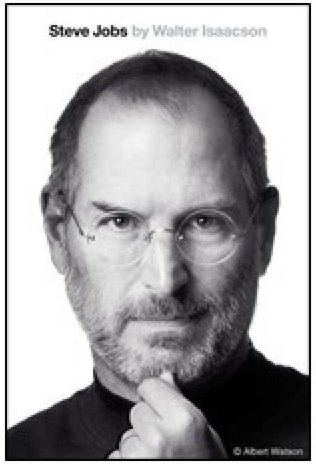


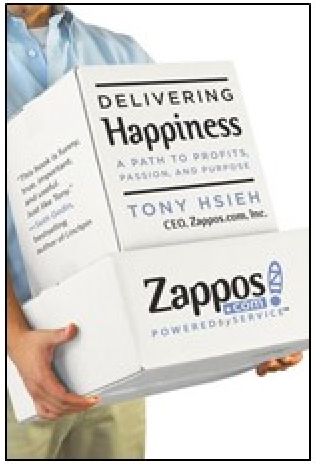


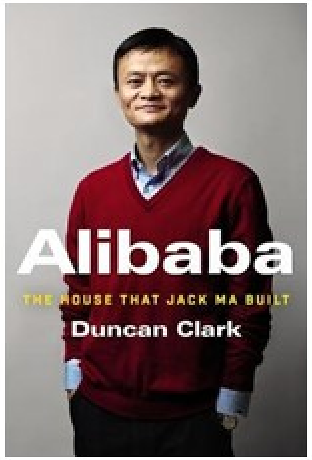


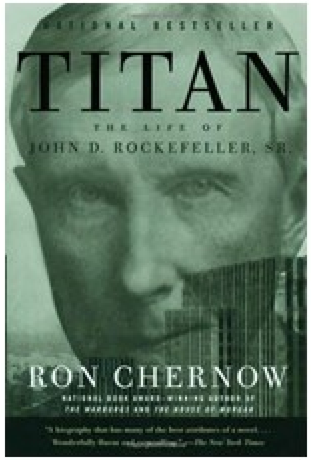
Additional Readings on Business

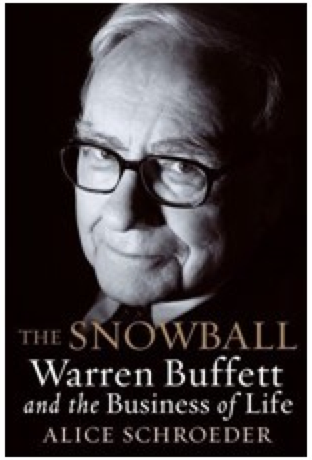


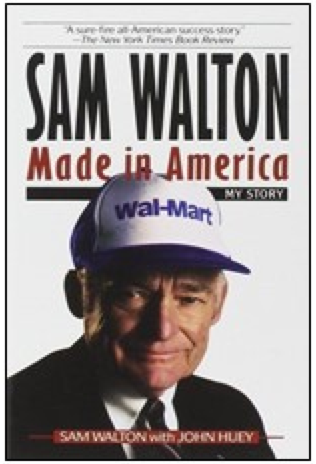


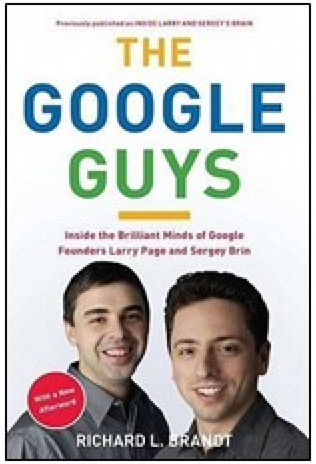


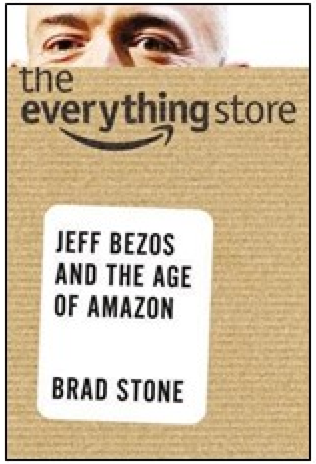


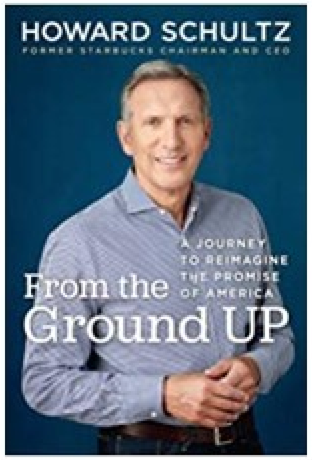


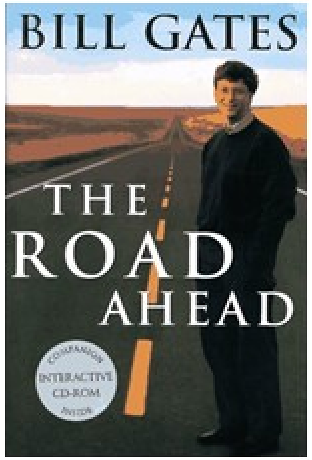


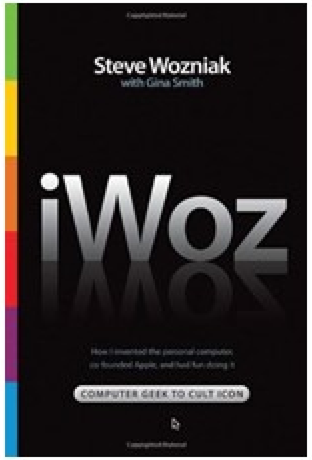




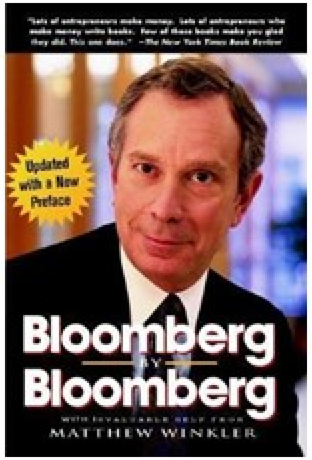


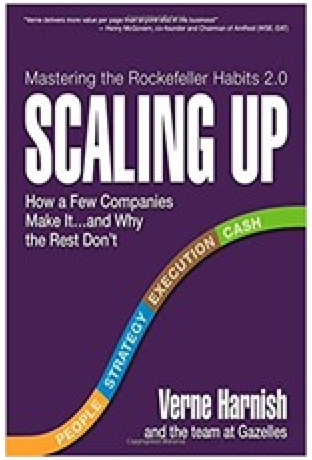


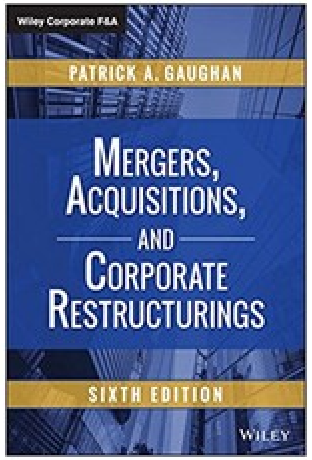


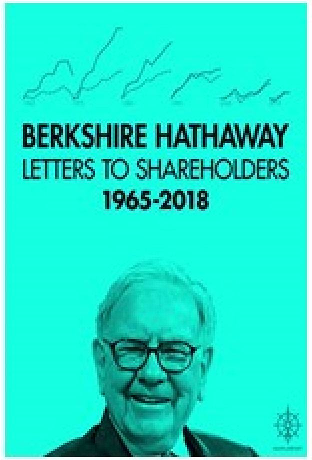


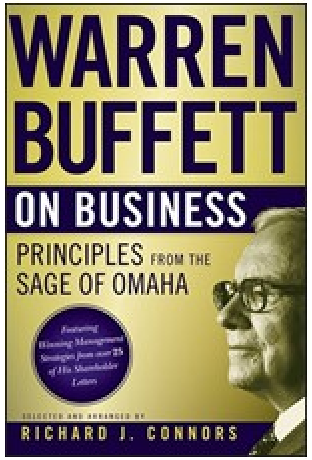
Additional Readings on Business

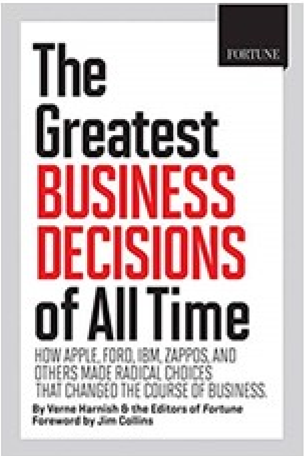


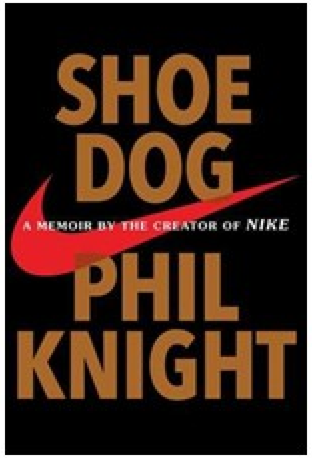


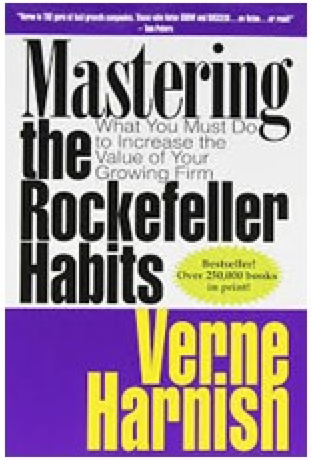


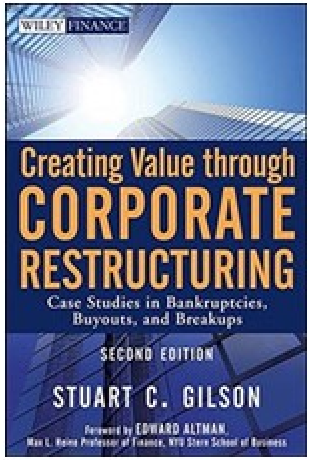


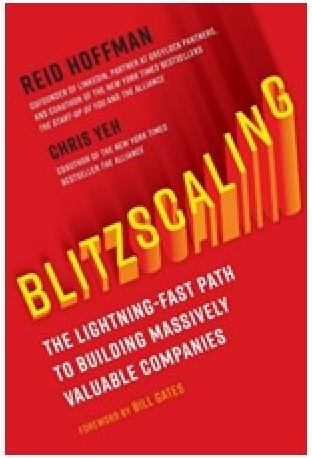


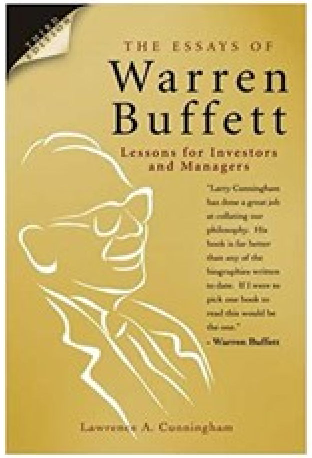


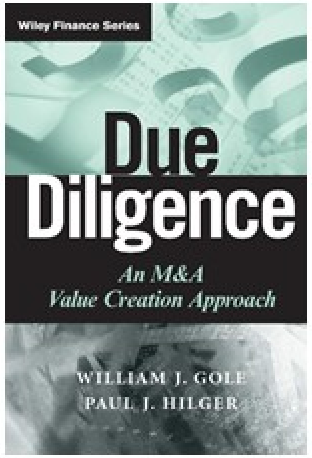












Books on Corporate Governance

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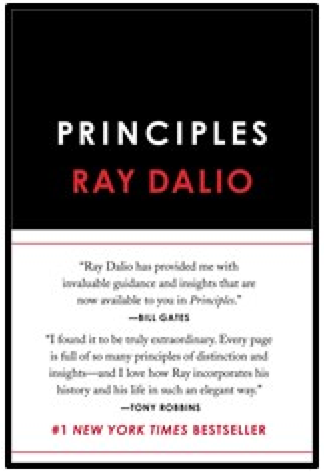

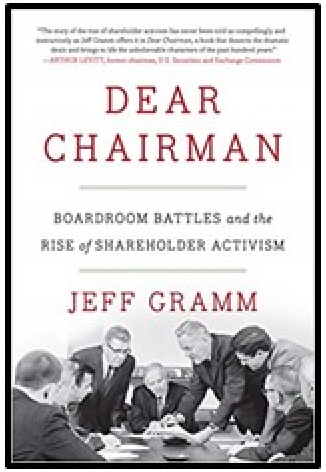

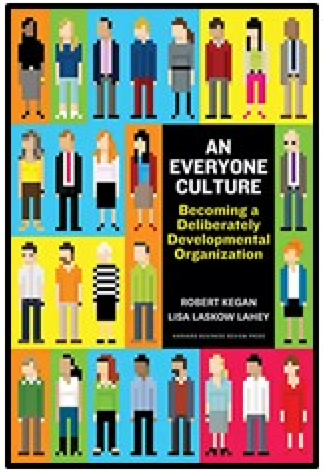

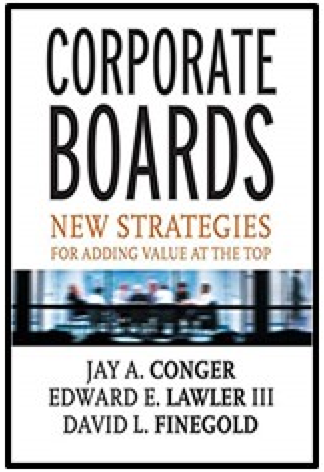

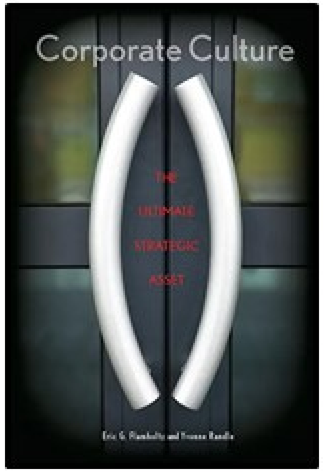

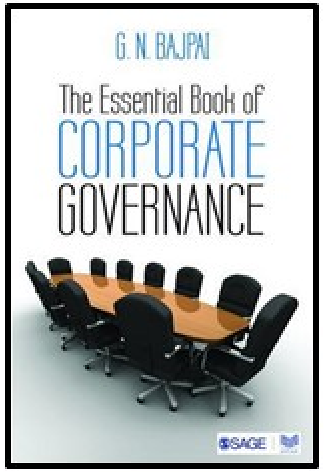

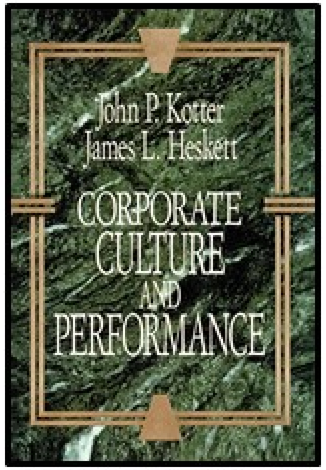

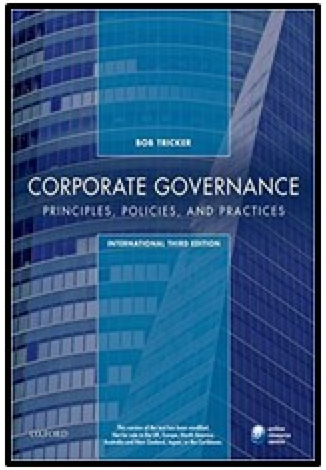

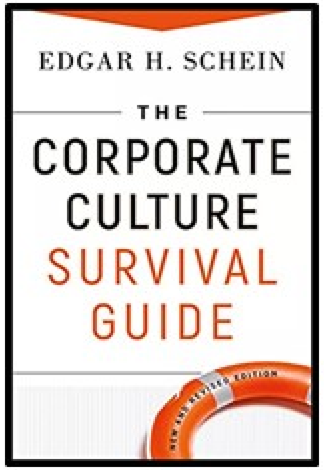

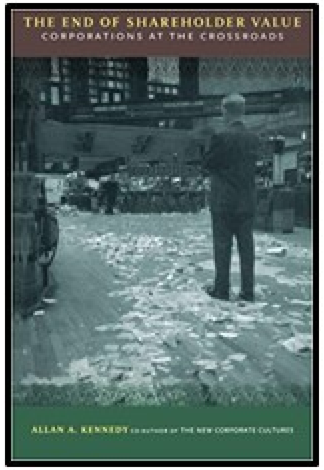

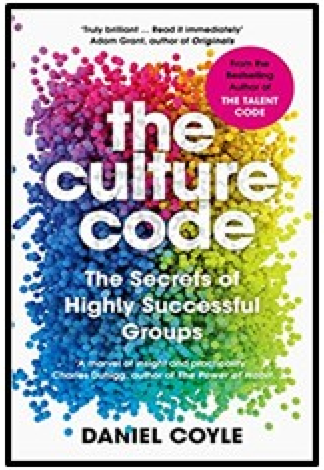

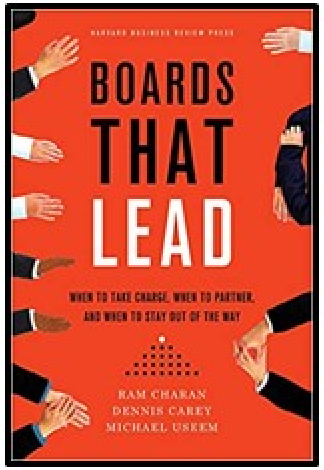

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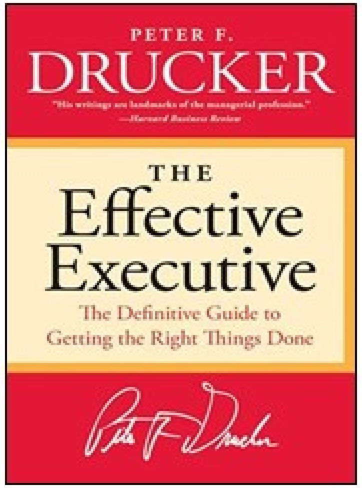

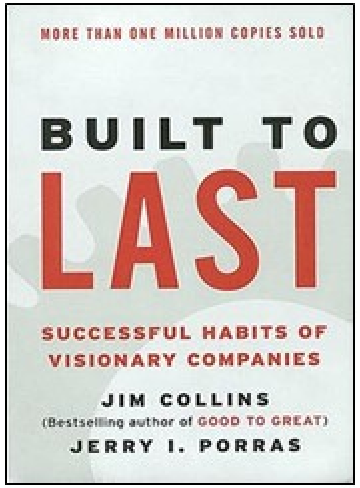

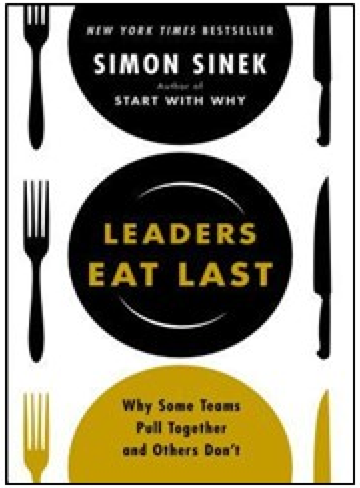

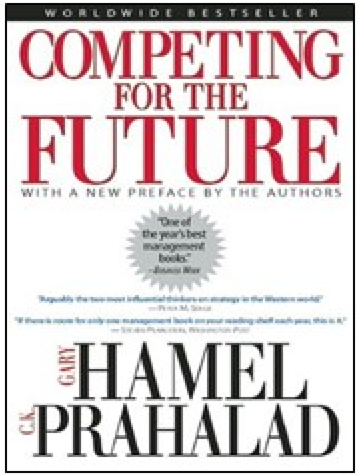

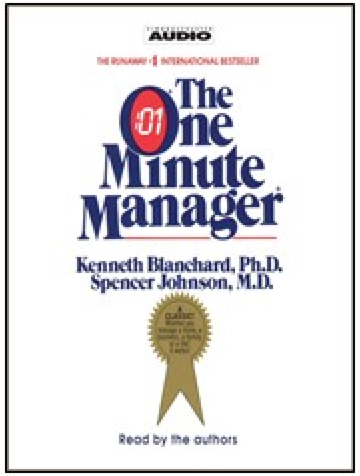

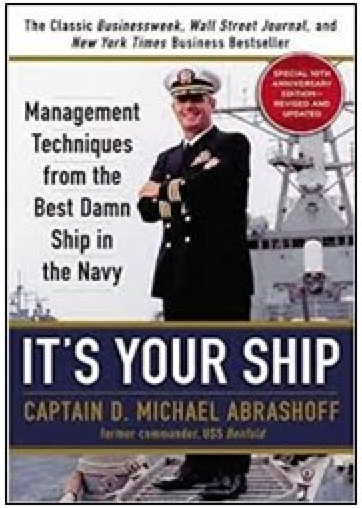

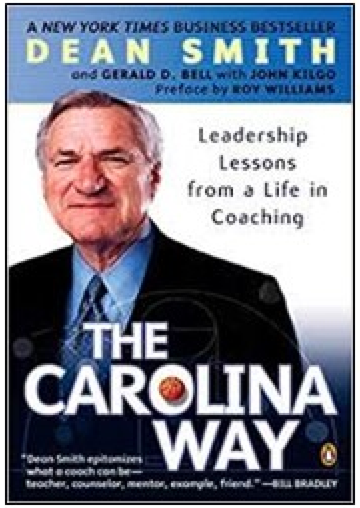

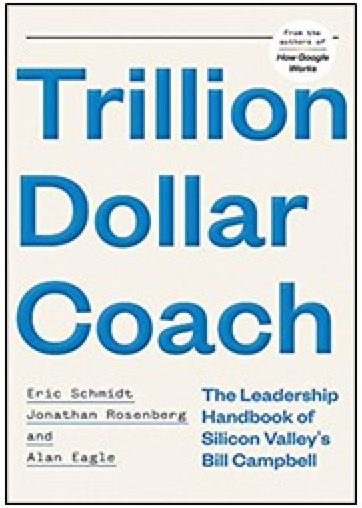

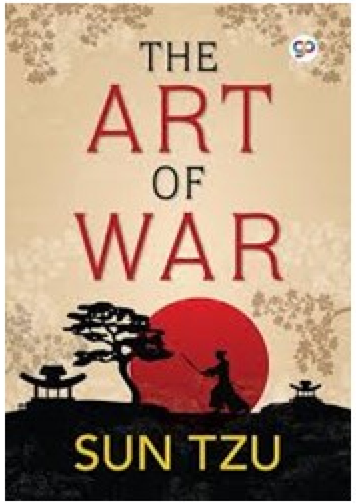

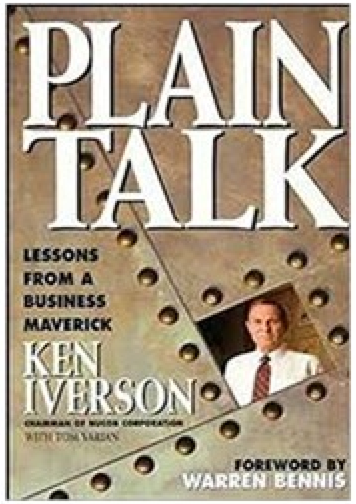

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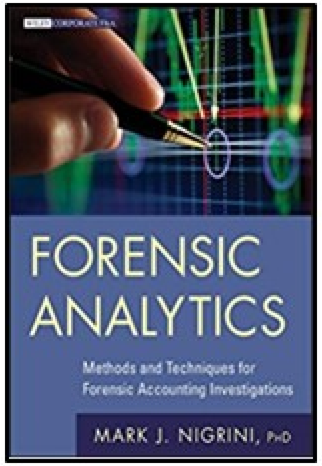

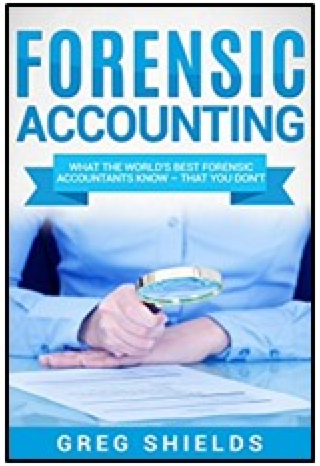

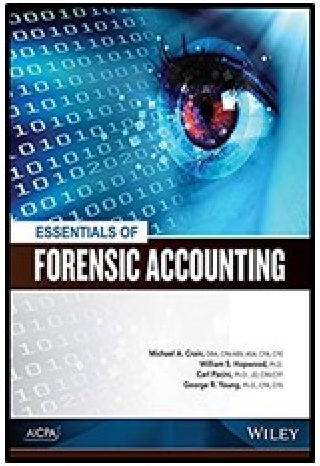

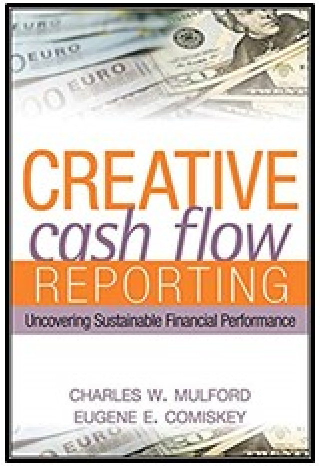

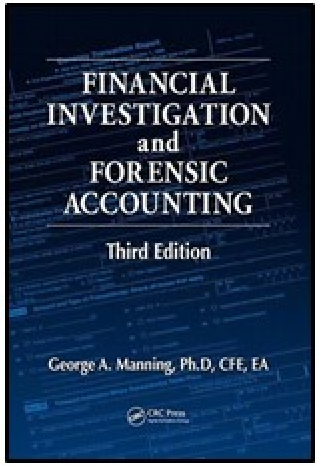

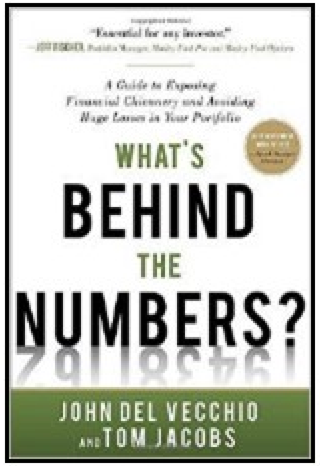

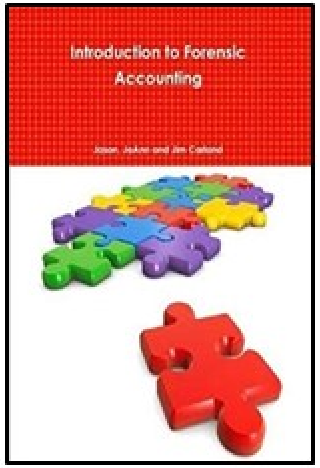

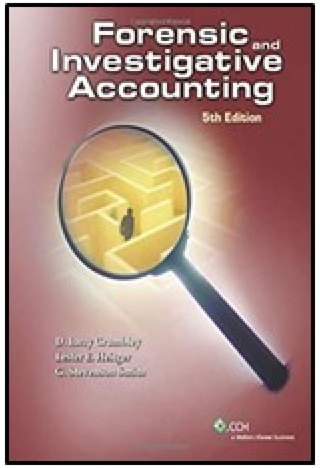

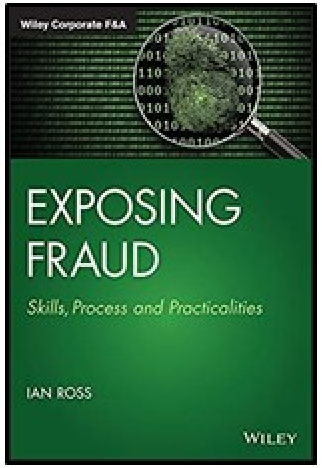

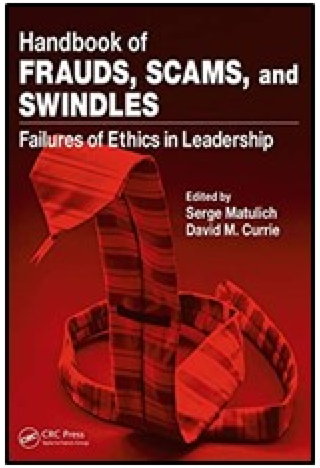

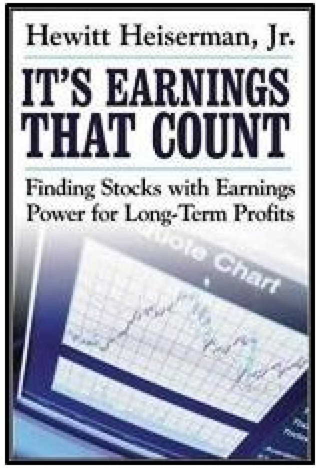

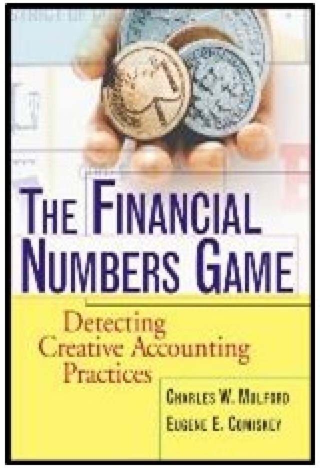

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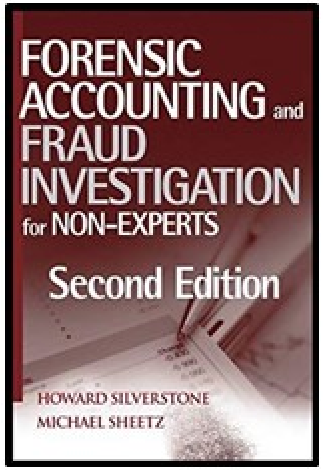

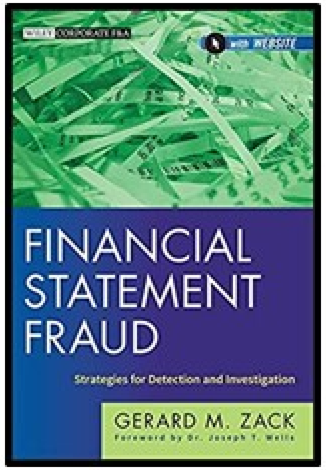

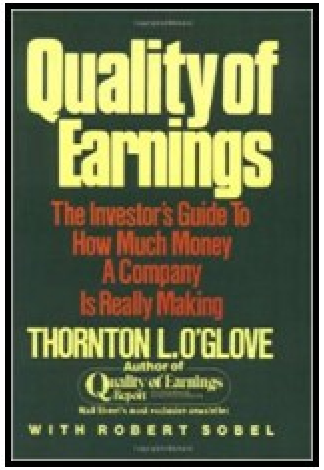

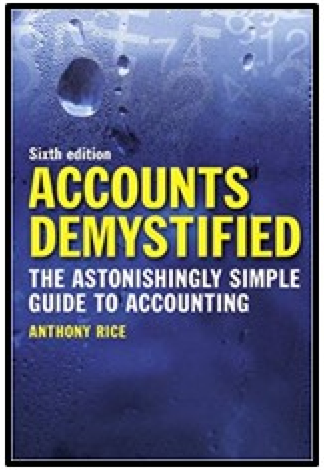

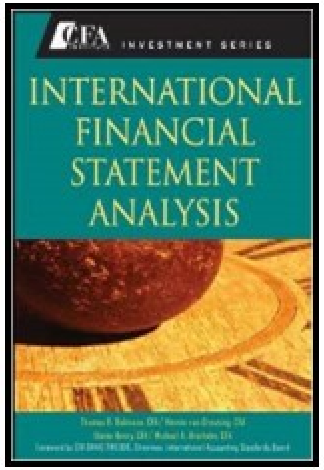

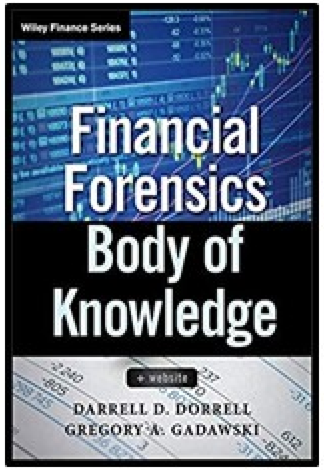

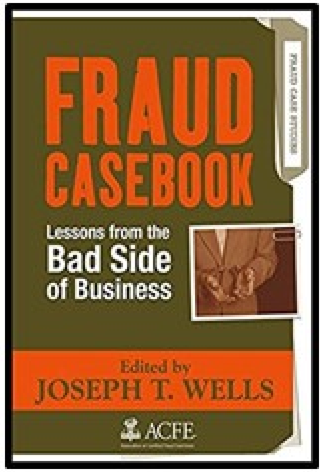

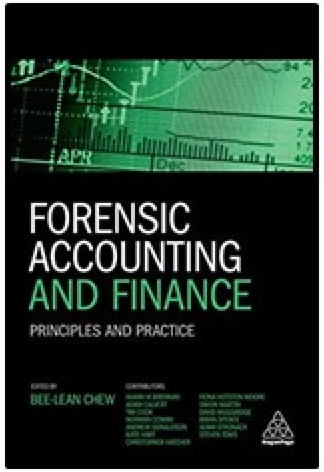

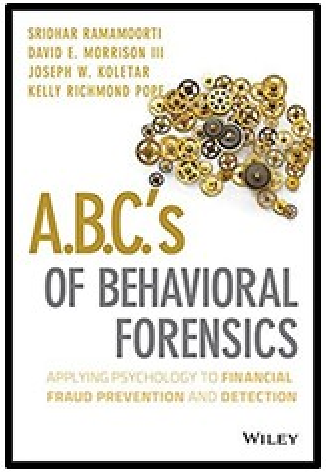

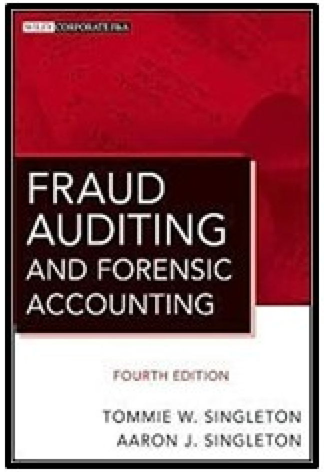

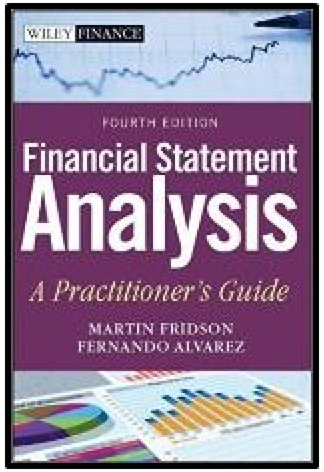

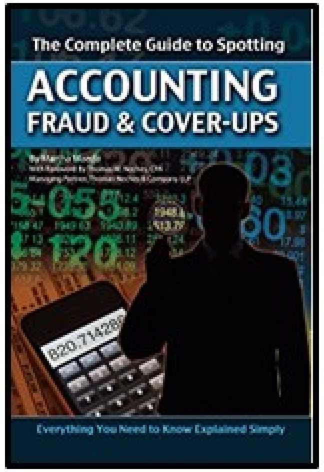

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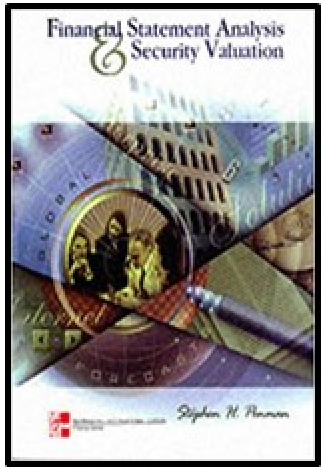

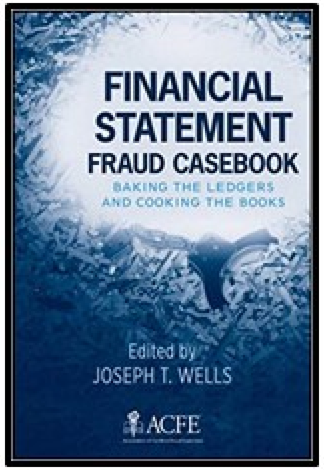

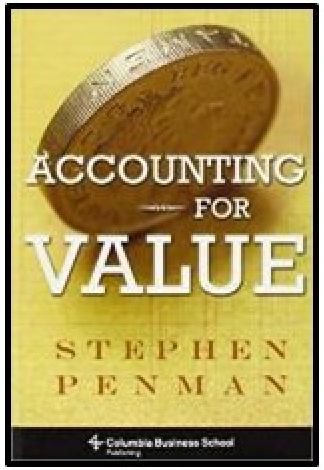

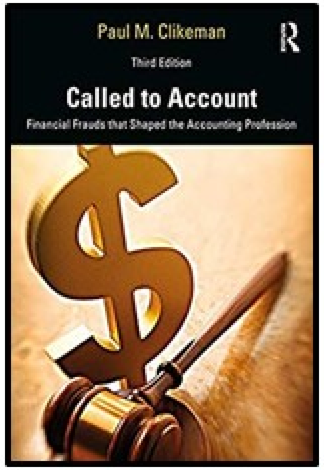

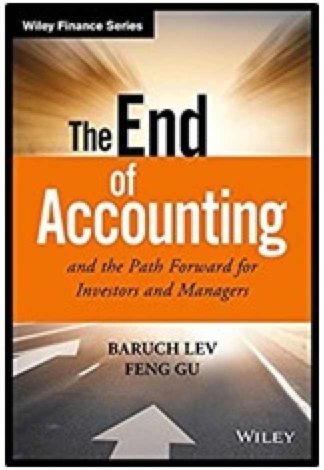

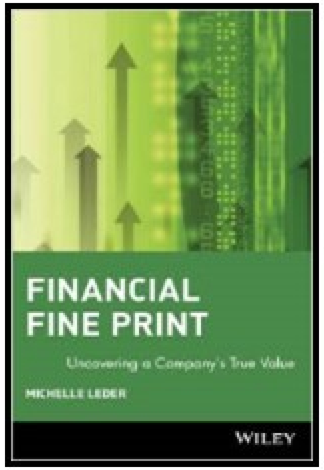

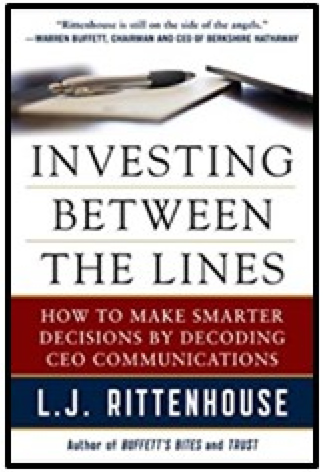

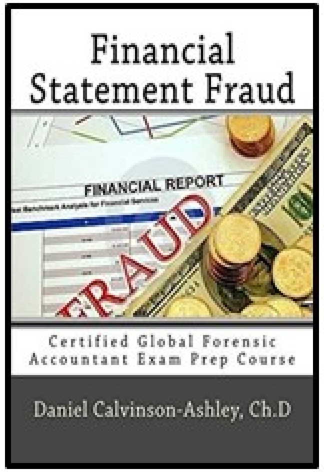

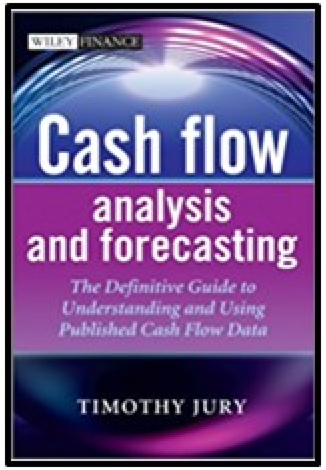

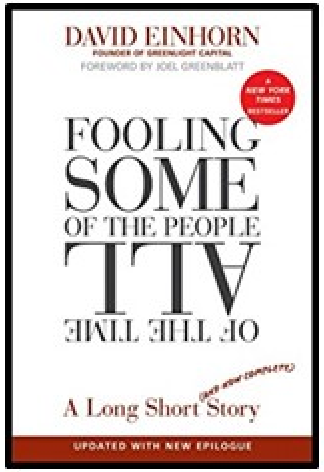

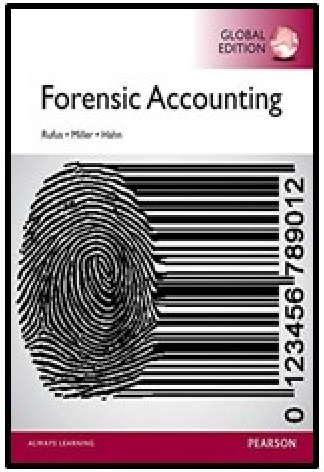

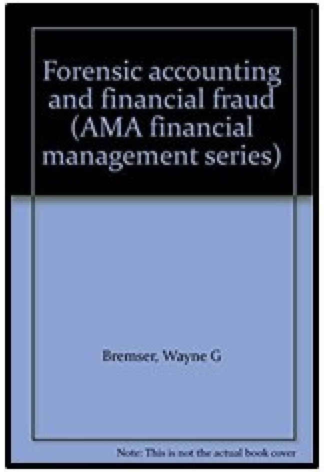

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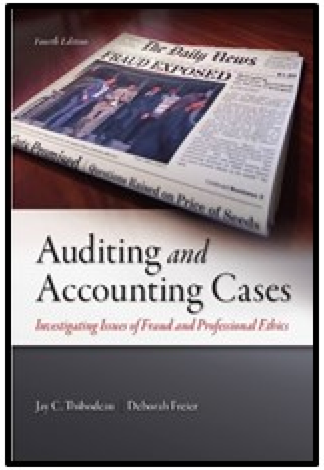

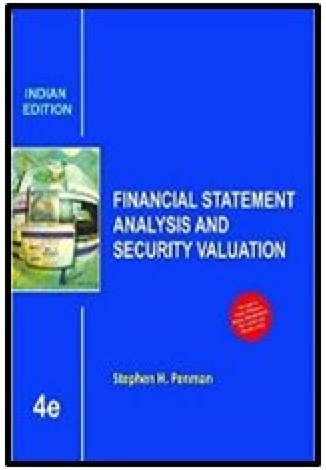

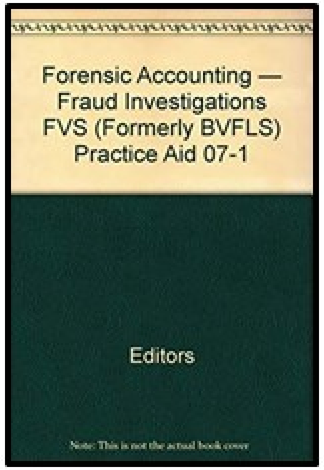

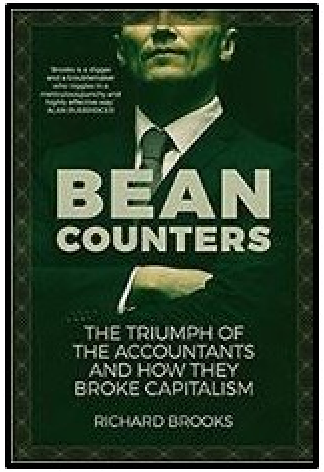

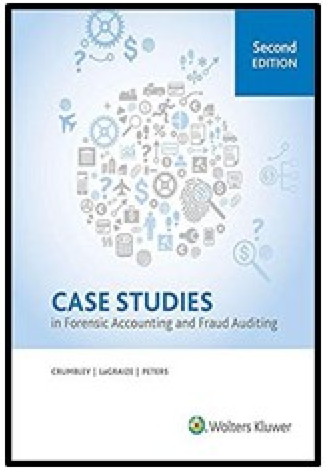

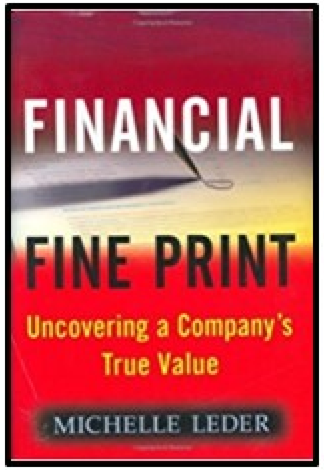

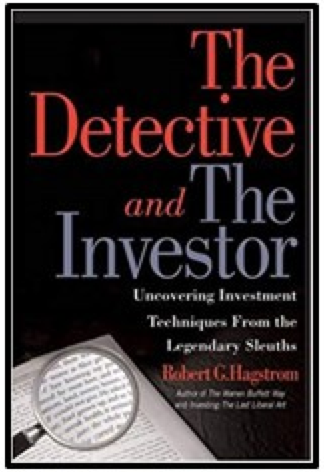

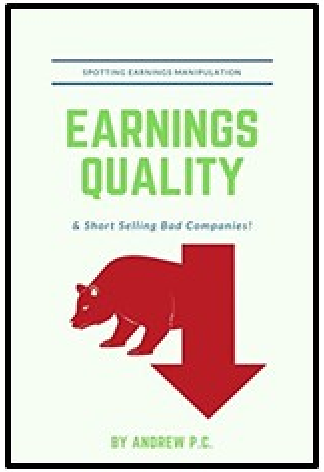

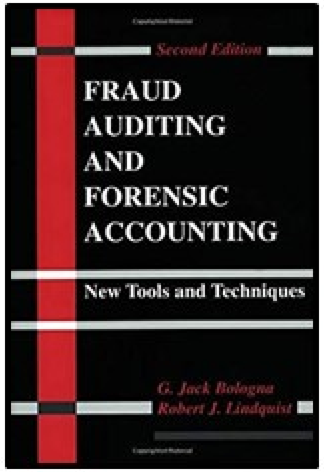

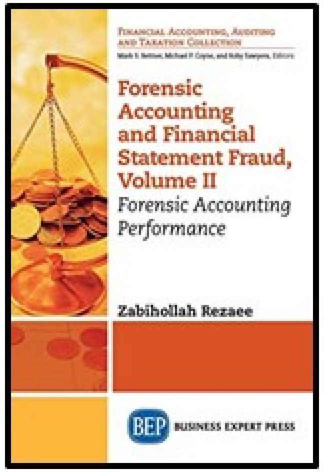

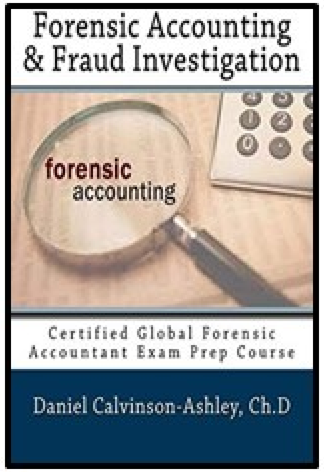

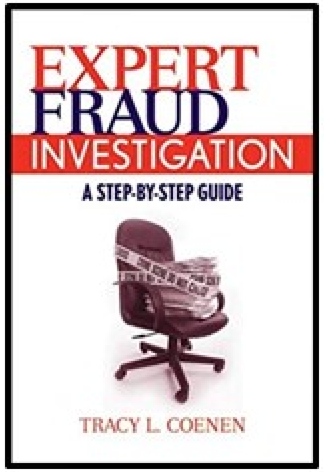

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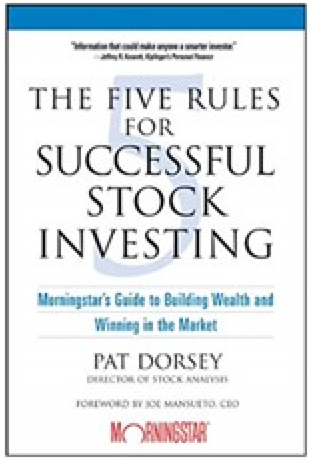

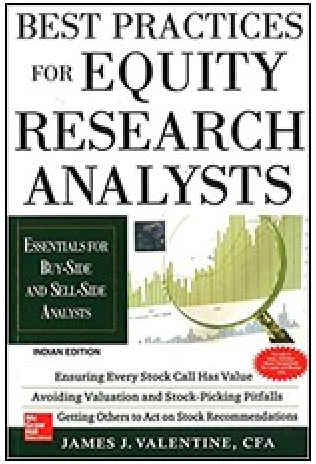

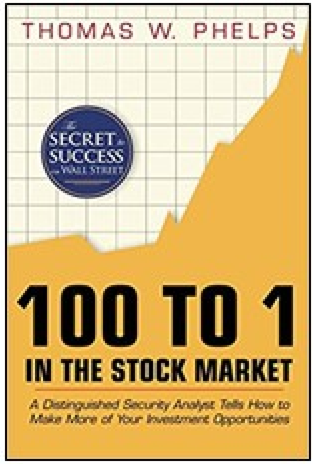

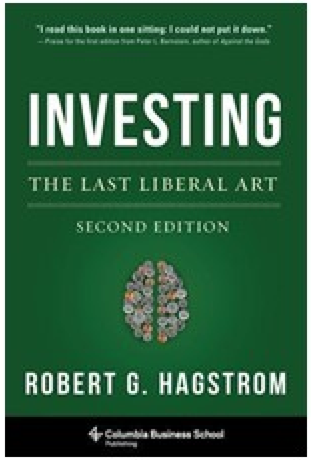

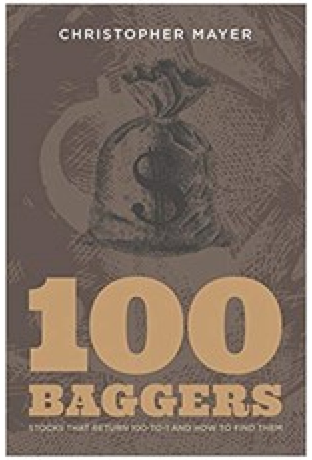

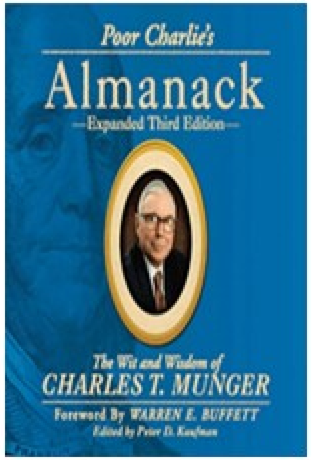

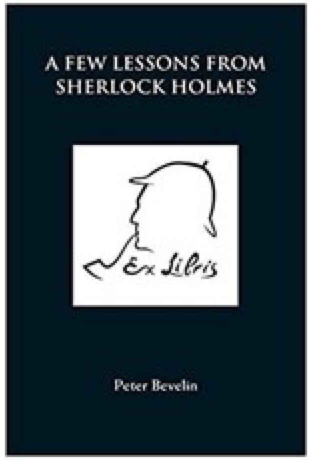

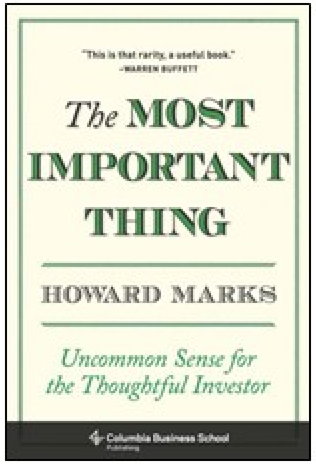

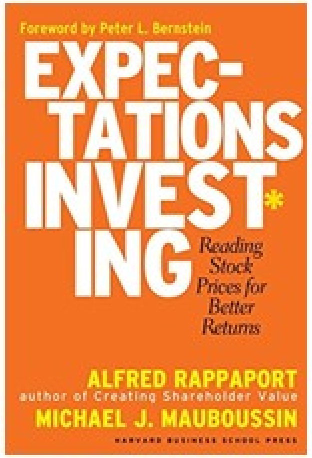

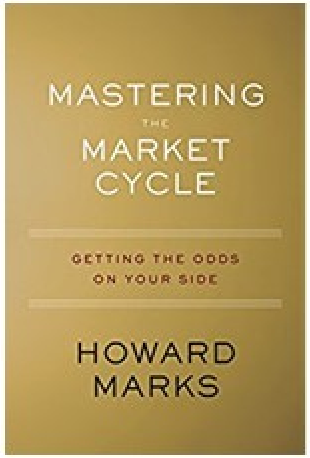

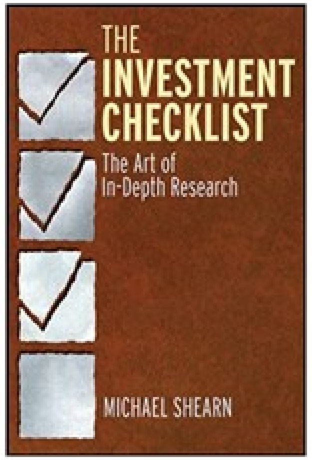

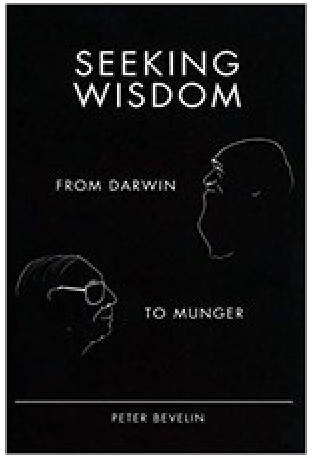

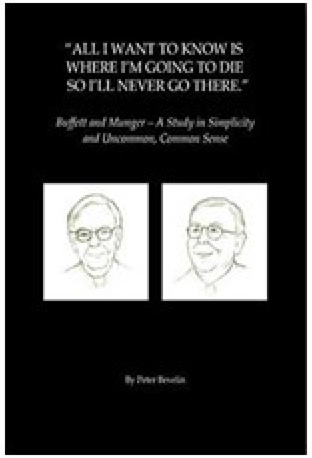

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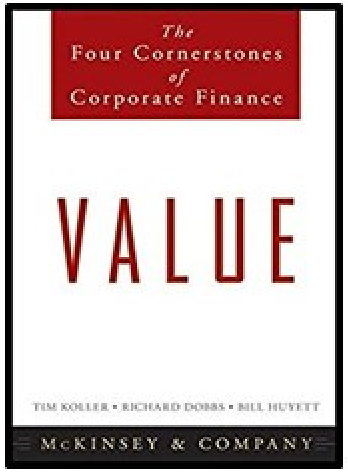

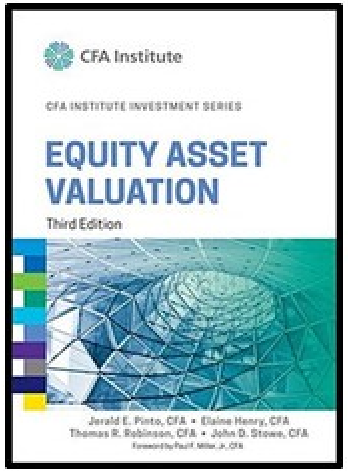

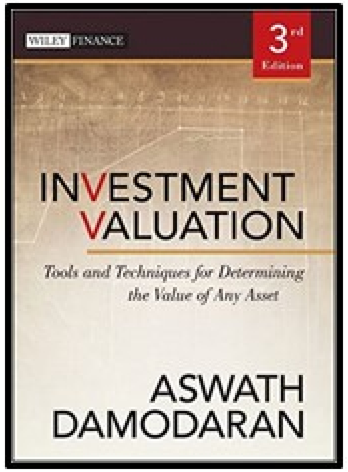

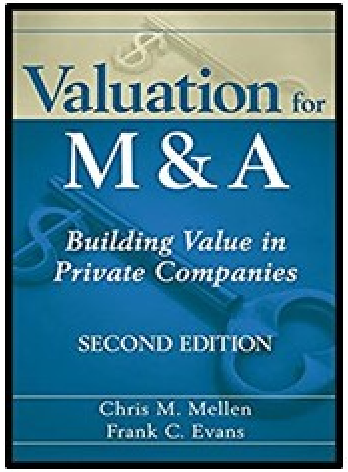

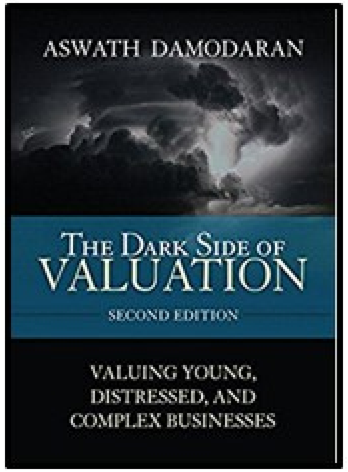

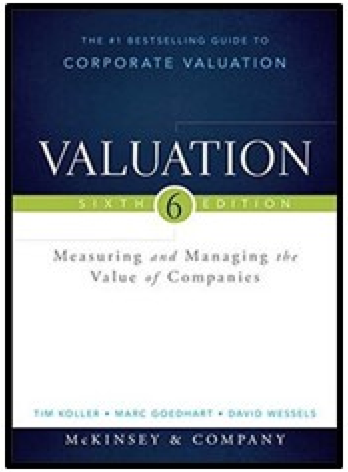

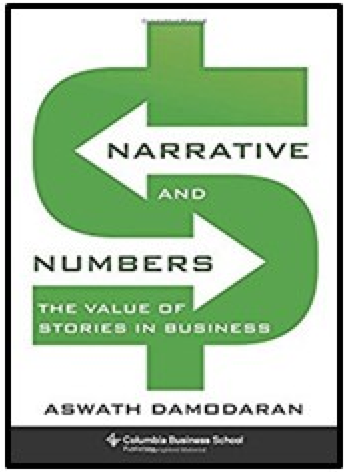

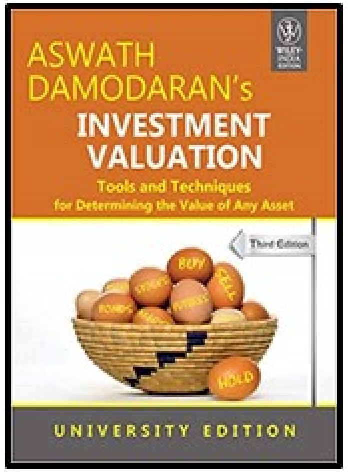

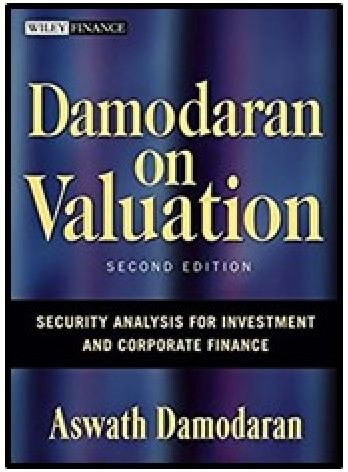

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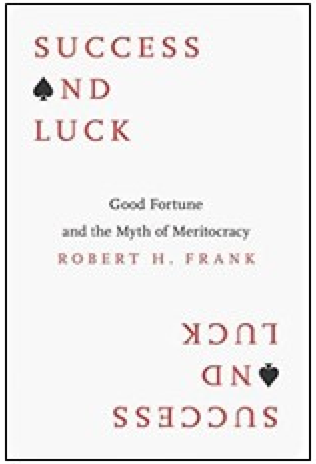

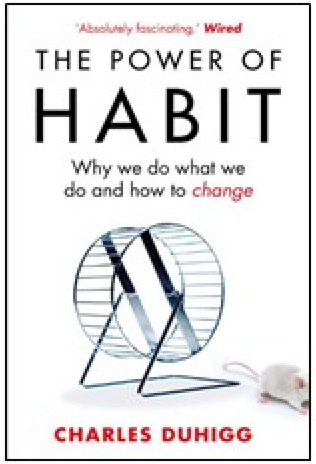

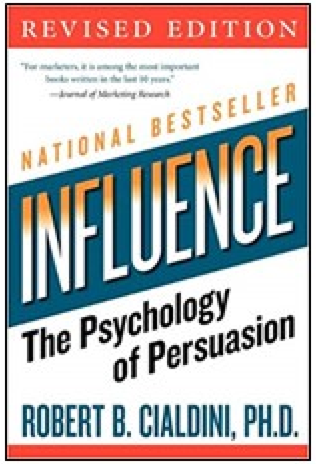

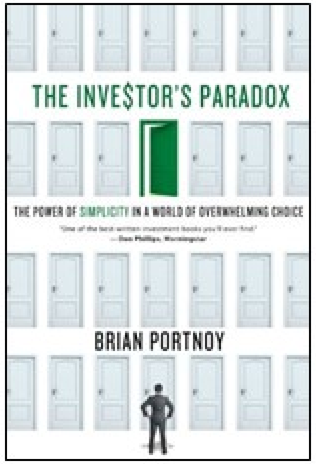

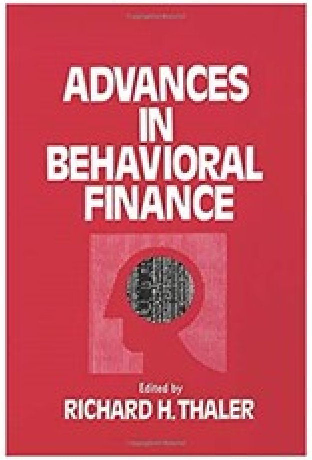

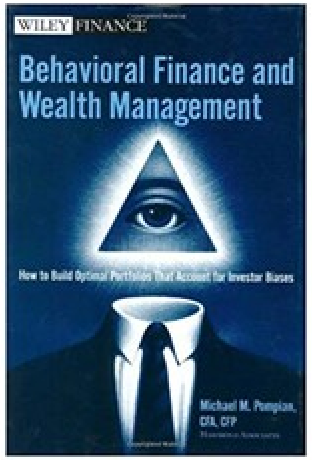

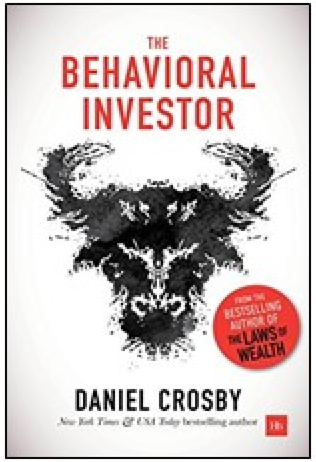

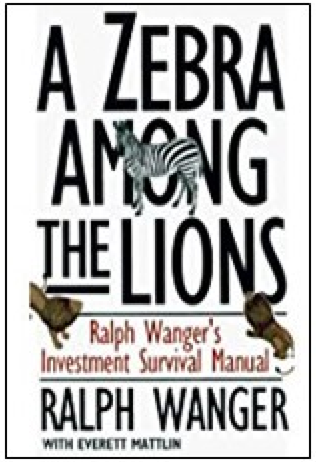

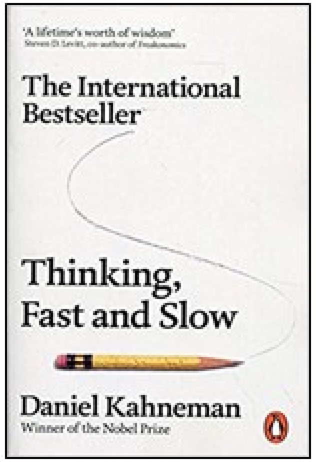

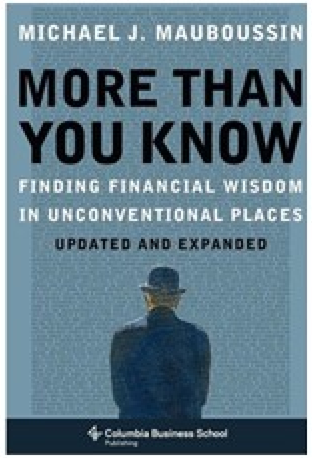

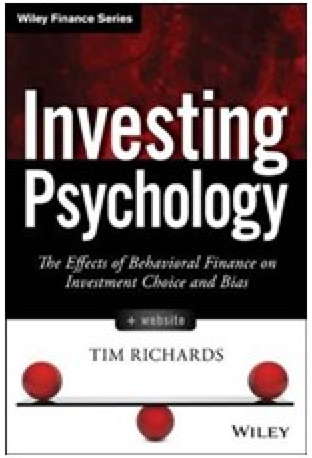

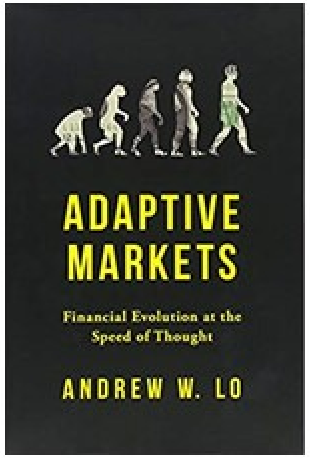

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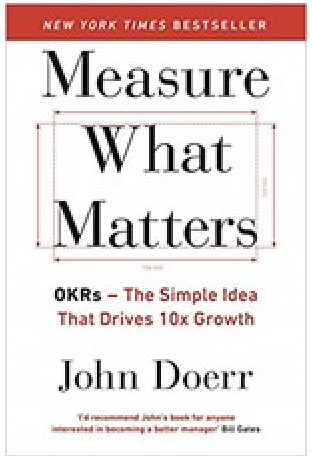

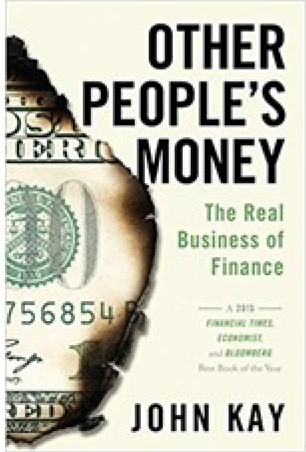

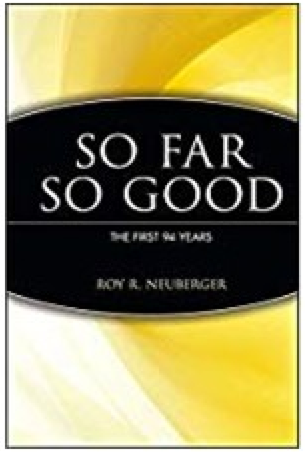

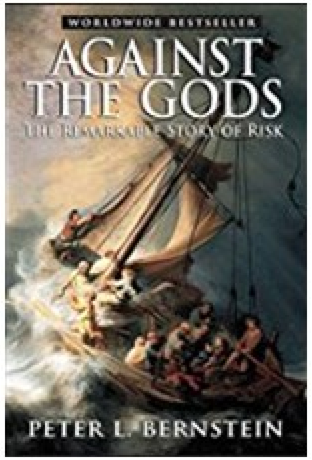

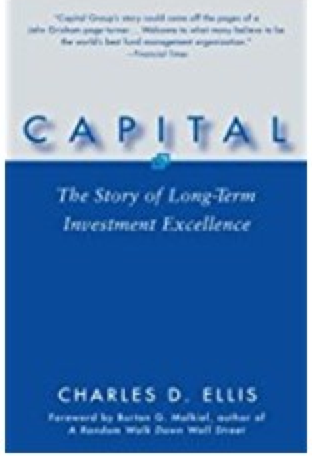

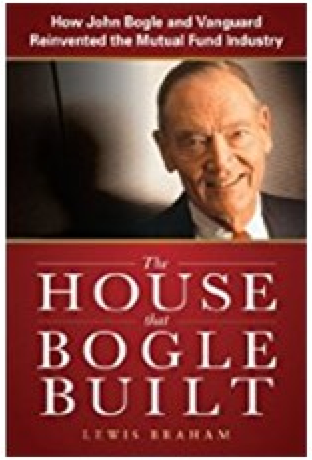

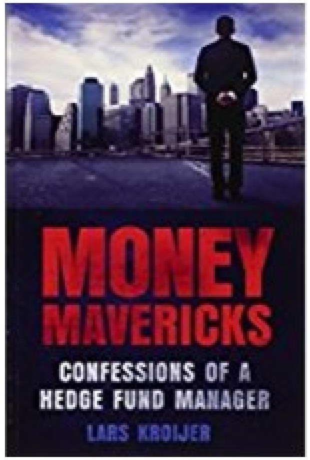

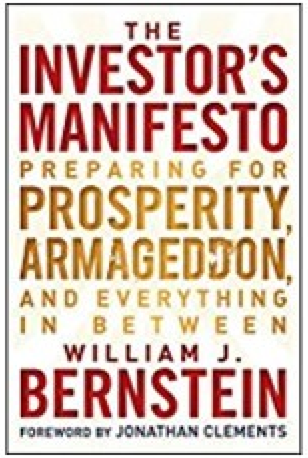

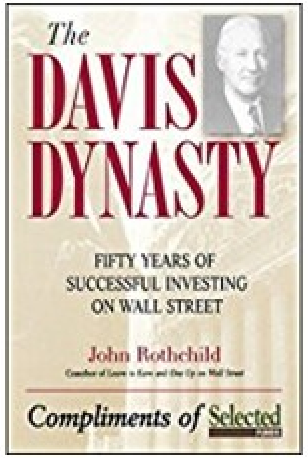

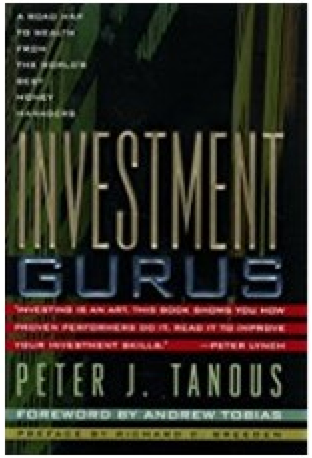

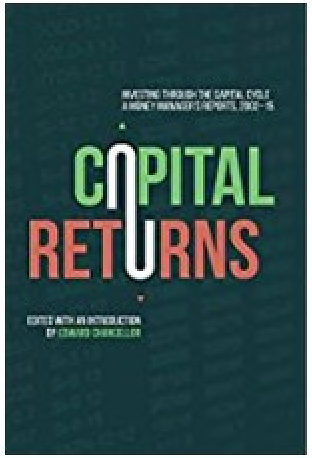

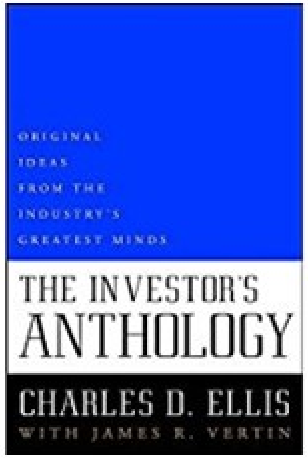

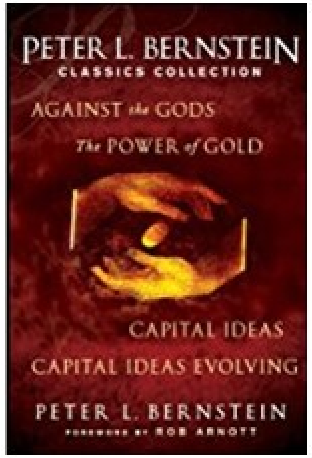

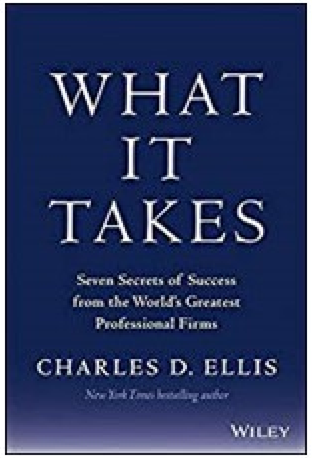

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