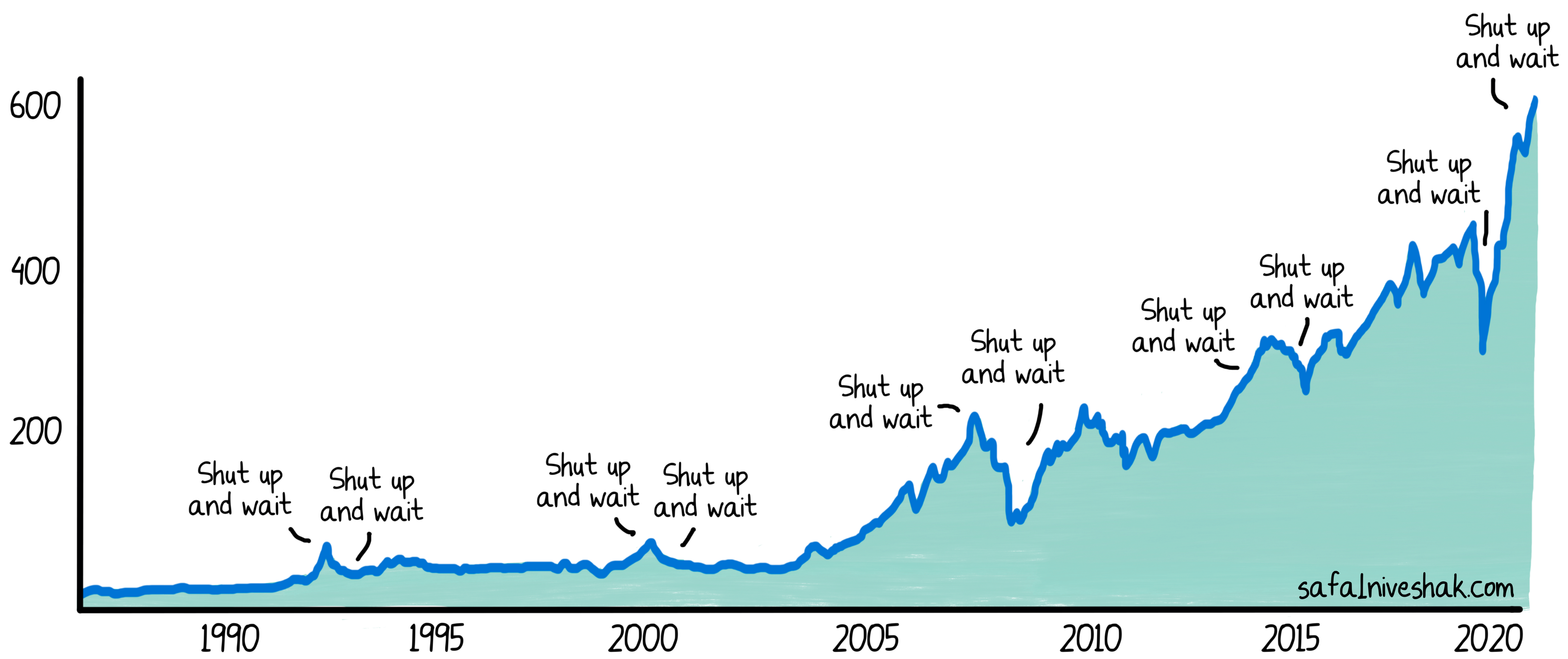
SHUT UP AND WAIT

AND OTHER TIMELESS PRINCIPLES TO WIN AT INVESTING AND IN LIFE



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Shut Up and Wait

And Other Timeless Principles to Win at Investing and in Life

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"It's not supposed to be easy.
Anyone who finds it easy is stupid."

~ Charlie Munger

"If you don't know who you are,
[the stock market] is an expensive place
to find out."

~ George J.W. Goodman

INTRODUCTION

Most investing books give you the same old advice: how to pick stocks and mutual funds, how to plan your finances, how to read financial statements, etc. **Shut Up and Wait*** is different. I will tell you why.

First, this book is a collection of notes I have written to myself over the past 20 years in my pursuit of becoming a better person and investor. Two, this book is not about any secrets or techniques that can help you become a better investor. Instead, it contains the most important time-tested 'principles' on investing well while managing yourself in your pursuit of wealth creation and financial freedom. So, it is sort of a book of 'principles.' Three, this book goes beyond financial investing. The notes contained in it have helped me in my journey of personal transformation. It contains the larger lessons that I have distilled from my life and investing experiences — lessons that I think everyone young and old will, in some ways, find useful.

Shut Up and Wait contains the most important principles around money, investing, and the follies of our minds that act as speed-breakers in our journey towards wealth creation and financial freedom. These are the ideas that have been my guideposts for the last 20 years as an investor, which I have compacted into something you can read in less than 2 hours, though that is not how I would like you to read this book (better, just one page a day).

I hope you find these ideas useful in your own journey of wealth creation, financial freedom, and personal transformation.

With respect,
Vishal

** The idea of this title – Shut Up and Wait – came from a tweet from Morgan Housel of Collaborative Fund. I checked with Morgan if he would like to ever author a book with this title. He had no plans of doing this and so I sought his permission to use it for this book.*

1. SHUT UP AND WAIT

Dheere dheere re mana, dheere sab kuch hoye
Mali seenche sau ghada, ritu aaye phal hoye

(Slow and mellow, O heart! Things take their time.
Gardener pours in gallons. Fruits to seasons rhyme)

~ Kabir Das, 15th-century Indian mystic poet and saint

Anthony Deden is the Chairman of Edelweiss Holdings (not related to India's Edelweiss Financial Services), a Bermuda-based investment holding company that he launched as a fund in 2002. In an interview with Grant Williams of Real Vision in 2018, Tony shared how his thoughtful, patient approach to the allocation of his investors' capital has yielded exceptional returns over a period of time.

In the interview, Tony shared the story of an Arabic date farmer he met who had inherited an orchard that had about a thousand trees. As the farmer was showing Tony around his orchard, and took him to something like a hundred trees that were recently planted, Tony asked him out of curiosity, "How long will it take this tree to bear fruit?"

The farmer replied, "Well this particular variety will bear fruit in about 20 years. But that is not good enough for the market. It may be about 40 years before we can actually sell it."

Tony replied, "I have never heard this. I did not know this. Are there other date trees that would produce faster?" Meanwhile, he looked at all those trees that were being harvested and realized that this farmer could not have possibly planted them.

The farmer tells Tony, "Okay. Here's my grandfather and my father, great grandfather."

"It was fascinating," Tony says in the interview -

"Why would a man do something today for which he would receive no reward in his lifetime? And the only reason he would do this if his time preference is solo. That he is concerned about his family's wealth a generation or two from now because he received no reward by planting a tree that will have no ...

"In your world they would call it an economic loss. A loss of opportunity or God knows what they would call it, but he saw the world differently. And in the supermarket, I see dates. I think about the story now. And I am sure there are other similar kinds of situations."

Warren Buffett, one of the most successful investors the world has ever seen, has famously said, "Someone's sitting in the shade today because someone planted a tree a long time ago."

I would change this a bit thus, "Someone's sitting in the shade today because someone planted a tree a long time ago, and then waited for it to grow."

I see Buffett's as one of the most important advice one can ever receive when one is trying to build a business or wealth from investing or anything that has a lasting effect on people's lives, including that of the builder. This is especially relevant in today's world where no-fee discount brokers, real-time alerts, and the 24/7 news cycle causes investors to get lost, confused, and emotional. Worst, the financial media encourages investors to take excess action, which is actually one of the worst things one can do in investing.

Amidst this, one of the sanest advices you will ever receive, and must follow, for wealth creation is - shut up and wait. Just that doing this is not that easy. But who said anything in life worth doing, like creating wealth, is easy?

As an investor, the idea of buying and owing high-quality businesses over a long period of time is simple. Everyone knows that, and even those who don't practice it appreciate that this works with most high-quality businesses as history has proven time and again. But then, it's important to understand that the action of 'not' doing anything over such a long period of time involves hundreds of decisions over months and years that lead to such inaction.

Like this –

Now, one way is to buy high-quality businesses and forget for 20 years and hope to end up with a fortune. There are quite a few such fairy tales you may have heard of. But the other side of the picture is that countless people have also ended with duds in their portfolios, or vanished companies, when they realized their parent or grandparent had bought some stocks and forgot about them for 20 or more years. So, overall, it's not easy. And it's not supposed to be easy. But after you have done your homework well, and keep your eyes and ears open, 'shut up and wait' remains the best bet in your pursuit of wealth creation from stocks.

Here, I would like to bring in Jeff Bezos, the iconic founder of Amazon, who said this in an interview in 2011 -

"If everything you do needs to work on a three-year time horizon, then you're competing against a lot of people. But if you're willing to invest on a seven-year time horizon, you're now competing against a fraction of those people, because very few companies are willing to do that. Just by lengthening the time horizon, you can engage in endeavors that you could never otherwise pursue. At Amazon we like things to work in five to seven years. We're willing to plant seeds, let them grow — and we're very stubborn. We say we're stubborn on vision and flexible on details.

"In some cases, things are inevitable. The hard part is that you don't know how long it might take, but you know it will happen if you're patient enough."

We know Bezos is one of the best and most successful business owners the world has ever seen. Now we also know that his willingness to plant seeds and let them grow has been one of the most powerful mantras for his wild success over the years.

Frank Partnoy, Professor of Law at the University of California Berkeley School of Law and author of Wait: The Art and Science of Delay, wrote this in a brilliant article –

"If we are limited to just one word of wisdom about decision-making for children born a hundred years from now, people who will have all our advantages and limitations as human beings but will need to navigate an unimaginably faster-paced world than the one we confront now, there is no doubt what that word should be.

"Wait."

Better, to quieten the constant chatter in your mind that may lead you to act all the time, do your work and then, please shut up and wait.

* * *

2. SURVIVAL IS THE ONLY ROAD TO RICHES

*“The first rule of investment is don’t lose money.
And the second rule of investment is don’t forget the first rule.
And that’s all the rules there are.”*

~ Warren Buffett

In his book, Skin in the Game, Nassim Taleb runs an interesting thought experiment where he talks about two cases of playing the casino. Equate the first case with ‘stock market trading’ in general –

"...one hundred people go to a casino to gamble a certain set amount each over a set period of time, and have complimentary gin and tonic. Some may lose, some may win, and we can infer at the end of the day what the “edge” is, that is, calculate the returns simply by counting the money left in the wallets of the people who return. We can thus figure out if the casino is properly pricing the odds.

"Now assume that gambler number 28 goes bust. Will gambler number 29 be affected? No.

"You can safely calculate, from your sample, that about 1 percent of the gamblers will go bust. And if you keep playing and playing, you will be expected to have about the same ratio, 1 percent of gamblers going bust, on average, over that same time window."

Now consider the second case in the thought experiment. Equate this with an ‘individual’ trading the stock market –

"One person, your cousin...goes to the casino a hundred days in a row, starting with a set amount. On day 28, your cousin is bust. Will there be day 29? No...there is ‘no game no more.’

"No matter how good or alert your cousin is, you can safely calculate that he has a 100 percent probability of eventually going bust. The probabilities of success from a collection of people do not apply to your cousin."

Now, you may blame the disastrous outcome of your cousin on, well, your cousin. He may have been foolish, you may think, who did not understand that the longer you play in a casino the more you stand to lose (the house always wins).

But what Taleb writes about is a nice mental model to remember when you are reading finance books or are being recommended stocks based on the *long-term returns of the market*. How your cousin behaved in the above thought experiment is how most people, old or new, behave in the stock market when they play the game as if it were a casino (trading, speculating, etc.).

Remember that you or I are not the market. Earning the long-term returns of the market, of the past or the future, is not in our control. Managing our risks and avoiding ruin, mostly is.

“Rationality is avoidance of systemic ruin,” Taleb writes.

Trying to avoid the ruin the stock market system enforces upon people who disregard its workings is rational. Believing that you can beat the system at it, by playing the game mindlessly, isn’t.

Someone wise once said –

"People destroy themselves in unique interesting ways. Systems destroy people in uniform boring ways."

Now the problem with beating the system for some time is that we get a swelled head. We start believing that if the stock we have invested in has earned us magnificent returns over the past 2-3 months or years, it was entirely an element of our skill and no luck. Yes, that’s how the mind behaves and makes us believe.

But then, as Jesse Livermore, one of the world's best-known stock market speculators, who committed suicide after going bankrupt the fourth time, reminds us –

"A great many smashes by brilliant men can be traced directly to the swelled head — an expensive disease everywhere to everybody, but particularly...to a speculator."

Now, if that's not all, consider path dependence that in simple terms explains how history really matters – where we have been in the past determines where we currently are and where we can go in future.

As Taleb writes in Skin in the Game –

"Assume that your capital is around one million dollars and you are involved in speculation. Apply path dependence to the reasoning.

"Making a million dollars first, then losing it, is markedly different from losing a million dollars first then making it.

"The first path (make-lose) leaves you intact; the second (lose) makes you bankrupt, insolvent, maimed, traumatized and more generally unable to stay in the game, thus unable to benefit from the second part of the sequence. There is no 'make' after the 'lose.'"

Anyways, ultimately, the lessons?

First, you are not the market. So, stop looking at market returns. Don't yield into the false promise that "in the long term, you will earn a minimum of 15% because that's what the market has earned in the past."

Second, don't speculate, again because you are not the market made up of people who may seem to be doing well (for some time) speculating. Also, stocks are pieces of underlying businesses. Respect that and you have a great chance of doing well over the long run.

Remember Warren Buffett who said – “If you’re even a slightly above average investor who spends less than you earn, over a lifetime you cannot help but get very wealthy – if you’re patient.”

Third, if you really wish to speculate (but never with other people’s money), first earn at least a million (through hard work at your place of work, and investing) and then speculate with a small part of it so that you don’t end up in total ruin. Call this money you use for speculation as ‘sin money,’ so that mentally prohibits you from committing a lot of sins. Remember that smoking a single cigarette, like speculating just once and with a small amount of money, is benign. But their constant repetition (“just one more time”) takes you closer towards ruin.

Fourth, the only way to do well in investing is to survive. As Peter Bernstein writes in his brilliant book Against the Gods – “Survival is the only road to riches. Let me say that again: Survival is the only road to riches.”

In life and investing, I wish you survival.

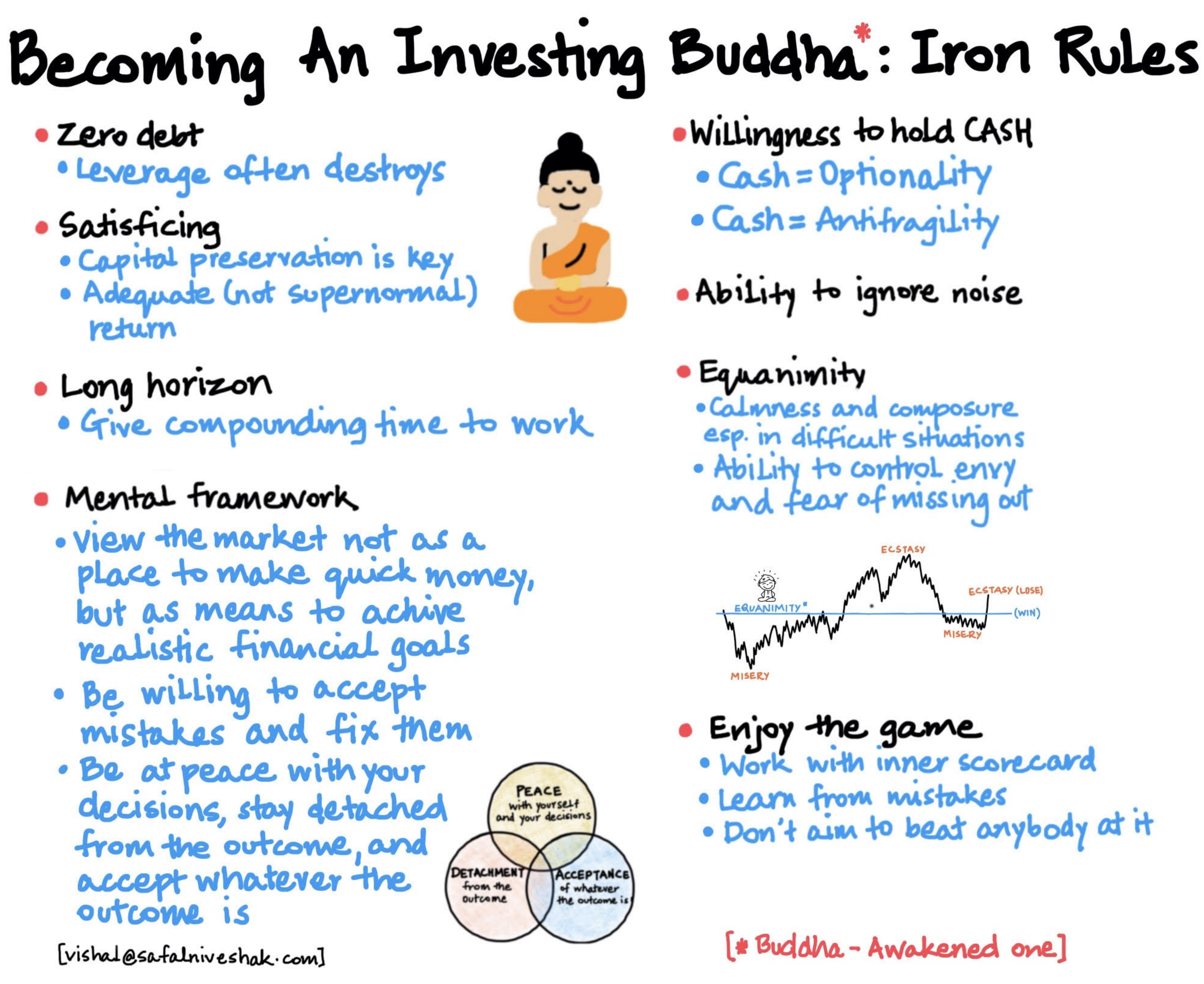
Because if you survive, you will be rich, my friend.

* * *

3. BECOME AN INVESTING BUDDHA

When it comes to investing, making money in stocks when everyone is making money in stocks isn't a big deal. Rather, it's the ability to handle good and bad times with equanimity, combined with courage and decisiveness, that really matters in the long run.

Of course, most of us simply aren't wired to be equanimous at most of the times, and it's terribly difficult to rid ourselves of the emotions of ecstasy (when things are looking up) and misery (when things are looking down). And that's why ensuring that we avoid all of those ways that can cause us wealth destruction – trading, timing, high fee, inadequate diversification, and leverage – is paramount. Everything, including our triumphs and disasters, anyways shall pass. But the equanimity with which we allow them to pass will keep us sane always.



As Lord Krishna taught Arjuna on the battlefield of Kurukshetra, as we wade through the ocean of life, it throws up all kinds of waves that are beyond our control. If we keep struggling to eliminate negative situations, we will be unable to avoid unhappiness. But if we live a life of sanity and learn to accept everything that comes our way, with equanimity and without sacrificing our best efforts, that will be true Nirvāṇa.

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4. THINK IN ASPECT OF ETERNITY

The Heilbrunn Center for Graham and Dodd Investing created a wonderful video in 2013 titled 'Legacy of Ben Graham,' which contains bytes from some of his students on how Graham's teachings changed their lives. Marshall Weinberg, one of those students from Graham's class said that the biggest lesson he drew out of that class was on long-term thinking –

"One sentence changed my life...Ben Graham opened the course by saying: 'If you want to make money in Wall Street you must have the proper psychological attitude. No one expresses it better than Spinoza the philosopher.'

"When he said that, I nearly jumped out of my course. What? I suddenly look up, and he said, and I remember exactly what he said: 'Spinoza said you must look at things in the aspect of eternity.' And that's what suddenly hooked me on Ben Graham."

Spinoza actually said, "Sub specie aeternitatis," which translates to "under the aspect of eternity," or "from the perspective of the eternal."

Critics of this idea may believe that with such thinking, there is no reason to believe that anything matters. But where Spinoza may be coming from is the idea that, in the larger scheme of things, nothing matters, which leads us to put our pains and struggles – including, as investors – into perspective.

Much of the time, in life and in investing, we would be better off zooming out than zooming in. Rather than being ticker watchers of our own lives, and rather than zooming in and magnifying and thus worrying about the daily volatility in our stocks, we would be better off thinking about our lives and investments as pale dots that are just specks on the canvas of eternity.

Within this, if we keep doing our work well, the daily motions and volatility that we pass by must not worry us, therefore.

Like what Weinberg said about Graham, here was the father of value investing teaching his students about the value of long-term thinking, and that too in terms of eternity.

Almost seven decades later, we would be paying true homage to Graham if we could view investing through a wide-angle lens, taking a long-term perspective, and striving for a long, sustained upward trend in our well-chosen stocks instead of getting worried about the short-term volatility in their prices.

This may not help us eliminate all mistakes we may make as investors, but it can give us the tool to treat our investments and portfolios just a little bit better.

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5. WHAT WE CONTROL, AND WHAT WE DON'T

The one year period between Feb. 2015 and Feb. 2016 was a particularly bad one for the markets. The broader markets fell around 20% during this period, and there were multitude of stocks that crashed 30-40%.

Howard Marks, the legendary investor and Chairman of Oaktree Capital Management, described the situation in the stock market in his Feb. 2016 memo to clients thus –

"My buddy Sandy was an airline pilot. When asked to describe his job, he always answers, "hours of boredom punctuated by moments of terror." The same can be true for investment managers, for whom the last few weeks have been an example of the latter. We've seen bad news and prices cascading downward. Investors who thought stocks were priced right 20% ago and oil $70 ago now wonder if they aren't risky at their new reduced prices."

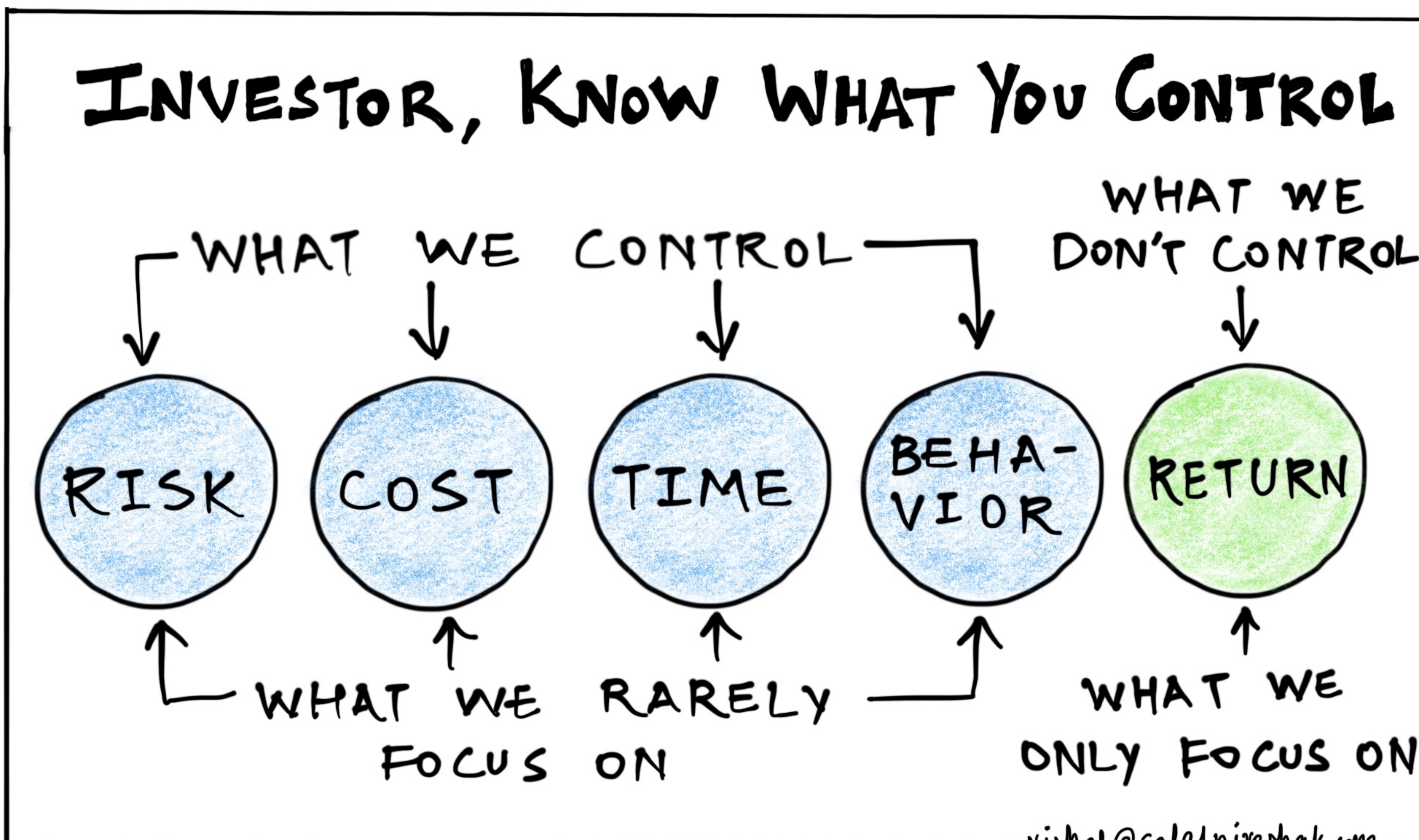
In the rest of the memo, he went on to explain why Mr. Market – representative of the stock prices – has nothing valuable to offer to investors through his daily mood swings –

"Especially during downdrafts, many investors impute intelligence to the market and look to it to tell them what's going on and what to do about it. This is one of the biggest mistakes you can make. As Ben Graham pointed out, the day-to-day market isn't a fundamental analyst; it's a barometer of investor sentiment. You just can't take it too seriously. Market participants have limited insight into what's really happening in terms of fundamentals, and any intelligence that could be behind their buys and sells is obscured by their emotional swings. It would be wrong to interpret the recent worldwide drop as meaning the market "knows" tough times lay ahead."

Predicting the subsequent movement of stock prices, or the next mood swing of Mr. Market, whether he will be in the best of his spirits or worst – is a loser's game.

Focusing on where the earnings and cash flows of the underlying businesses you own, or want to own, are going to go long term is what you must focus on.

Your behaviour and expectations are under your control, and so is the amount of risk you wish to take and the time you have in hand. Stock prices and future returns aren't under your control and thus you must leave them at what they do best, that is, fluctuate.



"If owning stocks is a long-term project for you," warns psychologist Daniel Kahneman, "following their changes constantly is a very, very bad idea. It's the worst possible thing you can do, because people are so sensitive to short-term losses. If you count your money every day, you'll be miserable."

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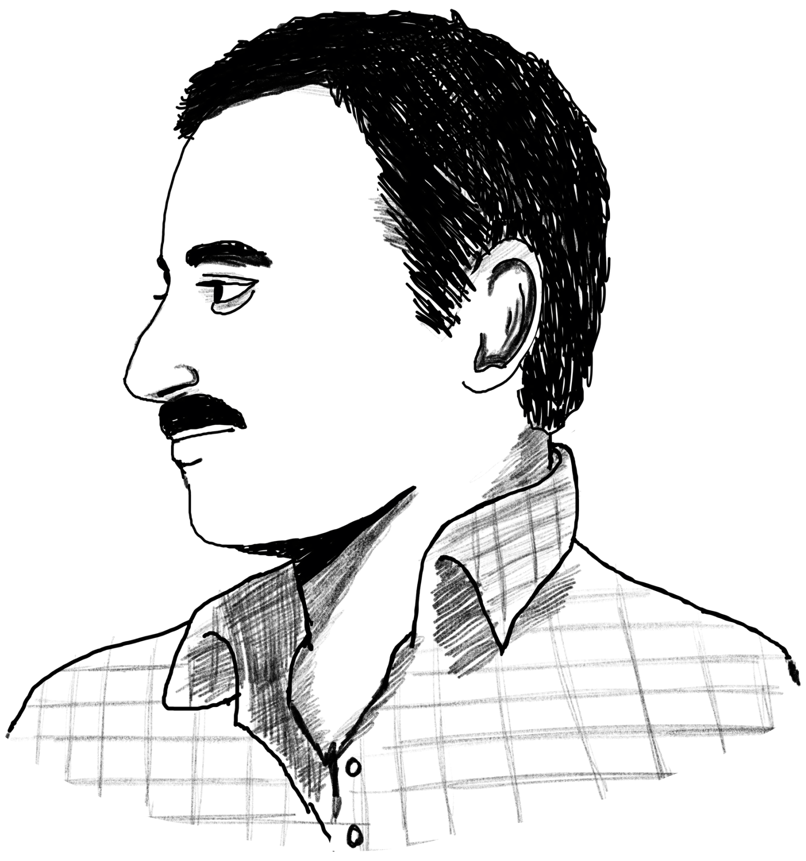

Vishal Khandelwal teaches, writes, and illustrates. He is the founder of SafalNiveshak.com, where he helps people learn to make better investment decisions. He is also the author of *The Sketchbook of Wisdom*, which has sold more than four-thousand copies across forty-five countries. You can read more about the Sketchbook and order your copy at - book.safalniveshak.com.

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