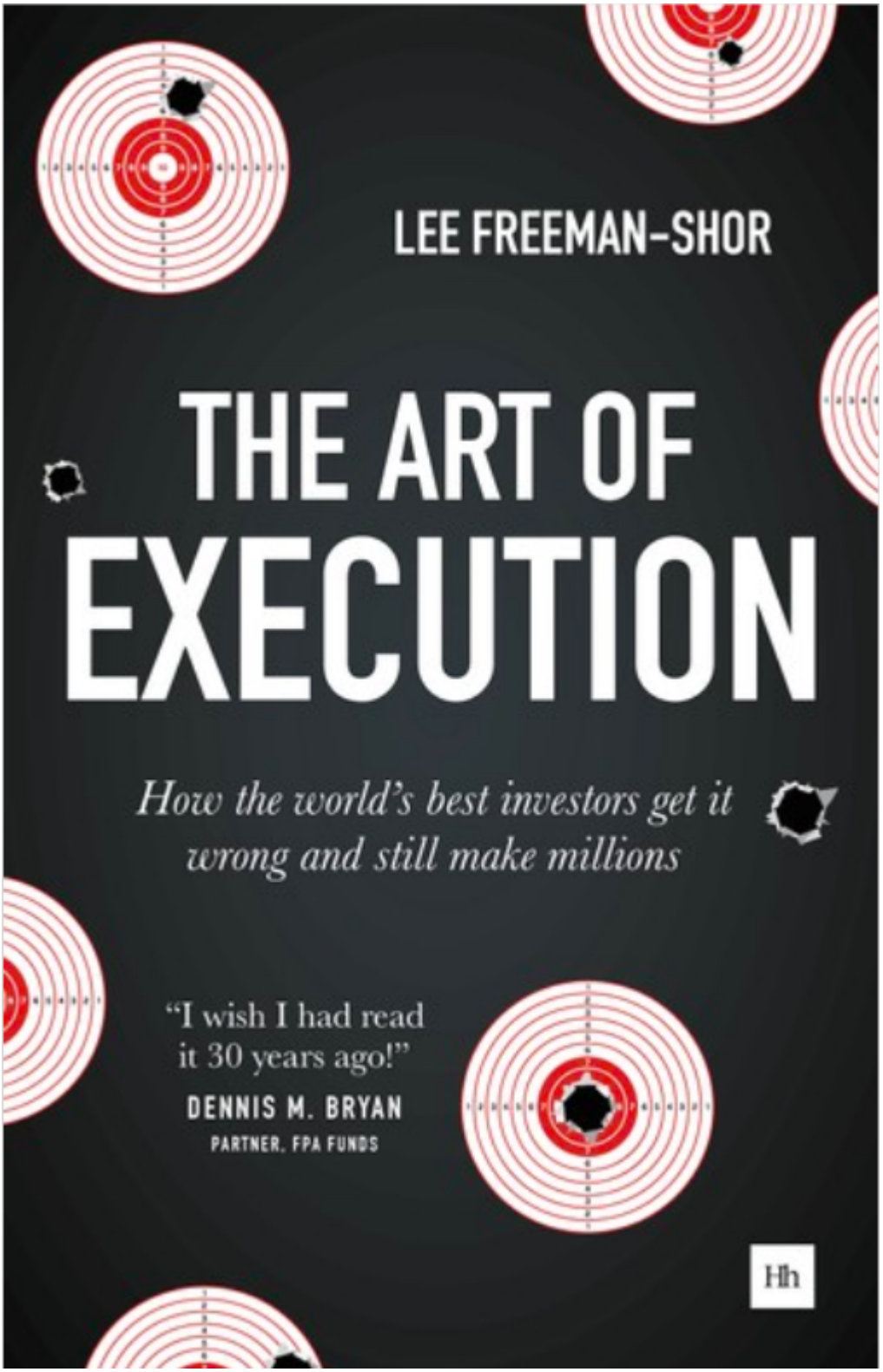
Twitter Thread by Andrew Rae



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My notes on ‘The Art of Execution’ by Lee Freeman-Shor.

First heard about this book from @IvanTanner4 interview on @Trawlingfor10x



2/ Background: Over seven years, 45 of the world's top investors were given between $25m and $150m to invest by fund manager Lee Freeman-Shor.

His instructions were simple. There was only one rule. They could only invest in their ten best ideas.

3/ From 2006 to 2013, Lee examined all 1866 investments. What surprised him was only 49% of these investment made money. While some of the most legendary investors only made money 30% of the time.

Yet, almost all of them did not lose money. In fact, they still made a lot of it.

4/ How were they so successful if their ideas were wrong most of the time? Lee discovered successful investing is not about being right per-se.

Success in investing is down to how great ideas are executed.

5/ “It’s not whether you’re right or wrong that’s important, but how much money you make when you’re right and how much you lose when you’re wrong.” - George Soros

6/ Poring over the data, Lee found investors fell into behavioural groupings based on their style of buy/sell execution.

On a losing trade there were:

Rabbits: Caught in the headlights and do nothing

Assassins: Ruthlessly cut their losses

Hunters: Systematically buy more

7/ Rabbits were unsurprisingly the least successful. Their behaviour stemmed from:

Constantly adjusting their mental story and time frame so that the stock always looked attractive.

Anchoring, primacy error and ego also played a part.

8/ What should rabbits have done differently?

Have a plan prior to purchase
When stock falls, reassess and either sell out or buy more.
Position size to allow for more purchases

Always seek out opposing views and be humble.

9/ Assassins, conversely, know that drawdowns left to their own devices are ultimately destroyers of wealth.

Assassins invest by rules, drawn by experience and beliefs.

When losing, they would always let the rules, not their emotions or feelings, drive their decisions.

10/ Based on Lee’s data, successful Assassins:

a) Killed all losers at 20-33%

Or

b) Killed losers after a fixed amount of time due to time cost of money.

64% were sold within 6 months of purchase.

“Large losses kill you quickly, while small losses kill you slowly.”

11/ Hunters, unlike the Assassins, didn't sell out of losing positions – they bought significantly more.

Rather than killing the investment and forgetting about it, they stalked their prey – watching it get steadily weaker and lassoing another limb each time it stumbled.

12/ Like Assassins, Hunters operate on a rules-based system. Initial positions are sized accordingly. A plan on when and how much more to buy on price falls are established from the outset.

Contrarians make natural Hunters; to be one requires patience and discipline.

13/ Hunters are well researched, have conviction and aren’t afraid of a highly concentrated portfolio.

In the words of Mae West, “Too much of a good thing can be wonderful.”

14/ So when experiencing investment losses, be an Assassin. Or a Hunter. Or both.

Don’t be a Rabbit.

15/ If you find yourself in a winning position, there are two further tribes; Raiders and Connoisseurs.

Raiders get out with a small profit based on a lurking fear of danger.

They suffer premature evacuation.

16/ One investor had a 70% success rate, but made no money. He sold most winners for <20% profit. A few big losses in due course wiped out the gains.

A high success rate is useless when partnered with a poor payoff profile.

Embrace the possibility of winning big or be doomed.

17/ Raiders are often Rabbits when they’re losing.

People are risk-averse when winning – but risk-seeking when losing.

You effectively have an investment style that combines significant downside risk with insignificant upside potential.

17/ Rather than being a Raider, be a…

Connoisseur: They enjoy every last drop.

Connoisseurs were the most successful investment tribe amongst those working for Lee.

19/

a manager to take a profit when the stock was up by 20% or less.

In total, 611 stocks (66% of all winning investments) were sold for a profit of less than 20%. Of these, 370 (or *61%*) kept going up and, had the investor stuck with them, he or she would have made even more money.

While the magnitude of subsequent outperformance differed, the fact is that big winners were to be found amongst those 370 names.

Moreover, the most successful investors I worked with, those that made the most money, all had one thing in common: the presence of a couple of big winners in their portfolios. Any approach that does not embrace the possibility of winning big is doomed.

I think we can all relate to the Raiders' desire to take profits on winning investments. The problem is that taking small profits is like picking up pennies in front of an oncoming train. It only works until the train comes along.

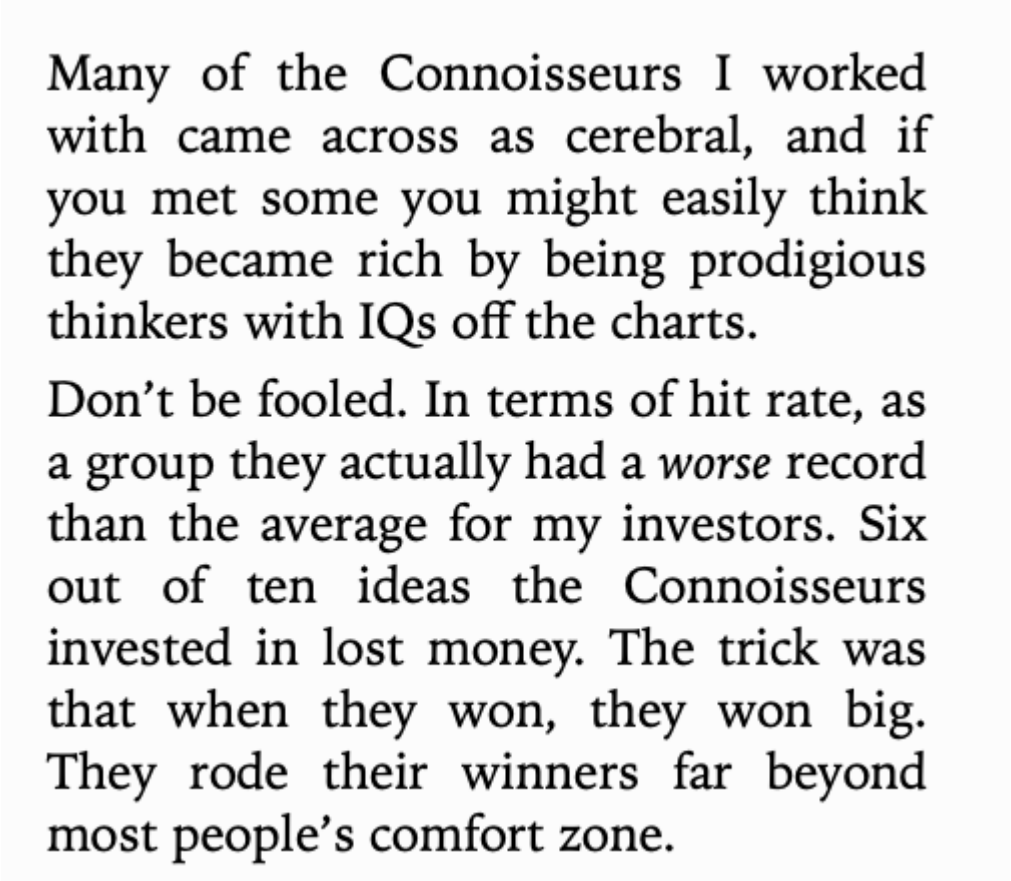
Why do investors sell too soon?

There are a number of key reasons that these investors became Raiders. Looking back on my time with them,

20/ Connoisseurs treated every investment like a vintage wine: if it was off, they got rid of it immediately, but if it was good they knew that it would only get better with age.

They drank the odd bottle now and then, to tide them over – but otherwise they sat back and waited.

21/



END/ For a different perspective, Bezos isn't the world's richest person because he started Amazon. He's the world's richest person because he refused the many temptations to sell.

Likewise Zuckerberg, Gates etc.

Find a winner, invest big, BUT resist the temptation to sell.