

You pick stocks for the long run...and then what?

The title of this note may bring thoughts of perhaps the opening chapter in the memoir of a recent retiree. Evidently, I am decades away from that milestone. However, in my view, the mindset I need to attain and maintain in my profession, and in the way in which I choose to follow it, is not far from that mark. To put things in context, I am often asked how I spend my working hours, considering that I aim to pick a few stocks and then sit on them for a lifetime. The short answer is that I have a lot of free time which I spend by reading extensively, travelling and then compiling together the experiences for developing the philosophical aptitude to allocate capital over the long-run. I elaborate below.

The harder you work the farther you get?

Individuals engaged in most professions need to put in tons of hard work and several extra hours of effort to succeed and outperform. It seems to take a lot to get somewhere. Malcolm Gladwell repeatedly professes the 10,000 hour rule in his best-seller *Outliers: The Story of Success*. He discusses that to succeed in any field, one must practice tasks associated with that field for a total of around 10,000 hours. Investment bankers routinely work through the night with intermittent naps and sparse meals to close deals. An employee rationalizes that he is sacrificing his wish to be at his daughter's music recital to finish a project which will help him secure her future. It is well understood that while our resources of time and energy are limited, the strains on them are not. Hence we are forced to turn into optimizers. We need to make sacrifices of the things we like in order to be able to attain greater happiness at some, possibly uncertain, time in the future. In general, society at large has accepted as common-sense the idiom that you need to do extraordinary things to get extraordinary results. While this is certainly true of most professions, our philosophy of investing makes our profession a bit of an outlier in this regard.

Justifying what I do

My work at Goldman Sachs required me to put in long hours while in my new role I rarely found myself stressed or over-worked. I had subconsciously started associating exhaustion with a day well spent. This made me wonder whether I had started slacking off in my new-found independence. Over time it occurred to me that my investing philosophy necessitated me to distinguish activity from effort. The former does not always imply the later. My role had changed and so the means of succeeding in my new role had too. The focus had shifted from "having a view on everything" to "being certain about a few things". For example, in my new role, I need to plough through dozens of company filings to discover one investment-worthy opportunity. The former role needed long hours and endurance, the later needs independent thinking and a lot more conviction.

The difference between looking and seeing

Reading and travel helps me hone two crucial qualities - 1) I strive to make decisions based on the long-run view rather than on shorter-term gyrations. In effect, this involves managing impulses. Just like I avoid getting into a confrontation with a reckless driver cutting my lane on my way to work, I strive to manage my impulses at work by not being fickle about, say, a weak quarterly earnings. I have a lot to lose by being entangled in the minutiae of a poor quarter just as I have a lot to lose by disrupting my mental peace by arguing with another driver 2) Buffett wrote in his 2011 letter, "I have been reading the [IBM] annual report for more than 50 years, but it wasn't until March last year that my thinking crystallized. As Thoreau said "It's not what you look at that matters, it's what you see."" I research only a fraction of what I used to earlier, leaving a lot of free time to interpret and reflect on what I read and experience. I am hopeful that by cutting the number of things I 'look' at, I can truly 'see' some of the things I need to. In investing, I firmly believe that you only need to do a few things right.

I invite your comments (soumil@dmzpartners.in)



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