Twitter Thread by Vidya

Vidya
@VidyaG88

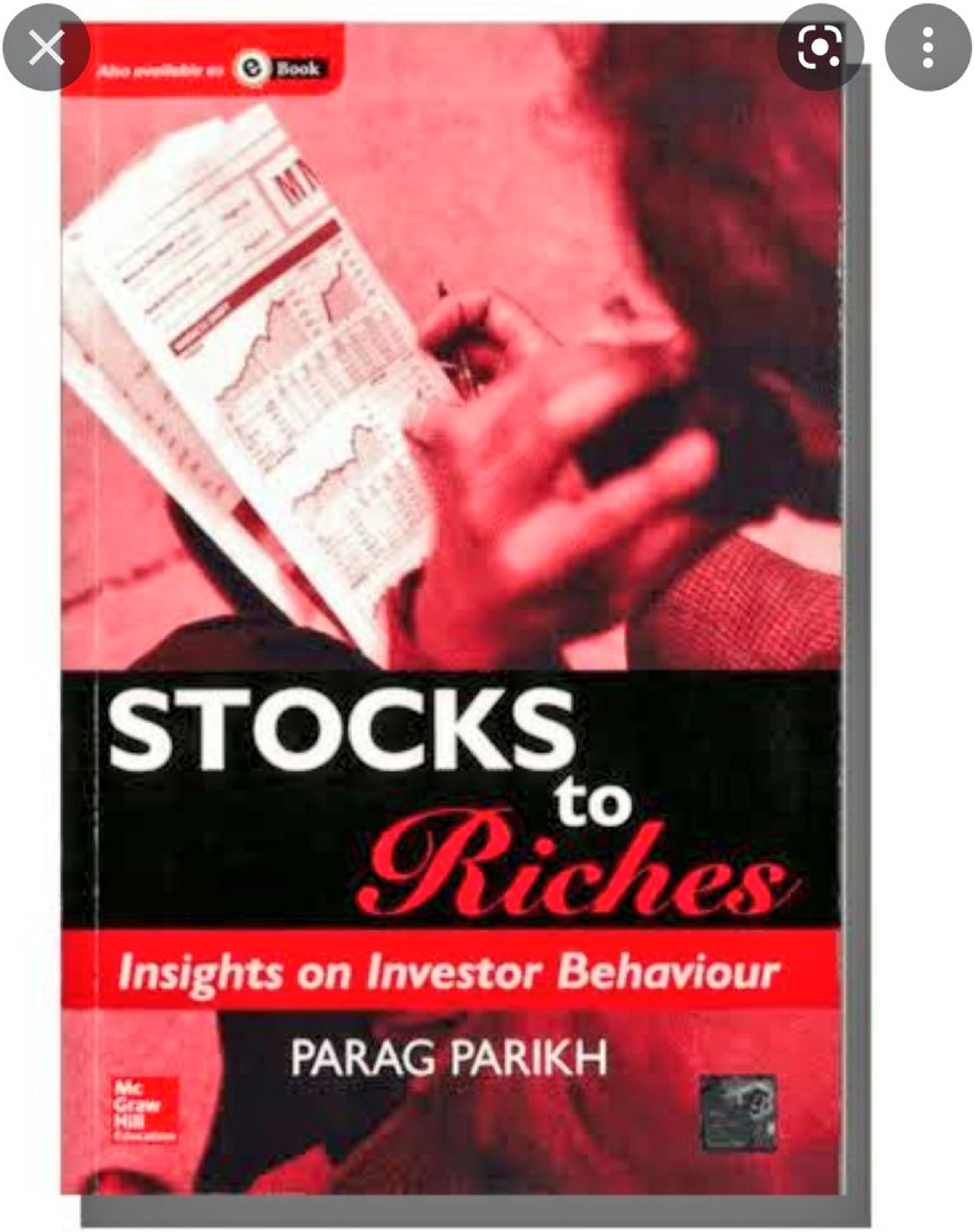
1/22
I first read this book in 2009 after losing 80% of my monies on Penny stocks as a student when the 2008 drawdown happened.

Thought it was too simple !

Now in 2021, I think this is one of the best books to absorb & implement.

A ■

#BookTwitter
#BookRecommendations



2/22

Investing means different things to different people - Be it health/ career/external assets with an intent to reap benefits in future.

So then is everyone an Investor ?

No.

When people do different things with even same investment products we give it a different name.

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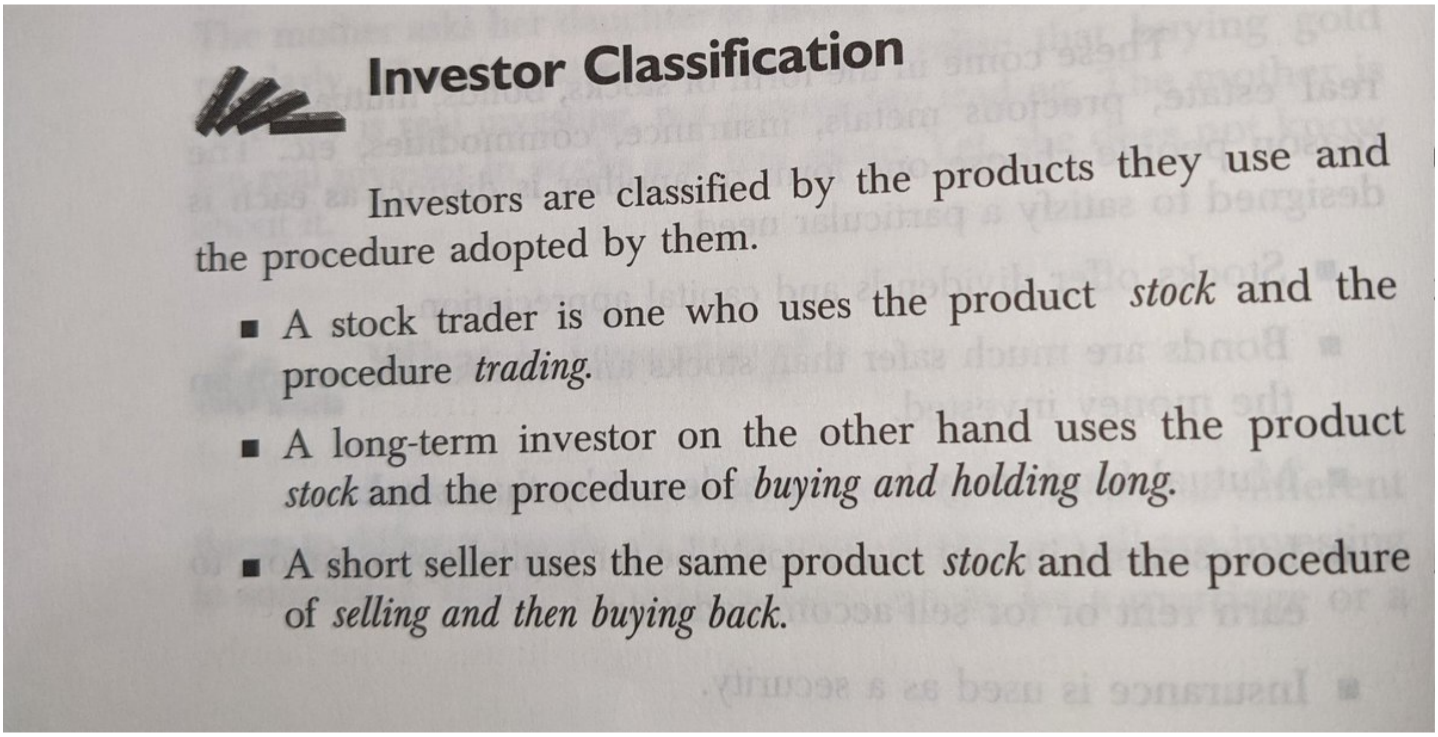


Investor Classification

Investors are classified by the products they use and the procedure adopted by them.

- A stock trader is one who uses the product *stock* and the procedure *trading.*
- A long-term investor on the other hand uses the product *stock* and the procedure of *buying and holding long.*
- A short seller uses the same product *stock* and the procedure of *selling and then buying back.*

3/22

Investing is a PERSONAL Plan .

It's NOT a product . NOT a procedure.

One needs to have a clear picture of one's financials BEFORE making an investment plan.

Investment products comprise of items with distinct characteristics DESIGNED to satisfy a particular need.

■

INSTANT GRATIFICATION IS A TRAP! *
DON'T FALL PREY TO SPECULATION & AROUSE YOUR GAMBLING INSTINCTS.

There is nothing wrong with trading; these traders also play their part in providing liquidity to the markets. It's only when people are not clear about their own investment plan that all these products and techniques become overwhelming and confusing. There are a number of TV shows and advertisements on investment. Under the banner of investing and investments they knowingly or unknowingly arouse your gambling instincts by giving you trading and speculating ideas. Maybe they themselves are also ignorant about 'investing'. Look at some of the advertisements of banks, mutual funds, brokers and investment advisors. None of them will talk about helping you to make an investment plan. Most of them offer to help you trade or speculate promising you quick returns. They get away with it because investing is a complex subject and not many people know much about it. Be very careful of instant gratification ideas. They are only dreams. Everyone and anyone in the stock market could be a trader but not everyone is an investor. V imp

Plan of Action

LIST OUT YOUR GOALS, EXPENSES & CORPUS.

- Make an investment plan for yourself.
- Decide the different types of investment vehicles you need and the procedure you need to adopt.
- If you believe trading is the appropriate procedure for you so be it. But understand that you are trading and not investing. So when the vagaries of the market hit you hard do not wonder how it happened. You opted for the trading choice that seems easier, and you paid the price.

Investment planning is a continuous process. We are living in times of constant change and our goals change with our changed circumstances, requiring us to reweigh our options constantly. It requires discipline to stay the long-term course and patience to achieve the desired outcome. If equity stocks happen to be the most preferred investment vehicle in your investment plan, you need to understand the strategy that needs to be adopted. The next chapter explains investment strategy.

{Discipline & Patience}

4/22
Nothing is permanent except CHANGE.
Same applies for market cycles.
Different Asset Classes help us in that.

By smart movement one can increase the velocity of one's money.

It is NOT about timing the markets.
It's ABOUT the trends in an asset class.

Few pointers
■

Trends and Diversification

AWARENESS ABOUT CHANGING TRENDS

We live in a world of continuous change. Good times follow bad and vice versa. Nothing is permanent. We need to be aware of changing trends so that we can benefit from them.

We have just talked about diversification into different asset classes according to our investment plan. But that does not mean we stay invested in just those asset classes. We cannot get married to them. They all are there to serve a purpose and once that is served we need to move on to a new asset class. Alternatively you may have an asset class that has appreciated considerably due to positive trends in that asset class. Here we need to remember the law of nature. Whatever goes up must come down and vice versa. So we need to make a call. Sell a portion of that asset class which resembles the profit and move that money to another asset class where the trend is bearish. What happens? The asset remains intact, but the money earned from that asset class has moved to a different asset class where the chances of an upside are much more. Thus you are increasing the velocity of your money. UNDER RATED

Now one would say that this is quite risky and tantamount to speculating. Yes, it could be risky if you are trying to time the markets and get in and out of a stock. But here we are talking about trends in an asset class. Take for instance the real estate market which was very low and subdued in the years between 1998 and 2003. Prior to that it was very good. The trend changed and if anyone had invested in the real estate market when the

RISKY IF TRYING TO TIME MARKETS.

RISK FREE IF ONE UNDERSTANDS TRENDS

5/22

Many folks acquire Speculative habits mistakenly thinking they are Investing. ■■

L.T Investing is central for optimum returns.

Markets will be volatile.

But in long run shall only go ■■

Some notes on Cash Flow & Capital Gains Model , Speculation & Law of The Farm

■

EQUITY INVESTMENTS ARE THE BEST HEDGE AGAINST INFLATION

2 SOURCES OF RETURN

Fundamentals
↓
REPRESENTED BY
→ Earnings
→ Dividend

Reliable + sustainable over L.T

Speculation
↓
REPRESENTED BY
→ Market val^n of these fundamentals

Dangerous + Risky

DIVIDEND P/O → COMPANY'S EARNINGS AKA +ve CASH FLOW

Thus CASH FLOW is a product of fundamentals & sustainability + variable factors (Quality of Mang^t, Competitive market position, Core competency etc)

INVESTMENT VALUE OF A STOCK IS THE PRESENT ~~VALUE~~ WORTH OF ALL DIVIDENDS TO BE PAID UPON IT.

CAPITAL APPRECIATION $\xrightarrow{\text{FROM}}$ Bonus + Rights issue
↓
increase holding → ↑ cash flow

classmate

6/22

Difficult to say which strategy is good. Even good speculators make money.

It depends on the individual's attitude, discipline , risk taking ability & patience.

Too much UNCERTAINTY is making markets the bedrock of speculation & HENCE the volatility.

that even a long-term investor in Hindustan Lever would envy. Speculators do make a killing, as some would have definitely done during the various periods of the boom and the bust cycles. The only rider is, can they do it consistently over time? A lot of speculators could have made more money than the long-term investors on the above stocks. So it is difficult to say which strategy is good and which is bad. It depends upon the individual's mental attitude, discipline, risk-taking ability and patience.

This conclusively proves a few points namely: RIGHT SCRIP AT RIGHT PRICE

- Long-term investing can be very rewarding if you buy the right company at the right price,
- A stock can decline significantly in the short run and yet give a decent long-term return, S.T ↓, BUT L.T ↑
- Short-term investing (speculation) can also be very rewarding if you are able to time the markets and take advantage of short-term volatility. SPECULATION IS ALL ABOUT TIMING

Table 2.1 Compounded Annual Growth Rate of Infosys Technologies Ltd.

(Rupees in crores)

Year ended March	*Net Profit*	*Market Cap as on March 31st*	*PE Ratio*
2000	294	58900	200
2001	629	27012	43
2002	808	24713	31
2003	958	26763	28
2004	1243	32908	26
CAGR	43%	–14%	

3 paths to achieve superior results.

■ The Intellectually difficult path - Admired in HINDSIGHT

■ The Physically difficult path - SELF complicated

■The Emotionally Difficult path - Deceptively Straightforward & Best suited for most

More explanation here

■

THE INTELLECTUALLY DIFFICULT PATH
(most difficult)

Pursued by the likes of those who have a profound knowledge & understanding of investing, can see future trends clearly & can comprehend business & the environment.

Investors like Warren Buffet, Charlie Munger, John Templeton .....

WE ADMIRE THEM BUT USUALLY IN RETROSPECT

Method uses - CASH FLOW APPROACH + a good grasp across multi disciplinary fields + ability to CAPITALISE upon any such business opportunity (most imp IMHO) + Patience

Investing for cash flows NOT Cap Gains
Hence wait it out & sit on cash.
HAVE CASH WHEN OPPORTUNITY ARRIVES.

FEATURES

* Emotionally strong
* Non impulsive
* Read voraciously
* Always on hunt
* Non churners
* Use common sense

classmate

8/22

Onto the most important part : *Behavioural Finance*

Most investors make decisions with their hearts.
Our WAVERING emotions (FOMO/Panic/Greed- IPO investments etc) define us.

Our logic & rationale takes a backseat & only retrospectively justify these decisions.

"With such positive news from the company why is the stock going down?"

"I am a qualified chartered accountant. I went through the financials of the company and I feel that at the current price, the stock is too expensive. I would not buy it nor recommend the same to anybody. But I am surprised that in the last two weeks the stock is up 15 per cent."

"My friend works with this company. He told me that it was doing exceedingly well and that they have export orders worth crores in hand. So I bought the stock. It's six months and I have been waiting but the stock is going down."

"The company has announced a 1:1 bonus. It's good news so I bought the stock. But the stock went down instead of going up like I thought it would."

"I read the morning's newspapers and was impressed by the Finance Minister's speech and his intention to give sops to the economy. The markets greeted the news positively and went up so I bought stocks. The next day the markets were down for no reason and I lost on my investment."

"I heard the experts' comments on TV on the current budget presented by the Finance Minister. They were not very happy with it. I sold my stocks only to find that within a week the markets were up 10 per cent. I don't know why I sold my stocks which I had been holding for the last four years."

"I cannot understand the markets. I would rather stay away."

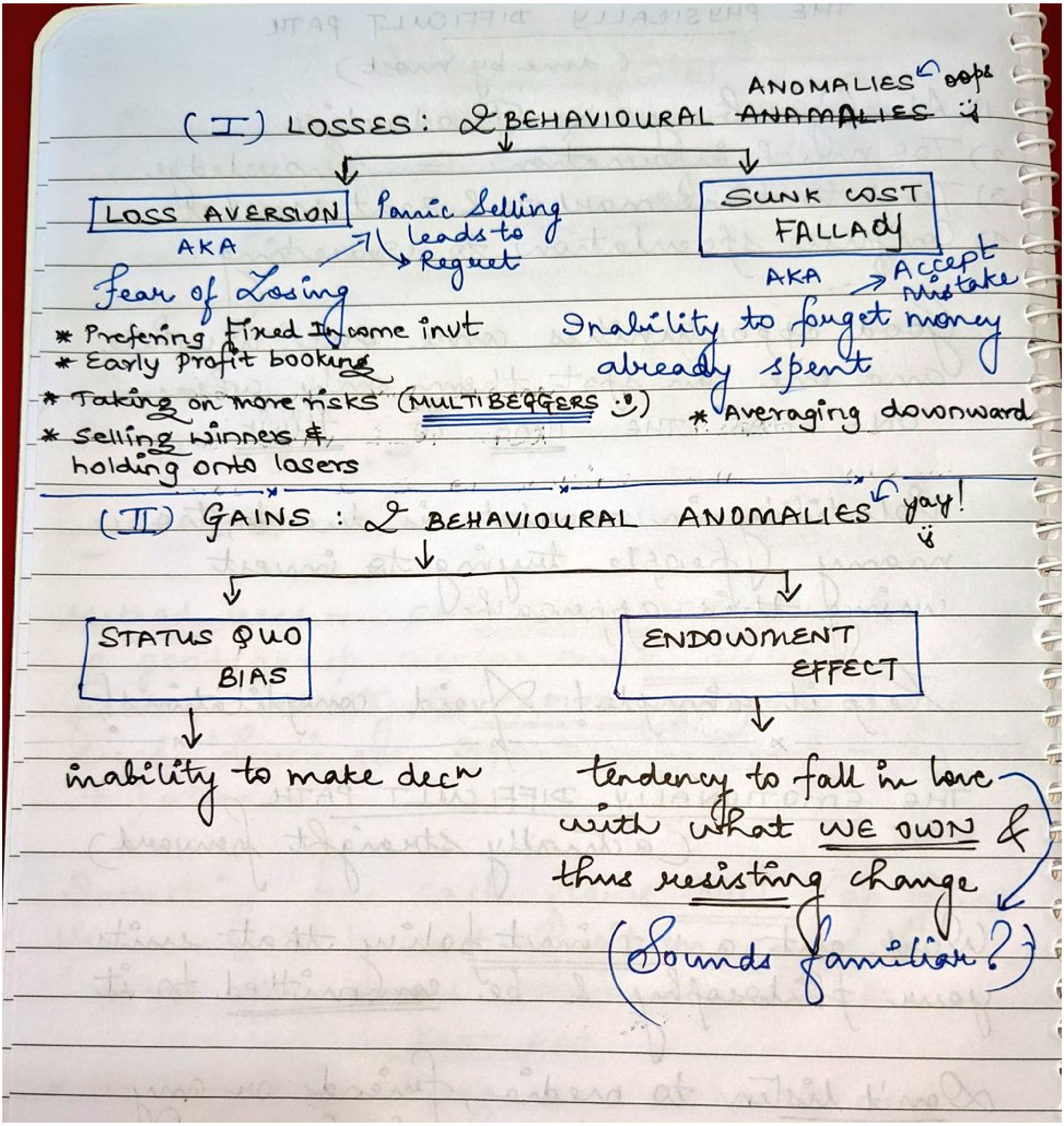
9/22

■Check if you are a victim of Loss Aversion & Sunk Cost fallacy.
Work upon it to make wiser investment decisions in future.

■Diversify wisely WITHIN assets ACROSS asset classes to avoid reacting impulsively.

■Avoid looking at gains & losses in isolation.

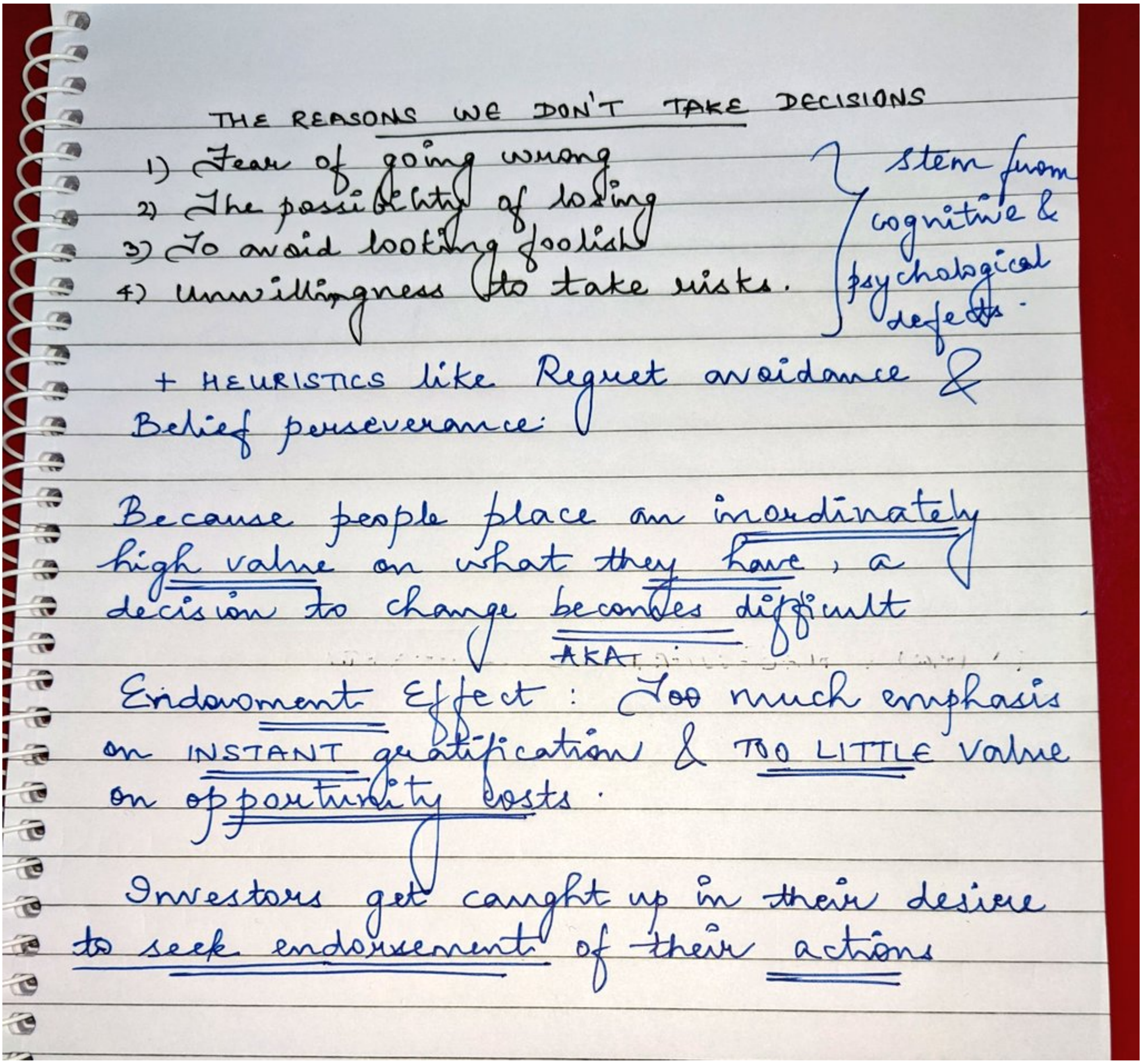
More here ■



10/22
Deciding not to take a decision is ALSO a decision.
Maintaining a Status Quo in times of continuous change is unwise.

It is a natural tendency to resist change which amplifies Decision Paralysis. (The book has many examples as illustrations)
1

More on this here■



THE REASONS WE DON'T TAKE DECISIONS

1) Fear of going wrong
2) The possibility of losing
3) To avoid looking foolish
4) Unwillingness to take risks.

stem from cognitive & psychological defects.

+ HEURISTICS like Regret avoidance & Belief perseverance:

Because people place an inordinately high value on what they have, a decision to change becomes difficult

AKA

Endowment Effect: Too much emphasis on INSTANT gratification & TOO LITTLE value on opportunity costs.

Investors get caught up in their desire to seek endorsement of their actions

11/22
V.imp
Mental Accounting affects our behaviour in different ways.

The tendency to place DIFFERENT values to the SAME sum of money depending on HOW it was acquired & the EFFORT needed for this.

Such an underrated concept !

two situ

Situation A

You have paid Rs. 500 for a movie ticket. When you reach the theatre you find that you have lost the ticket. Would you, buy a new ticket? or would you prefer to go back?

Situation B

You go to the theatre to watch a movie. When you reach the ticket window you find that you have lost Rs. 500 out of the Rs. 2000 you were carrying. Would you still buy the ticket?

Most people would say no to the first situation and yes to the second. However, both entail a loss of Rs. 500 and the cost of Rs. 1000 to watch the movie. So why take different decisions? Because most people segregate the loss of the ticket and the loss of cash into independent categories or accounts, and therefore react contrarily to the two situations.

Mental accounting is directly correlated to our emotional state. To understand it better, let's consider different types of mental accounts and the human behaviour associated with them.

Earned Income V/s Gift Income

When you receive your salary cheque you are very careful how you spend it. For you that money is sacrosanct, the fruit of your

12/22

Some eg of Mental Accounting errors

■Holding onto losers unwilling to accept mistake & believing losses are notional & price will ■■

■Bonus shares considered as Freebie & bought post announcement (Eg IEX) . Stock ■■■ Companies gives Bonus shares to capitalise reserves.

13/22

■ Trading repeatedly with narrow spreads failing to consider transaction costs & brokerage.

■Being okay with high interest in margin trading & off setting it by a lower interest of bank F.D aka - 2 mental accounts.
Safe money & Risk money for SAME money.

14/22
Personal favourite : Mental Heuristics.

We reach conclusions by Trial & Error usually leading us to develop Thumb Rules which aren't always accurate.
Identify the principles underlying these thumb rules & the ERRORS. associated.
The book then discusses various heuristics.

Although both the lines are the same why is it that the lower line appears longer? That's because the brain takes a short cut when processing information. It does not process all the information and this leads to biases. This process is known as Mental Heuristics. If your answer to the first question—how many birds are there on the tree? —is one, then you have fallen prey to a mental heuristic. Your brain did not process the information properly. The answer should be three birds. Two had only decided to fly away. They did not fly away. Had I told you that they flew away then you would be right.

The dictionary definition of the word heuristic refers to the process by which people reach conclusions, usually by trial and error. This often leads them to develop thumb rules, but these are not always accurate. One of the greatest advances of behavioural psychology is the identification of the principles underlying these thumb rules and the errors associated with them. In turn these rules have themselves come to be called heuristics. In short, the following four statements define Heuristic Bias.

- People develop general principles as they find out things for themselves.
- People rely on heuristics to draw inferences from available information.
- People are susceptible to certain errors because the heuristics they use are imperfect.
- People actually commit errors in particular situations.

There is a newly opened mega-store in the vicinity whose stock is listed on the stock market. You see a big queue outside it and you think it must be doing a roaring business. You buy the stock hoping it will go up because the store is doing well. But there could be umpteen reasons for the queue. The store definitely could be doing great business. But it is also possible that customers are queuing to return defective goods. Or perhaps the service is slow, or maybe all the other stores in the vicinity are closed on that day. There are various reasons for the queue but our brain does not weigh all the probabilities and makes a decision on half-baked information. Stock markets are interesting because investors do this all the time.

15/22
Investing is a game of patience.

But Keynes is often quoted - " In the long run we are all dead" to justify our speculative urges.

We try to time the markets.
Sometimes we go RIGHT & MAKE a quick buck.
Many times we DON'T & LOSE HEAVILY.

Watch!
■
https://t.co/LYXdFjjZ20

16/22
The book talks on how Mutual Funds TALK about Long Term investment strategy but most often ONLY look to TIME MARKETS & fund managers being forced to act in a way NON CONFIRMING with basic investment principles owing to competition.

Ahem...RINGS ANY BELLS ? ■■

As the industry grew so did the competition leading to high marketing costs. Money comes when the markets climb as the net asset values start going up. There is a scramble to get in and fund managers are pressured to invest in a rising market at inflated asset prices. However, when the market falls the net asset values fall and the investors pull out forcing fund managers to sell the portfolio at depressed prices to meet the redemptions. The basic principle of buying when prices are depressed and others are selling, and selling when prices are high and others are buying is not workable. Fund managers are forced to act in a way that does not conform with the basic investment principles. Their decisions are being controlled by the environment.

Fund Manager's Behaviour

Because of the pressure to perform in the short run, fund managers chase each other's net asset values rather than follow sound investment strategies. When the Information, Communication, and Entertainment (ICE) sector moved up in 1999, fund managers chased those stocks, and prices rose steeply. Most of them had the same ICE stocks among their top holdings. At the time of the rise of public sector undertakings in the oil sector, most of them had ONGC, BPCL and HPCL as their top holdings. Then when the fad passed, they competed to sell and depressed the prices. It is obvious that the herd mentality is what drives them to make decisions. Newspapers and financial journals report quarterly performance of funds. Influenced by this news, investors enter and exit funds forcing fund managers to change strategies midway. They are thus forced to keep up with market trends and this affects their performance. Also, the practice of offering bonuses and rewards for turning in short-term profits, rather than for following a sound investment strategy, forces them to adopt short-term strategies. As a result it is the investors who lose. For if making short-term money were so simple, in the market he would not be a fund manager, he would be busy making money for himself playing the market.

This is not to say that all fund managers are mediocre. The Indian capital market does have some very good talent and we

17/22
Markets ARE unpredictable.

Intermittent bubbles happen. Burst. Gradually markets pick up.

It's all a circle which repeats as human nature is predictable.
Understanding the psychology of market participants helps.

A video of Parag Sir on this.
■
https://t.co/6J1RcImKZY

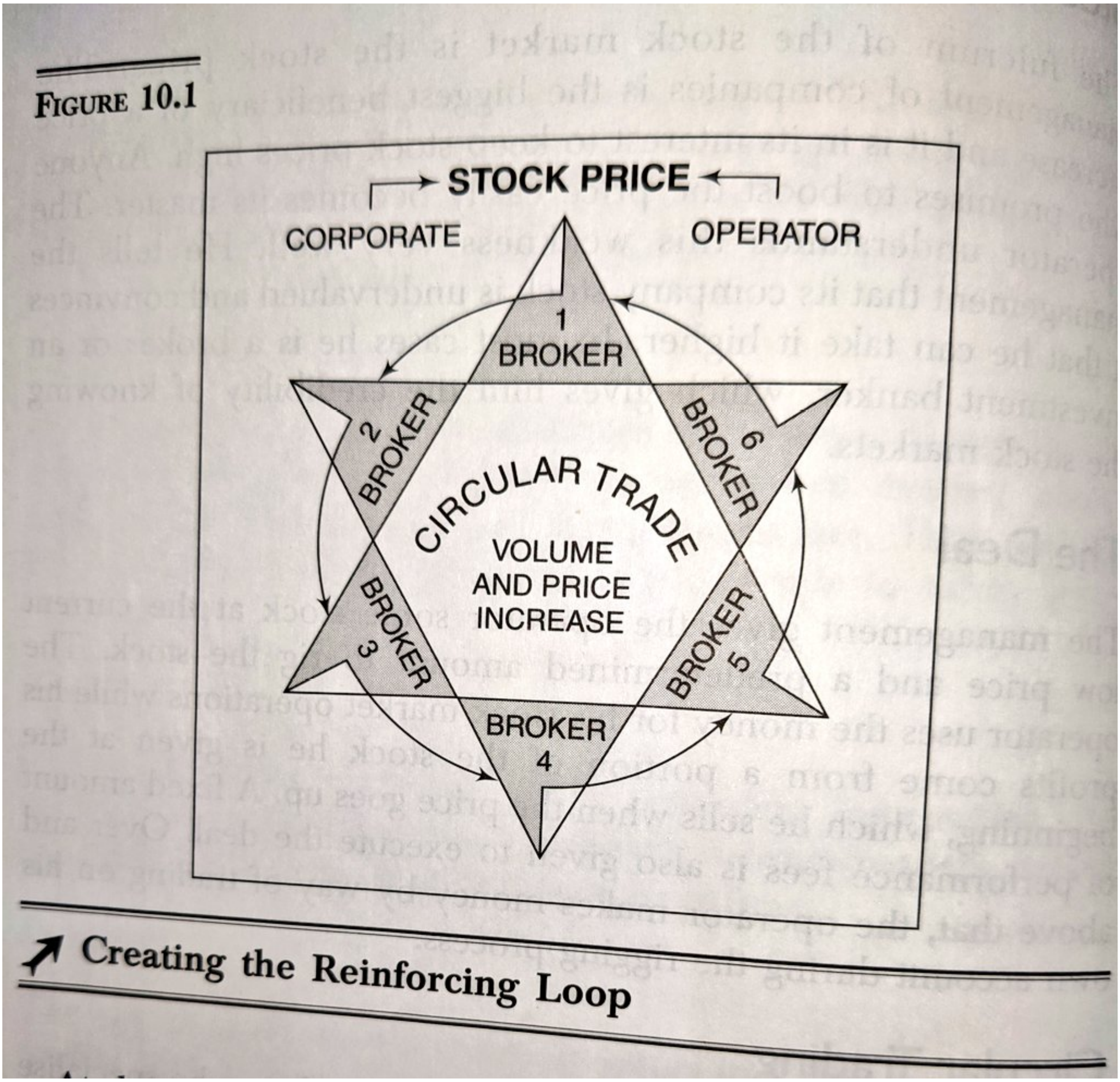
18/22

The book then talks about :

1) Create Reinforcing Loop
2) Bubble Swells
3) Bubble at its peak
4) Bubble Pricked
5) Bubble Bursts

I couldn't help but nod for most part of reading this !! ■■■■■■

Sharing just the illustrations here.



19/22

Ultimately the Bubble bursts and we realise it only AFTERWARDS.

We pay heavily for our greed.

The govt orders the regulators to conduct an inquiry , and we all know what happens later ....

:))

Investors must understand the workings & anomalies here.

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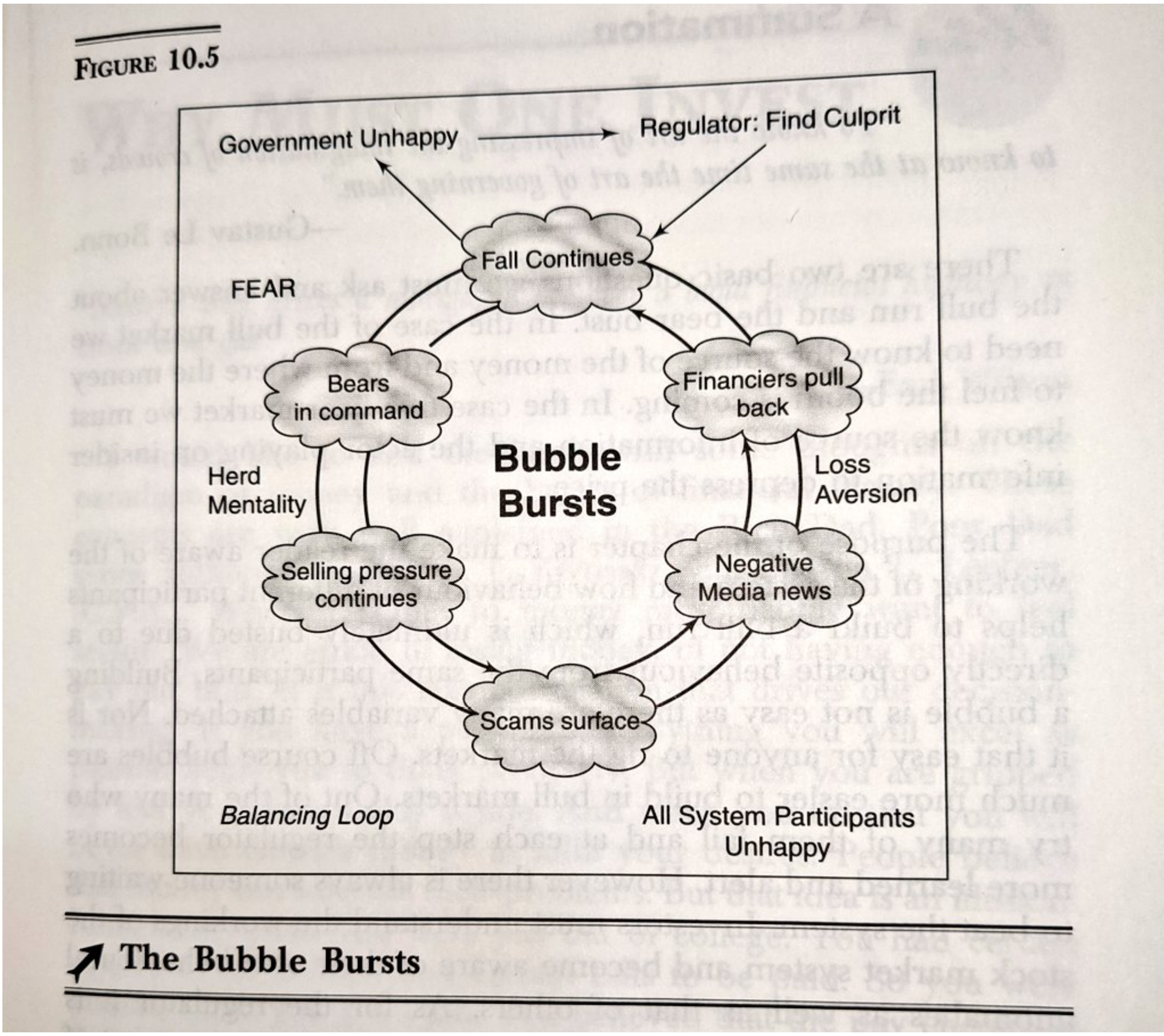


20/22
We need to change our paradigm.
Passion should drive us , not Greed or Fear.

Learn the Money game.
HARNESS THE POWER OF MONEY.

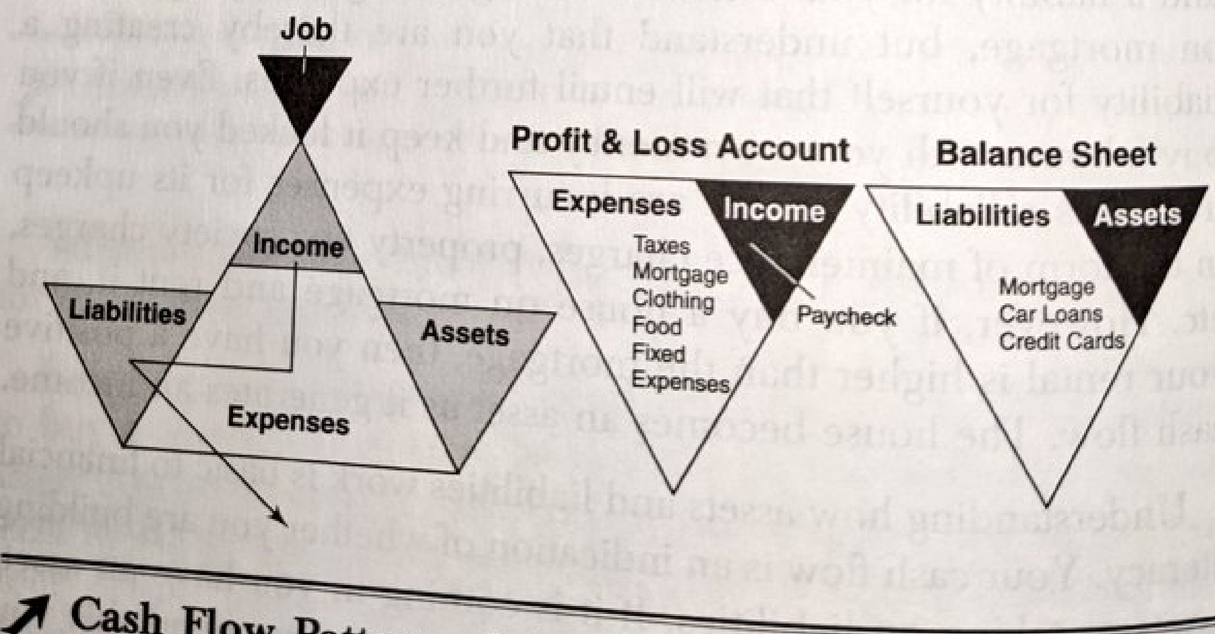
Understand Asset & Liability Cash Flow patterns.

What differenciates middle class from wealthy is the lack of financial literacy.

Cash Flow of the Middle Class

A majority of the customers of banks and consumer goods companies come from the middle class. It is not because of their inherent purchasing power but because they happen to be attractive borrowers. They are cautious about money yet, as they strive to improve their standard of living they get increasingly into debt. All their lives they work to pay off their mortgages, credit card bills, car loans, etc. They start small, like taking a loan to buy a two-wheeler, but soon their desires increase and they want to buy a car. So they go to the bank and take a car loan to fulfil their desire. With a bigger loan the outgoings increase and they desperately look for a hike in their salary. The hike comes and with it the desire to buy a bigger car. So the bank offers them a bigger loan. And this goes on and on. Expenses mount and any increase in salary is soon nullified. Only the liabilities increase; no effort is made to increase the asset. They don't realise that they have started working for the bank also (by taking up liabilities). Now they work for two bosses. One who provides the job, and the bank to whom they give the interest, mortgages, etc? This is the cash flow of the middle class. See Figure 11.3.

FIGURE 11.3



Cash Flow Pattern of the Middle Class

21/22
Moving onto Why stocks?

■Either keep cash in bank F.D which doesn't beat even inflation & erode money.

■Or take SOME risk & invest money sensibly in assets that have a reasonable chance of increasing value over time & become FI.

Choice is yours !
Choose wisely.■■

22/22
To sum it all up.
Read this deceptively simple book.
Watch the old videos of late Parag Sir , the founder of @PPFAS on YouTube channel & also their current videos.

The link :
https://t.co/yTBelhdc8V

Think in isolation & Learn more about yourself.

Happy investing !