

Twitter Thread by Ram Bhupatiraju

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**One of my all-time favorite articles on "Investing Mistakes". h/t Altais Advisors
@basrars @vishalmittal22 ■**

So many good lessons here for long-term investors in individual stocks. My fav pts in the thread below.

1■ Selling good businesses too early: without giving due importance to long term growth outlook and the potential of the business to scale.

If you are invested in a growing business, do not sell it for temporary overvaluation,

there may be some time correction which is fine, which should be managed at a portfolio level. At the same time, one needs to be careful of slowing growth or fundamental deterioration in the business.

2■ Going down the Quality curve: Selling good companies, which were growing well, and investing in cheaper but low quality/ growth companies. Over the cycle, this results in sub optimal returns.

3■ Waiting for a little lower price to buy: Losing 10-20 baggers waiting for 20-25% lower price! Missing the boat on so many opportunities trying to just get them a bit cheaper, which never comes.

Over a 5 year period, the stocks you like on a fundamental basis can go up multiple times and the downside to them is say 20-30%. So on a portfolio of such stocks, it's better to be long at least with a smaller & growing allocation than not to buy them.

4■ Failing to consider overall market change and its impact: Different stocks work in different market environments. In a bear markets, companies which are consistently growing their earnings give surer returns,

while in the bear to bull market transition, major money is made from valuation rerating relative to earnings growth.

5■ Not experimenting enough in the portfolio: Focusing only on a single style – Moat stocks/ Special situations/ Cigarbutt stocks can make one a man with a hammer. How do you become a learning machine if you don't experiment in real time

with real money?

Allocating a small part of portfolio (depending on comfort), as a hunting ground to scale up positions as one gets more comfort. It allows to allocate some capital to Co.'s which potentially can give very large returns but you cannot make them core holding at the outset.

6■ Having a very large cash allocation: In volatile or sideways markets, cash gives mental relief. While possibility of deploying cash in steep corrections is there, but it's very difficult to get it consistently right.

It is better to be more invested (based on overall allocation), even if there is short term over valuation and gradually take profits. High market valuations should be used as an opportunity to move from low quality to high quality stocks and not vice versa.

7■ Holding on to the non-performers for too long: When these stocks don't move for period of time, we start treating them as cash proxy, hoping for an earning rebound.

Also, we start paring down good performing companies in the portfolio as their marked to market allocation keeps increasing with performance, further impacting portfolio performance and quality.

8■ Thesis change, Market view changes: Often the eventual reason of the success of a stock has little to do with the initial thesis. One needs to be open minded about new data points.

9■ The need to be Contrarian: When we see markets or stocks moving up fast, the natural urge is to be contrarian and call it speculation. It sounds more intelligent to be bearish and contrarian.

One can be selective as to the economic segments or timing where one wants to be bullish, but the underline trait has to be optimism and confidence.

■ Focusing on macro: Again talking about macro sounds intellectual, but for a bottoms up individual investor, it has little relevance. Spending more than couple of percentage of your time on macro tracking or discussion is normally waste of time.

Economic macros can mostly be dealt at portfolio level decisions, which need not be done on a regular basis.

"A lot of these mistakes can be avoided by focusing on the portfolio return rather than each individual stock return. This makes it much easier to hold part of the portfolio which may time correct in the near future with earnings catching up with valuations."

"Additionally, you can selectively invest in stocks which may not give linear returns over the next 1-2 yrs, but hold potential to give very high returns over a longer period of time. Essentially it comes down to optimizing the portfolio return rather than trying to maximize it."

"There is no best or the right way to invest – investors have successfully generated huge returns from different investing strategies – be it buying and holding quality companies, chasing growth even at high valuations, buying cheap companies betting on turnarounds etc."

"People have made large amount of wealth by having concentrated as well as diversified portfolio. So investors have to explore what works for them, given their financial requirements, temperament, skill & time horizon."

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