Twitter Thread by Leading Nowhere



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Paying 50-100x earnings for 'blue ocean' sectors has become normalized with promise of changing trends and immense future opportunity. Stock markets look forward, if the future opportunity is great, in most cases that 100x valuation already factors a 30x valuation in 3 years.

For investors, the question of where the buck stops is difficult to answer, because the goal post keeps changing. 30x is reasonable for one business, for another 70x is acceptable. So why not everything in between too?

Not every business captures the opportunity available. There is many a slip between the cup and the lip, as my English teacher used to say. When investors have seen valuations creep from 20x to 100x in a matter of a year or two, it is easy to to keep dancing to the same music.

But like we used to play musical chairs in childhood, someone will be left standing too. And here the rules aren't that 1 person gets eliminated at a time, hundreds get crushed at the same time. In childhood, we had a 1/X chance of being caught standing when the music stopped.

The margin of safety was high till you got down to the last 3-4 people playing the game. Similarly, your margin of safety reduces dramatically when valuation becomes irrelevant. A few months of underperformance and suddenly things don't look so rosy any more.

Building conviction during this bull run is easy, helped significantly by the availability of newer formats for disseminating investment research, such as YouTube videos. Watching videos, though, cannot be ALL the due diligence for investments.

Videos capitalize on the lazy-streak of retail investors, many are snippets of investor presentations and in some cases international material to show trends, etc. While these are truly novel and great for investors to get started, they make borrowed conviction even easier.

One cannot replace an investment process with videos and secondary sources of information (which includes other people's opinion). A lot of people DM me with rude messages saying I'm jealous and missed the bull run - I am just extremely selective at this stage.

Investors should read everything they can. Presentations, annual reports, brokerage reports, foreign material (if that kind of a sector). Listen to con-calls, transcripts and pick the brains of those more knowledgeable. Connect the dots across different sources and validate.

Don't overcommit on borrowed conviction. It's fine to ride trends and trust people's projected expertise, but bet only what you would invest into a similar situation in real life. Buying and selling is just clicking a few buttons, but that doesn't mean the diligence disappears.

As always, question everything and take nobody's word for it. Not even mine!