Twitter Thread by Richard Chu



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1/ I used to think that the biggest gains had to come from stocks that no one knew about

One of the harder lessons for me to internalize has been that oftentimes, unknown stocks stay unknown for a reason and you can still earn attractive returns from stocks everyone's bullish on

2/ While I’m not contrarian just for the sake of being contrarian, I do think it’s important to question everything.

When I started out, I would buy "quality" stocks like FB or TSLA without doing much research.

But an opinion being consensus doesn’t make it the truth.

3/ So owning the most popular stocks made me nervous. If a winner is so obvious then either it's priced in or maybe I'm missing something?

I preferred owning stocks that others weren’t aware of or were bearish on for the wrong reasons (more room for upside surprises).

4/ But there are degrees

Despite being widely popular, stocks like SHOP have been some of the best performers because they exceeded even the most bullish projections

And some stocks like TSLA are partly popular because they are great consumer products which is an important sign

5/ On the other hand, while the biggest winners can be found in micro-caps, many of which started out very undervalued with no analyst coverage, on average, they tend to underperform larger caps

Picking out the big winners earlier on is very difficult and there is no set formula

6/ So, while I still prefer owning under-the-radar stocks (it's an awesome feeling when you're first to find a gem), I recognize that the probability it is actually a gem is very low.

And I’m fine with owning popular stocks as long as I do my DD rather than relying on others.