Twitter Thread by Daniel

Daniel
@MnkeDaniel

Li Lu is a well-known Superinvestor who has achieved a compounded annual return of about 30% since 1998.

He is also known for managing the money of his good friend Charlie Munger.

Today, he turns 56 years old, and on this occasion, here is some of his timeless wisdom■■

1. Why Value Investing Works

The market isn't created for value investors.

It is built in a way that increases the urge to speculate.

That's why businesses are so often misprized in the short term.

Value investors can benefit from this circumstance.

2. Understand Who You Are

You'll be more interested in some industries/topics than in others.

And in investing, you can choose in what industries you'll look for opportunities.

Investors should use this advantage and be sure about their circle of competence.

3. Be a Journalist

Being an investor is a lot like being a research journalist.

You have to dig into the company on a level that journalists do when they research their stories.

You also need to clearly articulate your thesis and research and bring it to paper.

4. Find the Truth

A journalist also has to find the truth before he publishes a story.

Same goes for an investor. It could be fatal if he makes a decision before he knows "the truth" about a company.

Thus, he has to avoid all sorts of biases and misleading influences.

5. Commitment Bias

One of these biases is the commitment bias.

To avoid this one, Li Lu rarely agrees to public appearances.

The more you talk about investments, the more you talk yourself into them.

The perceived knowledge about a company increases for no reason.

6. ROIC

Just as Charlie Munger, Li Lu emphasizes the importance of ROIC as a metric for superior performance and competitive advantages.

The longer your holding period, the more your return will equal the ROIC of the underlying company.

7. Volatility

As explained before, stock prices are a lot more volatile than the business behind that stock.

Investors, therefore, should pay attention to slow, long-term changes in the business instead of stock prices.

8. Self Defense

To Li Lu, the Margin of Safety is a concept of self-defense.

Even if the company is more valuable than the market gives it credit for, the management could destroy this advantage.

This possibility is something investors have to look out for.

9. Uninvestable

Some industries are impossible to value.

Li Lu gives the example of restaurants.

Even if the business is great, there are little to no durable advantages.

Investors shouldn’t try the impossible and just focus on what can be valued.

That's it for today.

I hope you learned something new. If you did, why not Retweet and Like this Thread so more people get to see it.

To learn more about Superinvestors, follow me @MnkeDaniel

Now, Happy Birthday to Li Lu and an excellent day for every one of you!