

What matters in Investing

Einstein famously said, "**Compounding is the eighth wonder of the world. He, who understands it, earns it; he who doesn't, pays it.**" Investing is a great way to compound our wealth, if done right. This note lays out the key aspects of investing to experience this magic of compounding.

Have Patience: Patience is a necessary attribute to achieve grand success. Most things take much longer than we anticipate. As an investor we expect company's investments to start paying off in the next quarter or even in the next year. However, those efforts may not show up in results for many years. *Steve Jobs*, "*If you really look closely, most overnight successes took a long time.*"

Filter out noise: In an always ON world, we are subject to a lot more of noise than data. Election results, new regulations and latest update on economy may seem very consequential in the short-term. However, over long term their impact will be muted at best and there is a high likelihood that they will mislead us. Knowing what not to do is as important as knowing what to do. Hence, dial down noise. An apt quote from *Charlie Munger* on this subject is, "*All I want to know is where I'm going to die so I'll never go there.*"

Think like a businessman: Investing in a company is being a part-owner in that business. The size of the holding doesn't matter. One needs to think through the key considerations that will make the business succeed or fail. The better an investor understands these key considerations, the more likely the business is in his circle of competence and the more confident he can be in his ownership. Investor should monitor these key considerations regularly. *Warren Buffett* has a famous quote, "*I am a better investor because I am a businessman and a better businessman because I am an investor.*"

Identify competitive advantage: In any competitive activity, one needs to have an advantage to succeed. Investing is the ultimate competitive activity because even slight advantages can translate into massive difference in wealth creation. Thus, it behooves us to think of the edge that we bring to the art of investing. Why should we succeed when countless others are trying to do the same? What do we bring that others can't or won't? Why? Like in business, investing edge also keeps increasing or decreasing depending on what we do versus our competitors. *Warren Buffett*, "*The key to investing is ... determining the competitive advantage of any given company and, above all, the durability of that advantage.*"

Right Price: Investing is an act of buying securities at a significant discount to their expected price. Significant discount protects us from the unforeseen and yet provides enough upside to enjoy the magic of compounding. To ensure that we don't fall in love with our portfolio we should assess the value of each security on a periodic basis. Every security is a buy at one price, hold at another and a sell at another price. *Howard Marks*, "*High quality assets can be risky, and low quality assets can be safe. It's just a matter of the price paid for them.*"

I look forward to elaborating on some of these aspects in the future write-ups.