MY EXPERIMENTS IN THE STOCKMARKET(with apologies to MK Gandhi!)

Sanjoy Bhattacharyya

Flame Investment Lab

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Market Efficiency?

- The Indian stock market is reasonably efficient and getting more so.
- 95% or more of all market moves are "random" and barely 5% are "predictable".
- It is difficult, if not impossible, to beat a broad index over the long term, after costs.

The importance of equity research?

- Process is important, but so are outcomes. Knowing 2 really smart people is usually worth more than 2 months of research!
- An overwhelming proportion of printed research is worthless because:
  - ✓ it acts as a mouth-piece for management.
  - ✓ it is focused on the short term.
  - ✓ it relies on excessively optimistic assumptions.
- An appreciation of history, psychology, engineering, biology, anthropology, philosophy, literature, logic, art and music is worth ten times more than a knowledge of economics, accounting or computer science for the serious investor.

What fails in investing

- Mediocre returns are most often the result of overpaying for “comfort” (stability, size, information, consensus, market dominance and brands) or “excitement” and “sex appeal” (growth, profitability, management skills, technology change, economic cycles, volatility and most importantly….. an accelerating trend in the above).

Is value investing dead?

- All investing is value investing.
- Quite often "growth" is the most powerful creator of "value" and the two are joined at the hip.
- The power of compound interest is alive and well!
- The more people bemoan the demise of common sense in investing, the more important it gets.

Smart investors buy liquid stocks?

- Because short term investors love liquidity, it is always over-priced.
- Liquidity only indicates that most participants have heard the "story" but it is no proxy for quality.
- Smart money scores by taking on illiquidity.

Everything is in the price

- Market levels do not anticipate future reality. They reflect current psychology.
- The best way to figure out the likelihood of future stock market gains is to assess current value (price-sales, PE, dividend yield, price-replacement cost).

The model cannot be wrong

- Quant models only breed over-confidence because of their fake precision.
- Most issues in investing do not require an IQ above 100!
- If you understand it, the best place to store it is in your head!
- The best sign board I ever saw outside a money manager's office was:

THERE ARE NO POINTS FOR ELEGANCE

Smart guys can forecast market trends

- The market always deviates far more from historic trends than any kind of logic would predict.
- The excess is caused by the psychology of "double counting" (margins and PE) used to interpret economic cycles.
- Trading noise only exacerbates this random volatility.
- Past performance is most often inversely correlated with future relative performance.

The 3 deadly sins

→ Overconfidence

→ Excessive activity

→ A focus on the short term

- What these sins lead to is high costs, rich brokers and a large number of small, often off-setting positions that have no impact. The few truly powerful ideas have laughably low representation. The portfolio winds up resembling the index – only with much higher costs involved.
- The smart thing to do is focus on a few major long term bets – which seem highly improbable at the moment (2 standard deviation events).

All that you need to do to get rich and stay that way!

- 2 good ideas a year is more than enough. Often, very hard work gets in the way of clear thinking.
- Survivorship is fundamental to getting wealthy.
- Understand what you invest in and, consequently ensure that you minimize risk. Funnily getting rich is not about returns – it is about staying out of harm's way.
- Finally, and most importantly, pray that you get lucky!