Twitter Thread by Puru Saxena

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1) My investment philosophy + Disclaimer -

I'm a full-time investor and my concentrated portfolio is comprised of (primarily founder-led) high growth companies with large addressable markets. I usually look for dominant businesses with a special sauce (moat) which allows..

2)...them to compound their revenues, cash flows and earnings for an extended period of time (multiple years).

Usually (but not always), such disruptive businesses operate in the technology sector and they are led by visionary founders with skin in the game.

When I invest,...

3)...it is always with the intention of holding indefinitely but the business world is unforgiving and capitalism is brutal; so in reality, my average holding period is a few years.

So, when do I sell?

(i) When a company's rev. growth < 15% pa
(ii) When the mgt. deteriorates

4)...(iii) When the 'moat' has been invaded
(iv) When I spot a new opportunity + need cash

Apart from the above scenarios, I remain invested in the companies and allow them to compound over time.

On macro, market timing, forecasts -

I started investing in the late 90s...

5)...and have yet to come across an individual who has accurately and consistently timed the economy and/or the stock market. Not one!

Over the years, many have tried to predict the future and plenty of well meaning people still try, but I've realised that...

6)...this is an impossible task, which is why I don't waste my energy on such issues any longer.

What I do know is that the investment business is cyclical; markets go up AND they go down. Fortunately, with the way the system is set up (monetary inflation, productivity...

7)...innovation, human spirit, abundance of capital, population growth etc), the stock market goes up over time and the upswings are usually longer than the downtrends/contractions.

This is why I remain invested in my portfolio companies and no matter how scary the situation...

8)...becomes, I hold on to my shares; knowing that over time, quality businesses always bounce back.

How I handle volatility -

In order to reduce the drawdowns of my high-beta, growth portfolio, I hedge my book by shorting various ETFs to offset my geographical exposure...

9)...For example, to hedge my US/int'l exposure, I may short $IWO and to hedge my China exposure, I may short a Chinese ETF.

Such hedging marginally reduces my returns during strong uptrends but it provides me cash and a good night's sleep during severe bear-markets...

10)...It is worth mentioning that hedging doesn't always work; especially if only the high-growth/high-beta stocks are under pressure. When this happens, I just grit my teeth and endure the big drawdown!

On stock selection -

When selecting any potential stock, I evaluate...

11)...the underlying business, the competitive landscape, quality of the management, optionality and the size of the total addressable market.

Put simply, fundamental analysis is my main weapon but I also enjoy reviewing price charts! IMHO the chart is the juice of all...

12)...known information and reflects the true supply/demand for any company's shares. Often, I add to my positions on breakouts or channel breaks.

I run this twitter account to interact with other investors/traders and to post interesting information about my companies...

13)...And in order to make it fun, I also post my holdings and monthly performance summaries at the end of each month.

Please note that I'm now retired from the investment business and not in a position to offer anybody any investment advice...

14)...My Tweets are not and should not be construed as investment advice/recommendations or a solicitation to buy or sell any securities.

Investment involves risk and can result in big losses. Therefore, please consult your financial adviser and trade/invest at your own risk.

15) A few have asked which inv. books had the biggest impact on me; so here you go -

'Common stocks and Uncommon Profits" - Phil Fisher
"Beating the Street" - Peter Lynch
"Poor Charlie's Almanac" by C. Munger
"Warren Buffet & Interpretation of Fin. Statements" -
Mary Buffett

16) Finally, like every other investor, I make plenty of mistakes but nowadays, I don't stay wrong.

Put simply, "When in doubt, I get the hell out"!

My only loyalty lies with my capital and if a company or its mgt. misbehaves, I sell and move on.

Hope this has been helpful.

17) Some more info -

Q) On why I sit through drawdowns and not trade stocks?

A) One summer, I did extensive backtesting on Wealth-Lab Developer software and ran multiple technical indicators on all the $NDX and $SPX components (stocks).

I tested RSI, MACD, Bollinger...

18) Bands breakouts, Keltner Bands, stochastics and a variety of moving averages (price vs. sma, price vs. ema and dual sma and ema crossovers - both short and long-term) and realised that none of these technical timing indicators came close to Buy&Hold on the vast majority of...

19)...the stocks! Not even close.

Sure, some indicators outperformed Buy & Hold occasionally, but by and large, they lagged by a wide margin.

Notable that my backtests didn't even account for trading costs or taxes involved in trading.

The results surprised me but right...

20)...there and then, the penny dropped and ever since, I have been a long-term investor in great businesses!

Now, I am NOT claiming that discretionary trading doesn't work - there are many great traders (some of them on FinTwit) who have done extremely well but...

21)...since I am not a discretionary trader and couldn't find any consistent outperformance from any technical indicator, I decided to go with the long-term investment route.

Hedging -

Q) How do I hedge and what indicators do I use?

A) I hedge to reduce my portfolio's...

22)...volatility and drawdowns, especially during severe stock market downtrends.

For my US/Int'l stocks, I short $IWO (Russell 2000 Growth ETF) to offset my long exposure (ex - if my long exposure in US/int'l stocks is $100, then I sell short $100 worth of $IWO)...

23) In terms of indicators, I only hedge when $IWO closes below its 150day ema AND its 5day ema is also < 10day ema.

As long as $IWO is below the 150day ema, I keep hedging/covering on 5/10ema crosses. When $IWO closes above the 150day ema, I remove the hedges and ignore the...

24)...the 5/10ema cross.

For my China exposure, I short either $KWEB or $CWEB and here, I put on the hedge when the 5day ema is < 7day ema and I cover when 5day ema > 7day ema.

The key to successful hedging lies in taking every signal and this allows me to ignore all noise.

25) Slight change in hedging strategy -

In order to enhance the correlation of my hedges, henceforth, I'll short Brazil's ETF - $EWZ to hedge my S. American stocks.

So, going forwards, I'll short $IWO for my US exposure, $KWEB or $CWEB for China and $EWZ for S. America.

Change in strategy -

In order to hedge better, henceforth I'll short ARK Innovation ETF

$ARKK is a truer reflection of my stocks so it'll provide a better hedge and reduce my future drawdowns.

My primary filter will now be a shorter-term EMA and I'll trade off 5/7ema cross.