Twitter Thread by Ram Bhupatiraju

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"The Peter Lynch Playbook". An epic 23 page compilation of all things Peter Lynch. Fantastic effort by Mayur Jain @MJBaldBard ■■

One of those must read documents for individual investors.
CC: @dmuthuk @Gautam__Baid @saxena_puru @BrianFeroldi

Goes into 6 categories of Stocks
1) SLOW GROWERS
2) ASSET PLAYS
3) STALWARTS
4) TURNAROUNDS
5) CYCLICALS
6) FAST GROWERS

& details like
Traits
Examples
People
PE Ratio comments
2 Min Drill
Checklist
Portfolio Allocation %
Risk/Reward
When to Hold/Sell

https://t.co/xV9aCcUSQu

Lot of great points on topics like

✔■DESIGNING A PORTFOLIO
✔■STOCK PICKING
✔■INVESTING PSYCHOLOGY
✔■RISK MANAGEMENT
✔■MARKET TIMING

✔■SILLIEST (AND MOST DANGEROUS) THINGS PEOPLE SAY ABOUT STOCK PRICES

✔■PETER'S PRINCIPLES; and 25 GOLDEN RULES

✔■SCUTTLEBUTT

✔■WALL STREET

The section on Investing Psychology is excellent. Below are some of my fav pts.

INVESTING PSYCHOLOGY

- Know Yourself
  - Before buying stocks, make some basic decisions:
    - i) About the market
    - ii) About how much you trust companies
    - iii) About whether you need to invest in stocks & what you expect from them
    - iv) About whether you're a short, or, long term investor
    - v) About how you'll react to sudden, unexpected, and severe price drops
  - Define your objectives and clarify your attitude beforehand (do I really think stocks are safer than bonds?). If you're undecided and lack conviction, then you're a potential market victim who abandons all hope and reason at the worst moment & sells at a loss.
  - When you invest in stocks, you've to have a basic faith in human nature, capitalism, the country & in future prosperity in general.
  - Do I Own a House?
    - Before stocks, consider buying a house. It's the one good investment decision that almost everyone makes.
    - Unlike stocks, houses are likely to be held by the same person for many years, vs a high churn rate in stocks.
    - You never get scared out of your house just because of price falls.
    - People spend months choosing a house, asking the right questions, but pick stocks in a few minutes.
  - Do I Need the Money?
    - Set aside cash for 2-3 years, as per your family budget.
  - Do I Have the Personal Qualities?
    - Patience
    - Self reliance
    - Common sense
    - Tolerance for pain
    - Open mindedness
    - Detachment
    - Persistence
    - Humility
    - Flexibility
    - Willingness to do independent research
    - Willingness to admit mistakes
    - Ability to ignore general panic
    - Important to make decisions without complete or perfect information. Things are never clear. When they are, it's too late to profit from them.
    - It's crucial to be able to resist your human nature & gut feelings. Only a rare investor doesn't secretly harbour the belief that he can divine prices, despite the fact that most of us have been proven wrong again & again.
  - When people discover they're no good at sports, they give up, but when they discover they're no good at stock picking they continue anyway. Be open mind to new ideas. If you don't think you can beat the market, then buy mutual funds & save yourself extra work & money.

- Dealing with Price Drops
  - The best time to buy stocks will always be the day you've convinced yourself you've found solid merchandise at a good price – same as at the mall.
  - Perhaps there's some poetic justice in the fact that that stocks that take you the farthest in the long run, give you the most bumps and bruises along the way.
  - Small investors are capable of handling all sorts of markets, as long as they own good merchandise. After all, market crashes are only losses to people who took the losses. That isn't the long term investor, it's the margin player.
  - You get recessions, you have market declines. If you don't understand that's going to happen, then you're not ready – you won't do well in the markets. If you go to Minnesota in January, you should know that it's gonna be cold. You don't panic when the thermometer falls <0.
  - If you can summon the courage & presence of mind to buy during scary periods that occur every few years, when your stomach says sell, you'll find opportunities that you never thought you'd ever see again.
  - If you can't convince yourself, "When I'm down 25%, I'm a buyer", and banish forever the thought "When I'm down 25%, I'm a seller", then you'll never make a decent profit in stocks.
  - Ultimate success or failure depends on your ability to ignore the worries of the world long enough to allow your investments to succeed. It isn't the head, but the stomach that that determines the fate of the stock picker.
  - The skittish investor, no matter how intelligent, is always susceptible to getting flushed out of the market by the brush beaters of the doom. Experience is always an expensive teacher.
  - As the indices hit new records, many small companies may be ignored. That's not to say owning these laggards will protect you if the bottom drops out of the market. If that happens, the stocks that didn't go up will go down just as hard & fast as the stocks that did. Before the selling is over, companies that look cheap, get much cheaper.

Some more fav pts form various sections.

- Ignore others in favour of your own research. Investing ≠ surgery/hairdressing/plumbing. The smart money isn't smart, and the dumb money isn't as dumb as it thinks. It's only dumb when it listens to the smart money.
- Inferiority complex causes investors to do 1 of 3 self-destructive things:
  i) Imitate the pros by buying "hot" stocks or trying to "catch the turn" in, say, IBM.
  ii) Become "sophisticated" by investing in futures, options, etc.
  iii) Buy what a pro has recommended in a magazine or on the news. Information is so readily available that the celebrity tip has replaced the old-fashioned tip from Uncle Harry as the most compelling reason to invest in a company.

- The bearish argument always sounds more intelligent. It's said that "the market climbs a wall of worry", take note that the worry wall is fairly good sized & growing every day. That's not to say there's no such thing as an overvalued market, but there's no point worrying about it. The way you'll know the market is overvalued is when you can't find a single company that's reasonably priced or meets your other investment criteria.

- Things inside humans make them terrible stock market timers. Unwary investors continually pass through 3 emotional states:
  i) Concern: he's concerned after a market drop or when the economy seems to falter, which keeps him from buying good companies at bargain prices.
  ii) Complacency: after he buys at higher prices, he gets complacent because his stocks are going up. This is precisely the time he ought to be concerned enough to check the fundamentals, but isn't.
  iii) Capitulation: finally, when his stocks fall on hard times and prices fall below purchase price, he capitulates and sells in a fit of irritation.

  - The practice of buy, sell & forget, in a long string of companies isn't likely to succeed. Investors want to put their old stocks out of their minds, because it invokes a painful memory. With a stock you once owned, especially if it went up after selling, it's human nature to avoid looking at its quote. You must train yourself to overcome this phobia. Think of investments not as discontinued events, but as continuing sagas, which need to be rechecked from time to time. Unless a company goes bankrupt, the story is never over. To keep up with old favourites, keep a large notebook in which you record important details from company reports & reasons why you decided to buy/hold the last time.

- <u>Watering the Weeds</u>
  - Some people automatically sell winners and hold onto the losers, which is about as sensible as pulling out flowers and watering the weeds. Others sell their losers and hold onto winners, which doesn't work out much better.
  - Both strategies fail because they're tied to the current price movements as an indicator of a company's value. Price tells us nothing about future prospects, and it occasionally moves in the opposite direction of fundamentals.
  - A better strategy is to rotate in and out of stocks depending on what has happened to the price, as it relates to the story. Eg. If a Stalwart rises 40% and nothing wonderful has happened with the company to make you think that there are wonderful surprises ahead, replace it with another Stalwart you find attractive, that hasn't gone up. In the same situation, if you didn't want to sell all of it, you could sell some of it.
  - A price drop in a good stock is only a tragedy, if you sell at that price and never buy more. A price drop is an opportunity to load up on bargains from among your worst performers and your laggards that show promise.
  - How can someone complain after selling a stock at 5x? When you've found the right stock and bought it, all the evidence tells you it's going higher, and everything is working in your favour, then it's a shame if you sell a 25x for 5x.

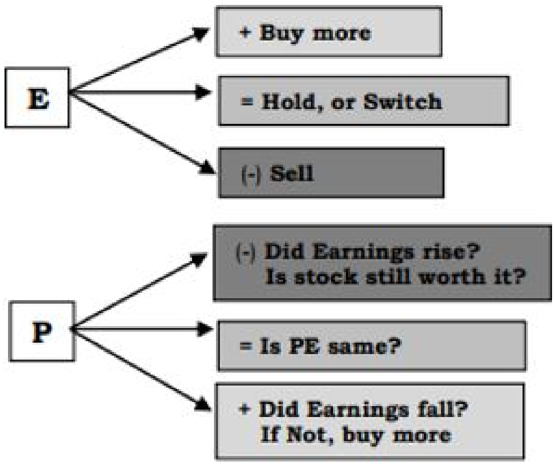
Some good points on due diligence & valuation checks after buying.

- Two Minute Drill
    - After company classification and figuring out whether the PE is high / low vs immediate prospects, figure out the company's "story".
    - Except possibly Asset Plays, something dynamic has to happen to keep earnings moving along. The more certain you are about what that something is, the easier it gets to follow the script.
    - Be able to give a 2 minute monologue that covers the:
        - Reasons you're interested in it
        - What has to happen for the company to succeed?
        - The pitfalls that stand in its path
    - Once you're able to tell the story such that even a child can understand it, then you have a proper grasp of the situation.
- The 6 Month Checkup
    - A healthy portfolio requires a regular checkup – every 6 months.
    - Even with blue chips, buy and forget can result in wasted opportunities and huge losses. It happens to people who imagine that betting with blue chips relieves them of the need to pay attention.
    - It's not simply a matter of checking prices – you can't assume anything.
    - You've got to follow the stories and get the answer to 2 basic questions:

        i) Is the stock still attractively Priced, vs Earnings?
        ii) What's happening to the company to make the Earnings go up?

    - Answer – 3 possible conclusions:
        i) Story has gotten better = you might want to increase your investment.
        ii) Story has gotten worse = you can decrease your investment.
        iii) Story unchanged = you can either stick with your investment or put the money into another company with more exciting prospects.

		Price		
		Higher	Same	Lower
Earnings	Higher	Hold	Buy	BUY!!!
	Same	Sell	Hold	Buy
	Lower	SELL!!!	Sell	Hold



- Silly to get bogged down in PE's, but you don't want to ignore them. Are PE's of your stocks High/Low/ Fair, vs, industry norms? Is company selling at a premium or discount, vs peers? Track a company's historical PE track record through several years to get a sense of its normal levels.
- Quick way to tell if a stock is overpriced is to compare Price line vs Earnings line. Buy, when Price < Earnings. Sell, when Price >>> Earnings (dramatically higher).

Overall, this is an excellent document if you read it with the curiosity to learn more, verify and improve your process (and acknowledging that there could be some dated stuff) , not for blindly copying any said approach and expecting great results.

All the best ■

/END