Twitter Thread by Fundoo Professor



Fundoo Professor
@Sanjay__Bakshi

This I agree with. While 100 Baggers by @chriswmayer is a fabulous book, there is a need for literature on building the conviction to hold.

> i think we need more books on sticking than picking
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> — ContrarianEPS (@contrarianEPS) June 26, 2021

And it's not easy to develop a conviction to hold on to things that should be held. There are these "demons" that will enter the mind of the investor, which will prevent them from holding on to what will turn out to be an outstanding stock.

Demon # 1: The market is too expensive, so I should sell this business. This demon shifts the investor's focus from the economics of the underlying business to the markets.

Demon # 2: It's gone up so much, and it can't go up much more from here. This demon makes the investors anchor to their cost, which is irrelevant.

Demon # 3: Look at the P/ E multiple. It's too high. Other things are much cheaper. I should switch and lower the P/E of the portfolio. This demon makes one sell an outstanding business and replace it with a mediocre one.

Demon # 4: It's become too big a position. I must think about risk management because you know, shit happens? This demon makes one ignore that real wealth is almost always lopsided and makes one worry about the other reality: wealth destruction also comes from over concentration.

Demon # 5: The management made a capital allocation error, or they did a related party transaction, or a slowdown in the industry is coming, and earnings will take a hit etc.

This demon will make you want to sell a stock because of adverse developments, which in retrospect will turn out to be non-events in the long run.

Demon # 6: You can't go broke by taking a profit. This demon will also prevent the investor from ever seeing a 100 bagger.

The fun part here is that all these demons are “good demons” a lot of the time. That is a lot of the times listening to them will turn out to be excellent ideas.

It’s just that in true compounders, which will go on to become worth hundreds of times of investment cost, they will turn out to be “bad demons” who emerged to prevent the investor from making a tremendous amount of money.

And while it’s easy to say with hindsight that oh, I should have ignored the market or the jump in stock price or the P/E multiple or the position size or management behaviour or the impending slowdown etc., at the time these demons emerge, they will occupy the investor’s mind.

When those demons occur, they will make the investor panic and become loss averse. The fear of losing unrealised gains is very, very painful. And the demons know that.

I don’t know of ways on how to fight these demons which are better than reading up on how great investors build conviction in their journeys.

Charlie Munger once said that the key to a successful marriage is to keep your eyes wide open before marriage and only partly open after marriage. He was talking about developing conviction to hold.

Philip Fisher has written extensively on this subject in his various books. And so has Peter Lynch. And of course, @chriswmayer and Thomas Phelps, whose book inspired Chris to write his book.

The critical thing to note here is that you will never know in advance if the demons you are battling with while developing the conviction to hold will turn out to be good demons or bad ones.

Forgot to mention @iancassel whose dozens of tweets are also on developing the conviction to hold…