Connecting the Dots

Life Beyond Buffett

That Warren Buffett is currently the world's most celebrated investor is beyond doubt. He has a legion of fanatical fans across the globe who hang on to every word he says. The Annual General Meeting of his company Berkshire Hathaway is dubbed as the Woodstock of Capitalism. Scores of books, articles, profiles and biographies have cemented his place as the poster boy of successful investing; deservedly so. His record is difficult to argue against and the first page of his letter to shareholders which puts out his investing track record puts any debate on that point to rest.

In India, too, we have wholeheartedly embraced his cult. If you cannot parrot a few Buffett and Mungerisms in your sleep, you are not a serious investor. Publicly admitting to the fact that you haven't read his teacher Benjamin Graham's 'Intelligent Investor'[1] is nothing short of blasphemy. The book has been on our shelves for over a decade but we haven't read it cover to cover and we suspect neither have most of the high priests of investing. Apart from rote-learning his witty one-liners, we also doubt whether many of the Buffett-spouting luminaries actually do what he does: spend 80% of his working day reading and thinking. The media loves to show Buffett playing the ukulele or enjoying a game of ping pong or bridge but seldom is he shown reading quietly. Also, if you glance at the publicly available portfolios of some of his disciples, you struggle to find even traces of Buffett there, but that probably is a subject for another missive. The net effect of all this adulation is the ever-growing belief that the only route to investing success is the 'Buffett way' and none other.

AUTHORS

AMAY HATTANGADI
Managing Director
Morgan Stanley
Investment Management

SWANAND KELKAR
Executive Director
Morgan Stanley
Investment Management

[1] Benjamin Graham, *The Intelligent Investor*, New York, HarperCollins (1973).

It is instructive for a student of investing to read books written in the pre-Buffett era to understand the kind of dramatic shift that investing thinking has gone through. While one of Buffett's foremost principles is "Rule No. 1 is never lose money, Rule No. 2 is never forget Rule No. 1," Thomas Phelps[2] in his book '100 to 1 in the Stock Market' (written in 1972) talks of a diametrically opposite approach. He says, "Another unrecognized investment fallacy is that avoidance of risk is more important than seizure of opportunity." Phelps analyzed stocks that went up 100 times in value over the forty-year period from 1932 to 1971 and classified the characteristics of these 100-baggers into four categories: big changes in demand-supply equations for basic commodities, highly levered companies that benefitted from expanding business and inflation, those that kept compounding at high rates of growth and those that recovered from either macro or stock-specific panic or distress situations. Suffice to say that the Buffett school of investing would turn up its nose at most of these and yet these type of stocks created tremendous wealth in those years. Phelps provocatively says that if one buys a hundred stocks and ninety-nine of them become worthless but even one turns out to be a 100-bagger, you have your capital intact. Some highly successful investors in the venture capital space follow a strategy akin to this. Another book, 'The Manual of Ideas' by John Mihaljevic,[3]explores nine different approaches to value investing. It is not our endeavor to discuss all of them, but it just goes to show that different investing styles are actively practised.

All of this boils down to finding out who you are as an investor and what style you feel comfortable with. Ralph Wanger[4] in his delightful book 'Zebra in Lion Country' summarizes this well: "The truth is we all have an investment philosophy, even if we don't know it. In general, it was formed by the time we were out of the sixth grade. Because the main question an investor has to ask himself or herself is 'what is my attitude towards risk' and that probably hasn't changed since you were 12 years old." Wanger goes on to give the example of two ladies who have been invited to a party, and one chooses to go to a Neiman Marcus store to buy a top-of-the-line Escada dress, while the other rummages for hours in Filene's Basement to find a stunning dress at a bargain. Both women are extremely happy at the party and there is absolutely nothing right or wrong about the way they shopped for the dress. So if one's investing style is coded in the DNA, why feel pressured to follow something that is being foisted on you as the gospel truth? There are multiple paths to investing success and the critical thing is to find yours and then stick to it through the ebbs and flows of market tide. As a corollary and somewhat close to the raging 'intolerance' debate, one needs to acknowledge investing philosophies that are different than yours and be comfortable with the fact that there is nothing superior or inferior about any of them. In fact, some of our best investing insights have come from discussions with practitioners of a different school of investing, so it is enriching to spend time outside your own cohort. If somebody is not a Buffett disciple, he or she is not an investing pariah.

Unlike pure sciences, there are no correct answers here, and till investing has a substantial behavioral element to it, that will remain so. The fact that answers are still being sought makes it so much fun. Rather than be trapped by the currently ascendant style of investing, it is important to find your own answers, for as Phelps says, "Most deception is bad, but self-deception is worse because it is done to such a nice guy."

[2] Thomas W. Phelps, *100 to 1 in the Stock Market*, Brattleboro, Vermont, Echo Point Books & Media (1972).

[3] John Mihaljevic, *The Manual of Ideas*, New Jersey, John Wiley & Sons Inc. (2013).

[4] Ralph Wanger, *A Zebra in Lion Country*, New York, Simon & Schuster (1997).

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