Twitter Thread by Max Koh

Max Koh
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This is value investor, Allan Mecham.

He dropped out of college at age 22 to start his fund, Arlington Value.

From 2008-2016, they did a CAGR of 30% over 8.5 years!

And in his fund letters, he shared his best frameworks for investing in companies.

Here's a breakdown of each:



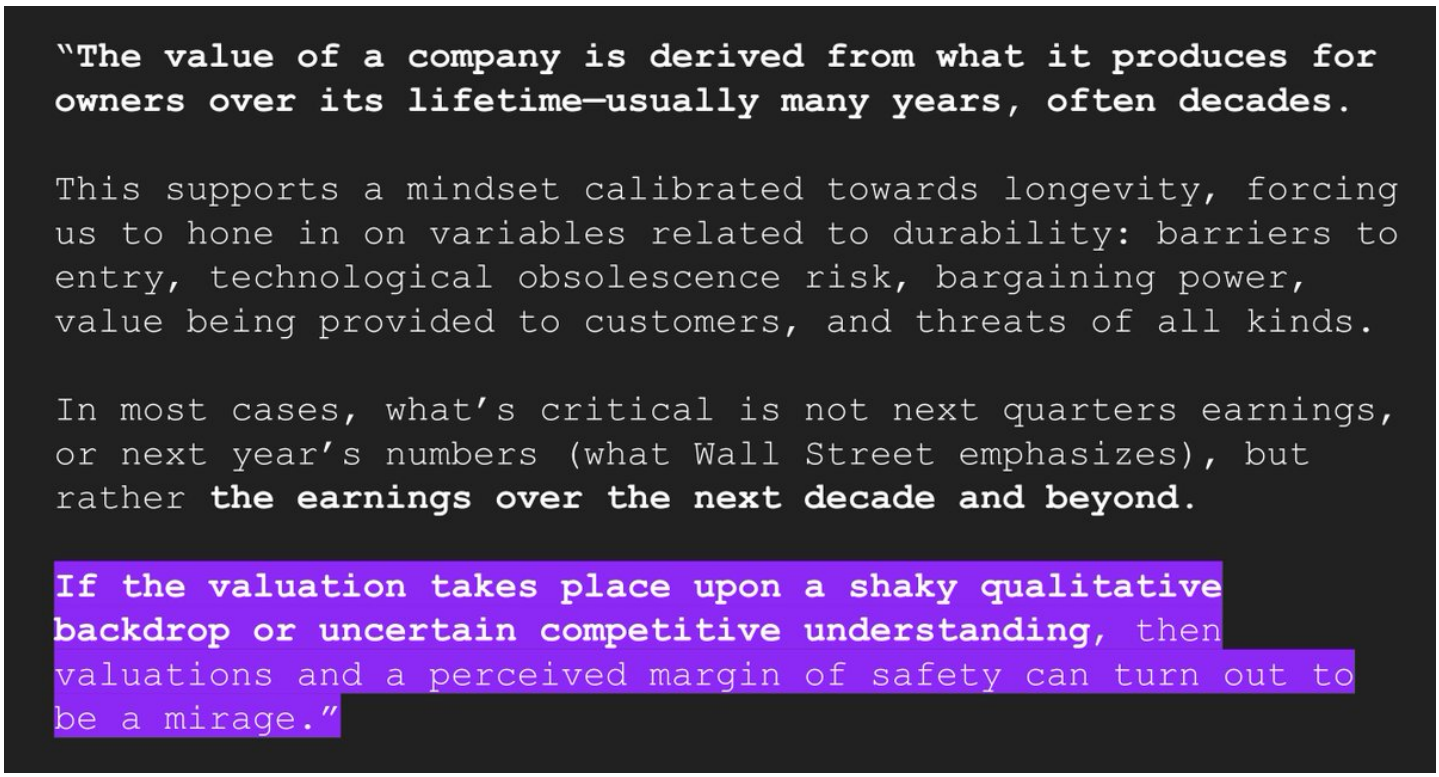
1. Adopt a mindset for longevity

He focuses on variables that affect a business' durability.

Stuff like valuation doesn't matter if the business quality is misjudged.

Since a company's value is determined by its future cash flows...

Hence evaluating its future is key



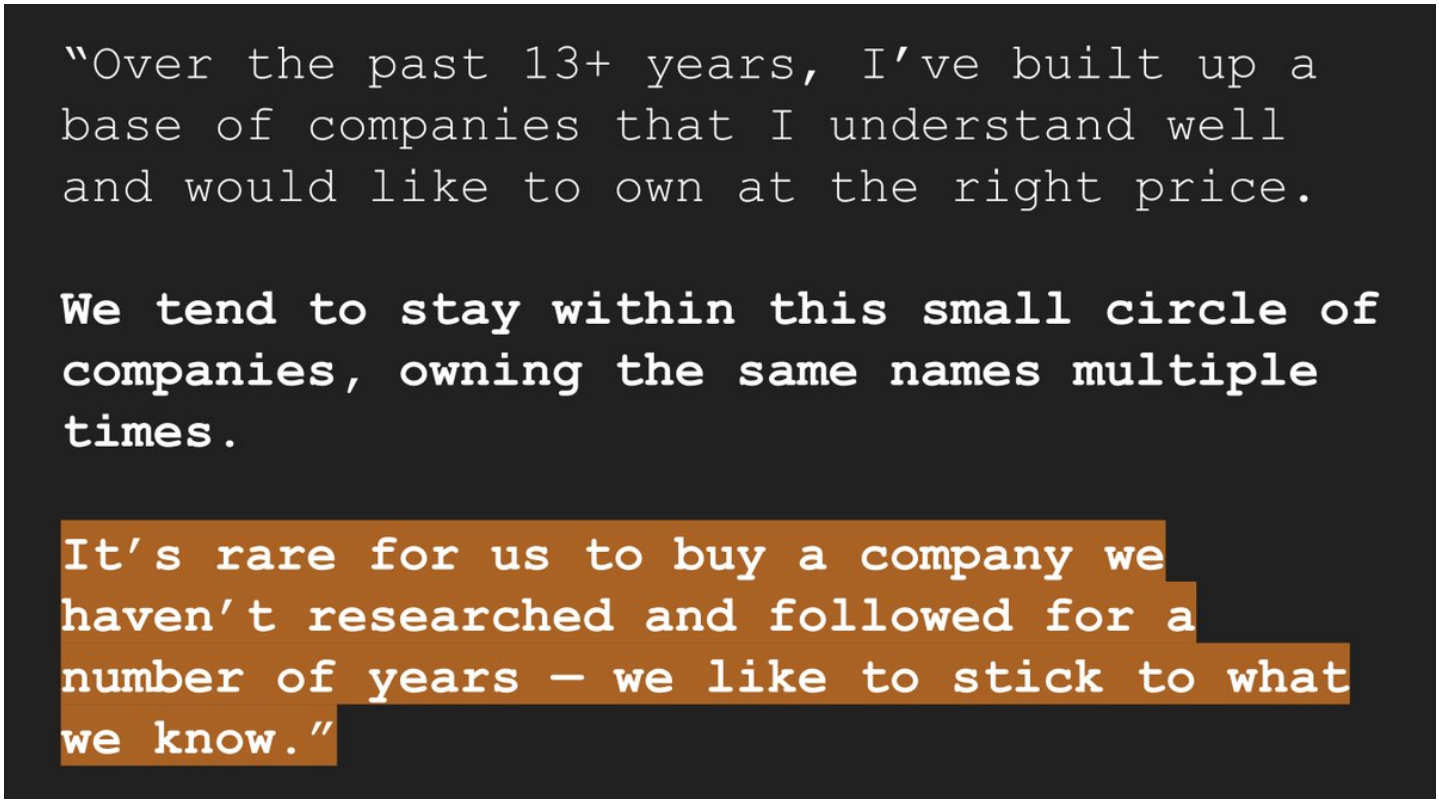
2. Stay within your circle of competence

Allan is aware that his CoC is tiny!

Thus, he rarely buys companies that he:

• Hasn't researched
• Hasn't followed for at least a few years.

Because the best way to study a business is to observe its execution overtime.



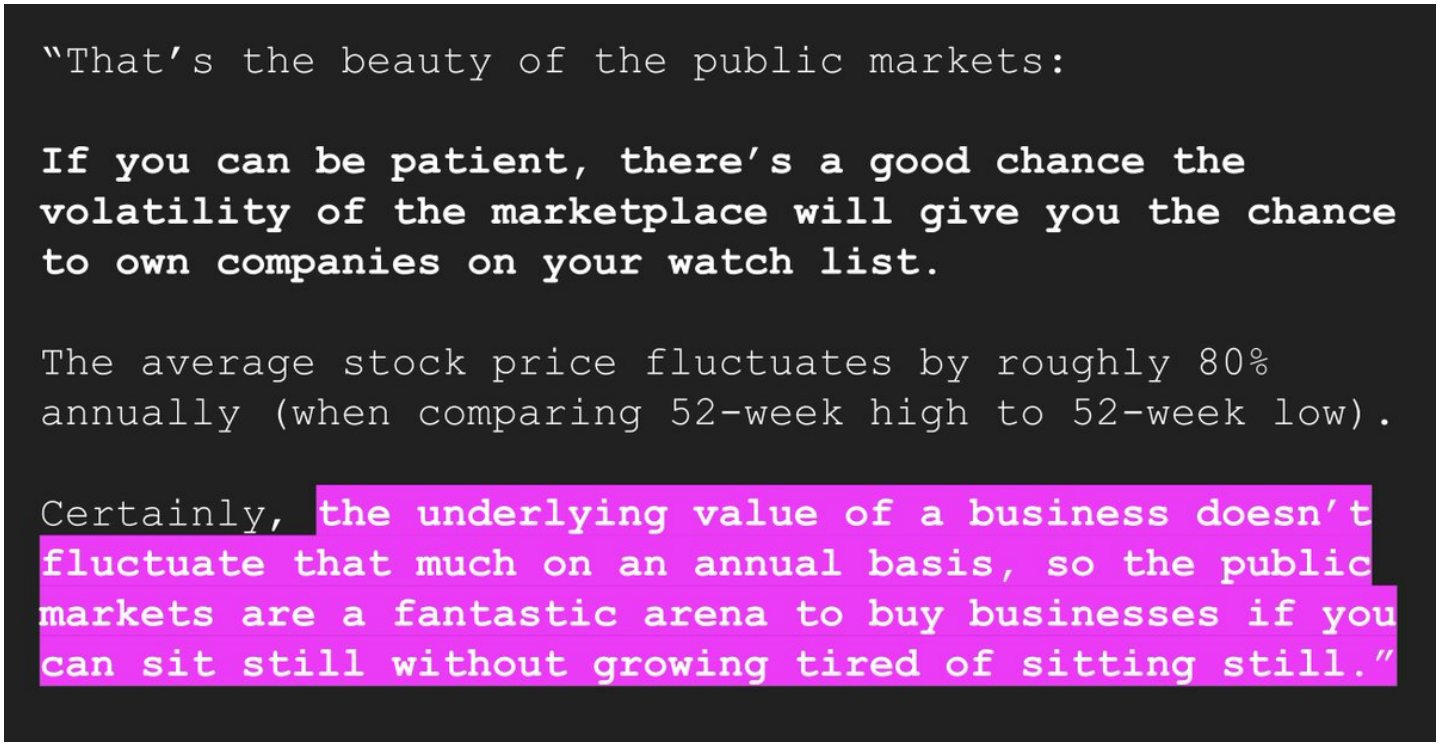
3. Embrace volatility as a gift

Public markets offer you amazing deals you will never get in the private markets!

It's all about being patient.

The underlying value of a business is much more stable than the stock.

So you can buy great businesses that are mispriced!



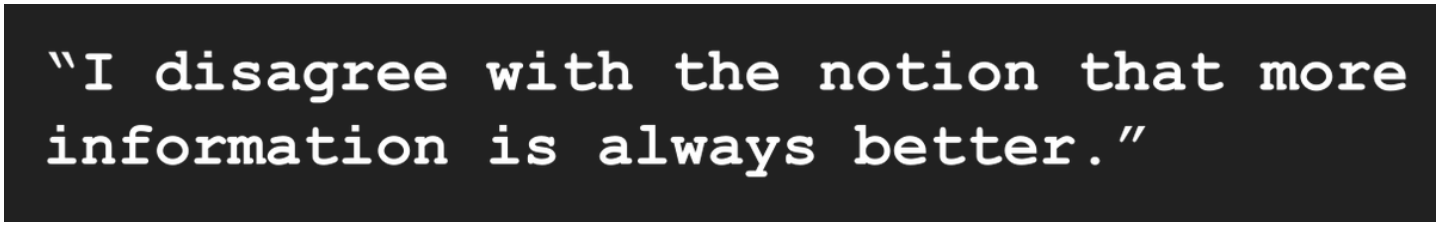
4. Avoid noise and news

More information can give you a false sense of confidence.

It can create an illusion of "knowledge", and make you think many things are important.

The key is to know what are the 3-5 main variables in the company, and focus on those.

Ignore the rest.



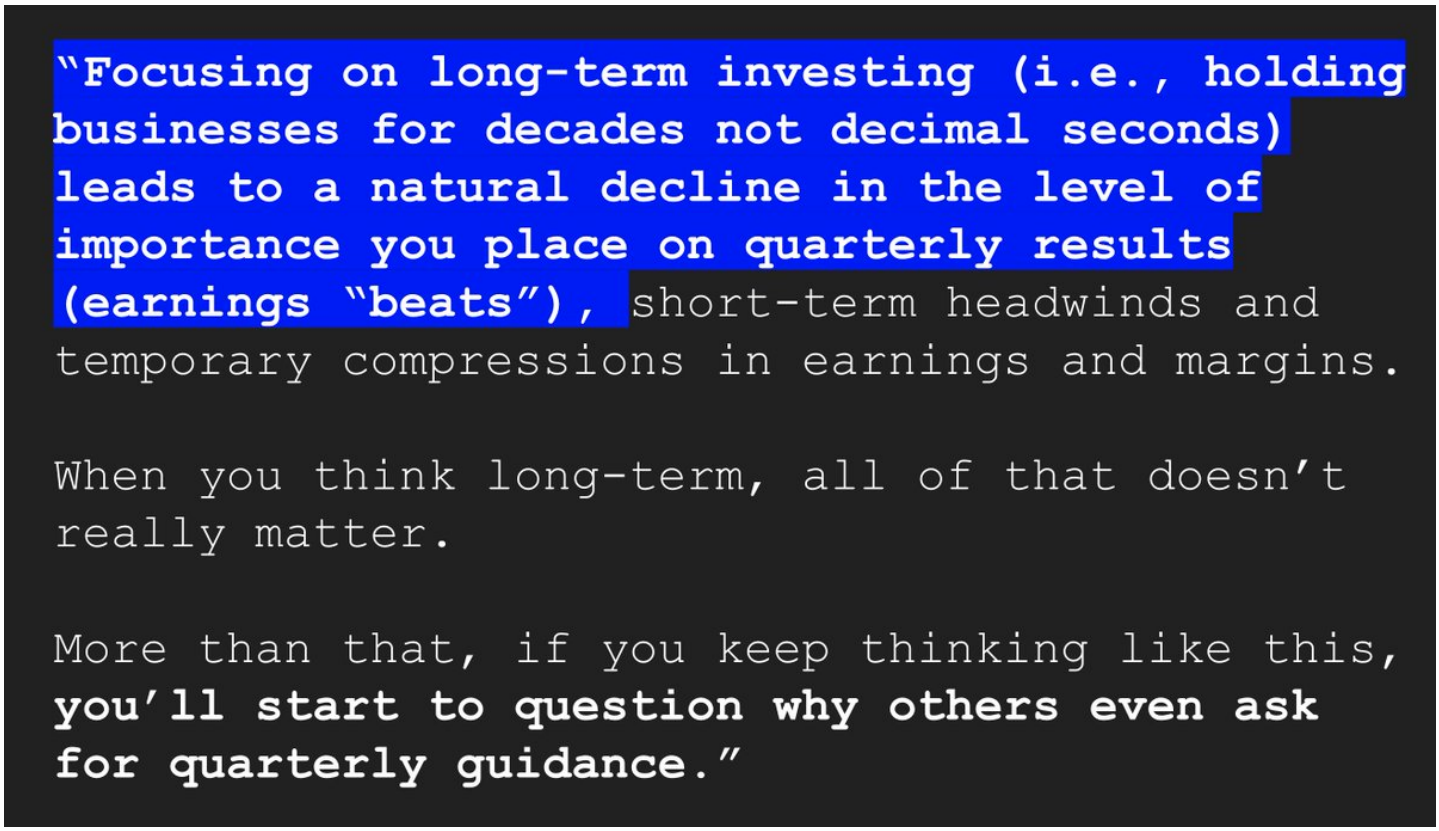
5. Extend your time horizon to see what's truly important

When you look years out, instead of next quarter:

• You place less emphasis on hiccups and fluctuations.

• You don't focus on what 99% of other analysts look at (guidance, beats).

This helps you think more clearly.



6. Dig below the numbers

Not everything that is in numbers gives you the full story.

The real returns are made from great business quality.

Many factors like psychology and customer love are what determines the longevity of the business.

Look beyond the financial statements!

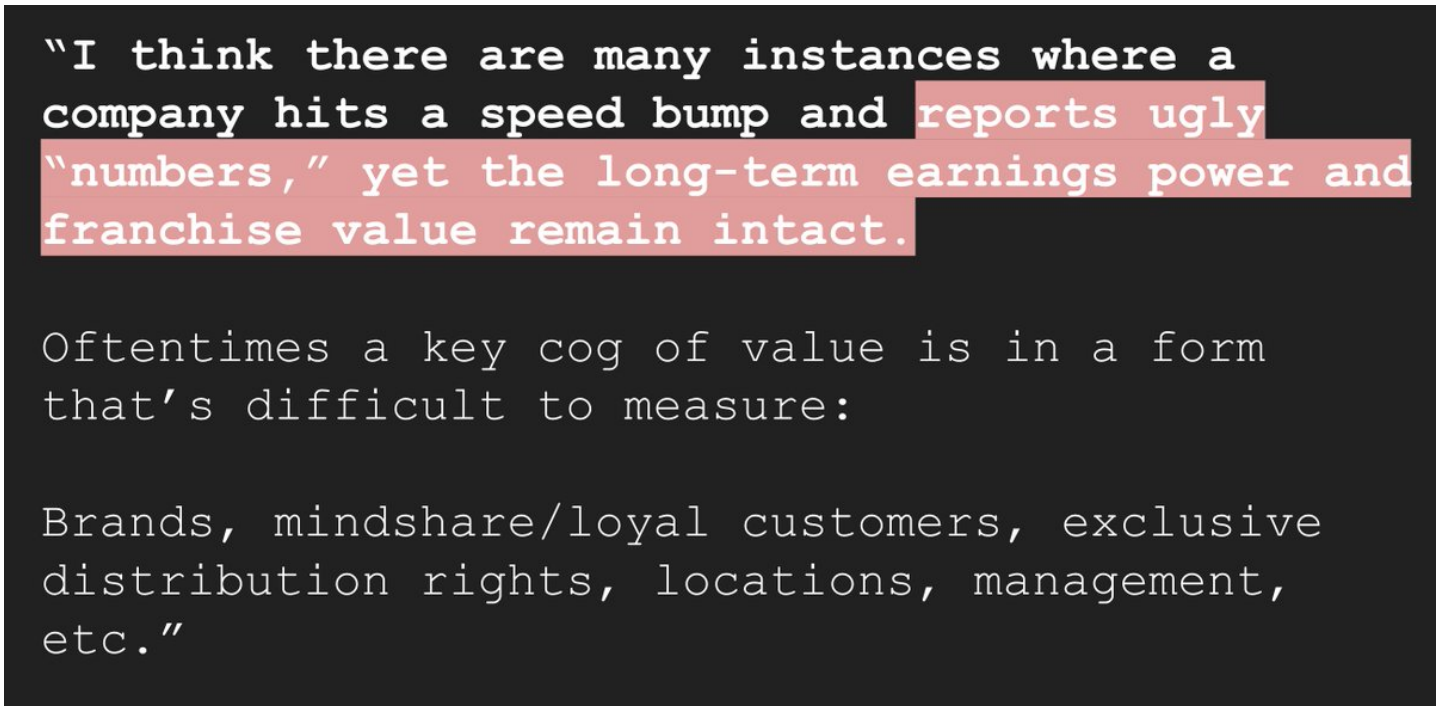


7. Mentally prepare for speed bumps and ugly numbers

Learn to discern between:

Short term speed bumps VS. fundamental problems in the business.

Franchise value can still be firmly intact, even if the company is going through a rough patch.



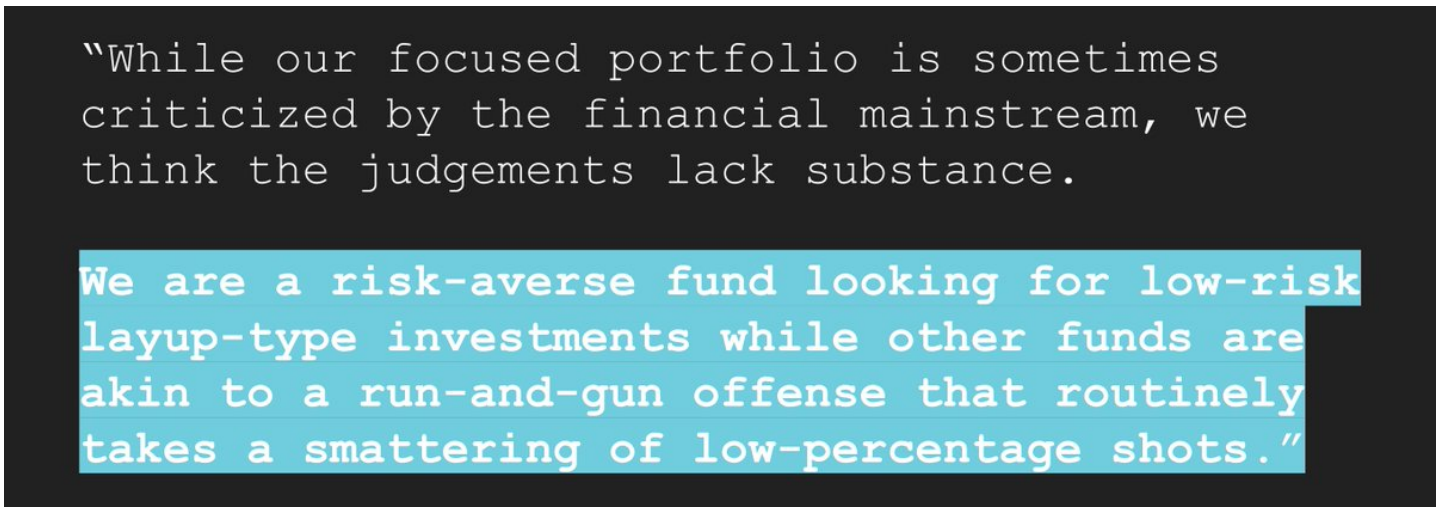
8. Pick the easy fights

He looks for layup type of investments, basically those that are easy.

Simple to understand.

In this business, there are no bonus points for doing backflips and somersaults in the air.

K.I.S.S!!!



RECAP:

1. Adopt a mindset for longevity
2. Stay within your circle of competence
3. Embrace volatility as a gift
4. Avoid noise and news
5. Extend your time horizon
6. Dig below the numbers
7. Mentally prepare for speed bumps
8. Pick the easy fights

If you like this, follow me here at @heymaxkoh

I share how I crossed 7 figures before age 30, and achieved my own version of financial freedom.

Stuff I tweet about:

• My investing strategy
• Books that inspire me
• How I built high income skills i.e. public speaking