Twitter Thread by Anand Chokkavelu, CFA

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Peter Lynch's 8 principles for beating the market

(Why listen? He averaged 29% yearly returns running a mutual fund!!!)

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1. Know what you own

This one frequently gets a "yeah, yeah" from me, but it's embarrassing how many "They do THAT?" moments I have.

Here's a test for every company you own...can you explain in detail how they make money AND how that's different than their competitors?

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2. It's futile to predict the economy and interest rates (so don't waste time trying)

As I'm writing this, we're all wondering what the Fed's going to do.

You could read this a week, a month, or 10 years from now, and this would be true.

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3. You have plenty of time to identify and recognize exceptional companies

Lynch mentions $WMT as an example...even way back when he wrote about it, it was a 10-bagger even if you waited 10 years AFTER its IPO.

Today, we can look at $AMZN or $NFLX.

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4. Avoid long shots

LOVE this one.

It's so easy to get enamored with a stock's potential to 10-bag (e.g. hot industry, huge TAM, etc.), but we have to bump that against its chances for success.

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Lynch claims he was 0-for-25 in investing in companies that had no revenue but a great story.

Combined with #3, that can mean waiting to see if the company can reach critical mass on execution and then buying at a higher future price with a greater chance of success.

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5. Good management is very important; good businesses matter more

Of course, great management (especially founder leaders) can help build great businesses.

I know I didn't flinch when Jeff Bezos decided to step away from $AMZN's day-to-day.

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6. Be flexible and humble, and learn from mistakes

This is different than constantly changing strategies.

Lynch: "In this business, if you're good, you're right six times out of 10. You're never going to be right nine times out of 10."

There are lessons in the losers!

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7. Before you make a purchase, you should be able to explain why you're buying

...to an 11-year-old in three sentences.

Lynch: "Never invest in any idea you can’t illustrate with a crayon."

Personal e.g.: My Greenlight Framework forces me to organize my thoughts simply.

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8. There's always something to worry about.

Lynch's e.g.: investors made a killing in the 1950s despite the very new threat of nuclear war.

Buffett started investing DURING WWII.

Lynch: "In the stock market, the most important organ is the stomach. It's not the brain."

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These lessons sound SO simple and obvious

In a sentence, he's saying...

Focus on patiently, humbly, consistently vetting and buying great companies.

But executing them is SO hard.

Revisiting this list from time to time helps me.

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More from me...

https://t.co/atO9nThDj1

https://t.co/cufyjakuTR

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> My 20+ year investing path...
>
> (Take heart, I set a low bar)
>
> 1/7
>
> — Anand Chokkavelu, CFA (@anandchokkavelu) June 13, 2021