# Twitter Thread by Dinesh Sairam

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## 1/ There are a ton of books about Financial & Fundamental Analysis, Scuttlebutt and Technical Analysis. But there aren't many books 'taking risk'.

## Among the few that exist, 'Zurich Axioms', written in 1985, is the best. Here are my key takeaways from the book.

2/ A bit about Max Gunther's (The Author) background. He was an Anglo-American journalist and writer, who wrote 26 Books.

His father, Franz Heinrich, was the New York Head of Schweizerischer Bankverein, which later merged into the famous Union Bank of Switzerland (UBS).

3/ The 'Zurich Axioms' were a set of unwritten rules followed by a informal group of Swiss Bankers and Traders who used to socialize around Wall Street after World War II. Mr. Heinrich was one of the founding members.

Max Gunter formalied these 'Axioms' by writing about them.

4/ There are 12 'Major Axioms' and 16 'Minor Axioms' (Corollary to the Major Axioms) in the book.

But remember, this is MY key takeaways from the book and not an exact summary. So you might find quotes, phrases and links inserted here and there by me (Not from the Author).

5/ Axiom #1: In order to earn returns, you must take risk. Risk will make you worry.

Risk-taking and worrying go hand-in-hand. If you're not worried about an investment, you're not taking risk.

Spend half your energy towards earning an income and the rest towards speculation.

6/ “Every occupation has its aches and pains. If you keep bees, you get stung. Me, I get worried. It’s either that or stay poor. If I’ve got a choice between worried and poor, I’ll take worried anytime.”

— Jesse Livermore.

7/ Minor Axiom #1: Bet meaningful stakes.

Bet big, but not so big that one unlucky turn can wipe you out. Also, betting too little would lead to mediocre returns.

Bet enough to make you worry about a loss, but in an opportunity whose potential gain would make you very happy.

8/ This thread written by me on 'Kelley Criterion' and Capital Allocation might be a useful reference point for Minor Axiom #1.

Alright, back to it.

https://t.co/vzUSnjYgdr

> 1/ I re-tweeted a thread on the Kelly Criterion (I use this formula to make Capital Allocation decisions). While the thread is a good 101 on what the formula achieves, it says little about how to adapt it to investing. A thread on Capital Allocation.https://t.co/tGk1PcXcRr
>
> — Dinesh Sairam (@Dinesh_Sairam) May 25, 2020

9/ Minor Axiom 2: Resist the allure of Diversification.

Putting your eggs in different baskets is fine. But it's not ideal if you have too many baskets to watch over. Diversification can reduce risk to an extent. But taken to an extreme, it can also reduce potential returns.

10/ "Diversification may preserve wealth, but concentration builds wealth."

— Warren Buffett.

11/ Major Axiom #2: Take profits sooner rather than later.

Greed will always make you 'wait for more' even if you've achieved considerable returns. Always take your profits once you have acheived your target returns or made considerable amount of money.

Don't press your luck.

12/ Minor Axiom #3: Determine what you want before entring a trade.

Answer important questions like 'What do I want from this trade?', 'How much is enough?' and 'When will I sell?' before, not after entering a trade.

This makes exiting the trade so much easier.

13/ Major Axiom #3: When the ship starts to sink, don't pray. Jump.

Things go wrong eventually and many times over. Be willing to take a loss. The fear of regret, pain and the shame of admitting you're wrong will prevent you from doing this. Overcome them as quickly as possible.

14/ Minor Axiom #4: Accept small losses.

Whether it's holding through a temporary loss on a gainful journey or exiting a bad trade permanently, learn to take the sting of a small loss. Expect them several times in your journey.

Small losses are the cost of big gains.

15/ Major Axiom #4: Distrust forecasts.

Human behaviour cannot be forecasted. Distrust anyone or anything claiming to do the same.

“It’s easy to a prophet. You make 25 predictions and the ones that come true are the ones you talk about.”

— Theodore Levitt (Economist).

16/ Major Axiom #5: Don't look for formulas to get rich.

'Get rich quick' or 'get rich easy' formulas don't exist and if they do, don't work. Luck plays a bigger role in our lives than any of us would admit. So ignore all ready-made investment formulas.

17/ Minor Axioms #5: History doesn't repeat exactly the way we expect it to be. Don't believe in conclusions rooted solely on some historical event.

Minor Axiom #6: Future price movements cannot be predicted using past price movements (Might not be the favorite Axiom for many).

18/ Minor Axiom #7: Correlation is not causation. Our minds try to find patterns where none exist. Be cautious.

Minor Axiom #8: Beware the Gambler's Fallacy. Winning streaks or strokes of luck run out. The world isn't out to make you rich magically.

19/ Major Axiom #6: Don't fall in love with a speculative idea.

Minor Axiom #9 and #10 also go on to say: Don't latch on to an investment idea emotionally (Loyalty or nostalgia). Be willing to drop an investment idea in a heartbeat when a better one comes along.

20/ Major Axiom #7: A hunch can be trusted if it can be explained.

A hunch is something you know, but you don't know how or why you know it. So dig deeper and find out. If there is substance, you can go ahead with it.

But Minor Axiom #11 warns, don't confuse a hunch with hope.

21/ Major Axiom #8: God isn't out to make you rich.

God isn't out to make you rich, neither is a supernatural evil bent on making you poor.

Minor Axiom #12 and #13 dismiss Astrology and Superstitions. The major point is that you shouldn't take financial decisions based on them.

22/ Major Axiom #9: Differentiate between Optimism and Confidence.

Optimism means you expect the best to happen. Confidence means you're prepared to handle the worst. Know the difference.

Sucessful betting is all about being 'confident' and not merely 'optimistic'.

23/ Major Axiom #10: The popular opinion is wrong.

Disregard the opinions of experts, gurus, brokers, bankers and forecasters. In order to know something, you must analyze and understand it yourself.

As the Russian proverb goes, 'Doveryai, no proveryai' (Trust, but verify).

24/ "Nullius in verba." (Take nobody's word for it).

— The Royal Society's Motto.

This is one of my favorite quotes and it's also on my Twitter profile description. Very fitting when it comes to the world of investing.

25/ Minor Axiom #14: Stay clear of fads. The best thing to buy is something nobody wants.

This shoud have been a Major Axiom. The best time to buy something is when it's unpopular and vice versa while selling.

Basically 'buy low, sell high', but it's challenging to do it right.

26/ Major Axiom #11: If a bet doesn't pay off, let it go.

"If at first you don't succeed, try again" might be a good idiom for life, but not so much when it comes to investing.

Minor Axiom #15: Never average down on a trade you're convinced is bad. Cut it short.

27/ Major Axiom #12: Plan, but not too far out into the future.

Long term plans have the drawback of ignoring the role of unexpected events on your outcomes. Make sure your process is right and you're ready to take decisions on time, but never settle on a single plan for life.

28/ Minor Axiom #16: Shun 'buy and hold' investing.

This Axiom warns against 'buy and hold' type of investments. The future it unexpected. So expect things to go wrong often. Be ready to react quickly when they do.

Don't assume investing for the long term takes out all risks.

29/ That's the thread.

If you liked this, then you will definitely like the original book. Find it, buy it, read it.

I also loved this look-back on the Book by Philip Ryland for the Investors' Chronicle in 2014. Perhaps you will too.

https://t.co/oAINAZTdoB