From the Precipice of Investing

"How I see it"

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Abstract. This paper outlines my "*philosophy*" of understanding businesses. It details the exact process I follow to come to a conclusive decision on buying or avoiding a business. It expounds on my skepticism towards diversification, leverage, speculation, and many other set investment practices, and explains why I am a contrarian.

"Two roads diverged in a wood, and I—

I took the one less traveled by,

And that has made all the difference."

—– Robert Frost

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1. Why do I Invest?

Investing, since the dawn of trading houses of *The Dutch East India Company,* has been a lucrative pursuit. A method to make *"easy"* money. But to me, the reason to invest is first to preserve money. I am a big believer in preservation of wealth. Investing in the equities market is often seen as a method to *"get rich quick"*, but to me, it means, *"to preserve and grow capital, while being part of a robust capitalist system".* If I value "safety" so much, why then, am I not an absolute fixed income investor? Why do I prefer the equities market? I prefer the equities, over debt, because equities give ownership, and fixed income-based securities give entitlement. Are fixed income-based securities better at preserving wealth? Yes. But I want the best of both worlds, and owning good businesses over the long term gives me just that. Debts yield; businesses compound. That is the difference. This is why I prefer the equities market.

To me, investing is all about beating inflation first, and thriving after it, with managing risk to such a degree that my initial invested capital faces no loss. I don't invest to double or triple money; I invest because I see value in the businesses I invest in. Aspiring for returns in the equities market signals a lack of understanding of this system. Returns are rewarded to value. Focusing on value helps in preserving wealth, above all.

Does this mean I denounce debt-based financial instruments? No. They are my second *favorite* asset class after equities. Fixed income securities are the bedrock of any well diversified portfolio, because their returns can be forecasted with a fair degree of accuracy. The same cannot be said about ownership-based asset classes.

I invest because it is one, if not the most efficient ways to interact with the economic machinery, while having the potential to preserve and grow wealth.

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2. How do I invest?

2.1. My Philosophy

The process of investing begins way before deploying capital. To invest capital well, one must first invest time in understanding the nature of what they are buying. This to me is the best approach to successful investing. When I want to buy shares of a business, I do not think that I am buying shares of the business, instead, I think I am buying the entire business. This mental model "compels" me to think like a business owner, and hence, attaches an extreme level of responsibility.

My philosophy of investing treats stocks as financial derivatives (even though, they are not) because in my opinion stocks derive their quality from the underlying business.

When I look at a business to invest in, I look at four things.

a. Quality
b. Price
c. Management
d. My understanding of the business

These four principles come together as my investment philosophy: *"Buy businesses you understand, good businesses, at a great price, which have the potential to be great businesses".* My philosophy is deeply rooted in common sense, and is stripped down to first principles to such a degree that this philosophy of buying can work on anything. For example, to buy vegetables well, one must look at the quality of the produce, is the price at which the produce is being made available worth it, who is selling the produce, and can I cook it. This philosophy can be employed at any purchase.

2.2. My Process *(in order)*

i. I begin by deciding why I want to buy a business (or buy shares). There must be a solid and explainable reason to deploy capital. I do not want to invest for the sake of investing. A reason is equally important to quality, valuation, etc. This is because a solid reason to invest shields one from the inevitable mental doubts which are caused by short-term volatility.

ii. I employ a quantitative screen to filter the noise and focus on quality. This illustrates a key belief of mine. *"What you buy is important, what you don't buy is much more important".*

iii. Once I have identified a business, I read the past 10 to 15 years' worth of annual reports of the business to understand it. To me, the annual report is the most important document any company publishes. I pay particular attention to the Management Discussion *&* Analysis (MD&A), and Notes to the financial statements. Reading the MD&A and notes over 10 years provides an intricate understanding of the business.

iv. Having a strong balance sheet, sustainable income statement, a growing cashflow account, and a reliable moat are my qualitative requirements in a business.

v. Once I work out the quality, I employ a basket of valuation methods to determine the intrinsic value of the business. On the basis of the intrinsic value, I establish a buy price, keeping the Margin of Safety in mind.

vi. After valuing the business, I value the management. I want level-headed and passionate people running my businesses. Above all, I want people I can trust. If the trust factor is missing, no matter how good the business, I forgo the plan of buying.

vii. I then think. Perhaps the most underdone activity in investing. I think about the business environment, what threats the business can face in the future, how can the moat be weakened, etc.

viii. Towards the end I compile all of this into a brief 45 to 60 second presentation, to either present to myself, or to my sister *(I will forever be grateful to her for listening).*

ix. If I cannot rationalize or explain simply why I am doing what I am doing, I don't do it

x. The last step, is assessing how much risk I can take and once this assessment is complete, I buy the business (or shares of the business)

This is my *"step-by-step"* method of making investments.

2.3. What do I avoid?

a. IPOs: I avoid IPOs because they are not undervalued on debut. After all, why would a management sell themselves short?

b. Businesses in the news cycle: If everyone's talking about it, it is probably too late to buy in. I prefer "boring" companies.

c. Excess optimism or pessimism: Extremes lead to irrationality.

d. Buying on hopes that a stock will go up: I do not care for what a stock does. In the short term, stocks are driven by two things, fear and greed; and in the long-term they are driven by two things as well, earnings and dividends. Stocks don't generate these things, businesses do.

e. Being Euphoric or fearful over stock movements: Stocks move overnight, not businesses. Stocks do not represent the quality of the underlying business; they derive their worth from it.

f. Leverage: Investing on borrowed money is perhaps the single most risky thing one can do with capital. Lose what you can afford to lose.

g. Diversification: Often touted as the holy grail of stock picking is an illogical activity for anyone who knows what they are doing. If you don't know what you are doing, diversification is your best bet.

h. Speculation & Derivatives: Not acting on underlying businesses makes no sense to me.

i. The hope of finding the next "multi-bagger": Multi-baggers are found only in retrospect.

3. Why am I a contrarian?

I am a contrarian not because I want to oppose the market, but because the market rarely stops to think. Popular opinion, by definition, is already priced in. To me, investing is an exercise in independent judgement, not collective enthusiasm. I do not take comfort in crowds; I take comfort in clarity. If the entire world agrees on something, I pause. Consensus is often a signal that the easy money has already been made. My contrarianism is rooted in simplicity: I only act when value exists, not when excitement exists. Thinking independently is not a style; it is a responsibility. Capital deserves thought, not imitation. To me, contrarianism is not forecasting doom or rejecting everything mainstream. It is the willingness to stand apart when logic demands it. To me, being contrarian simply means this: to trust my own understanding of a business more than the market's temporary enthusiasm or despair. It means refusing to outsource my thinking. It means allowing valuations to guide decisions, not headlines. It means remembering that the market has no duty to be reasonable, but I do.

To be a contrarian in the current market system, means to rationalize not react.

4. Conclusion

Investing, to me, is not a game of prediction, but a discipline of understanding. It is less about finding the next big thing and more about patiently identifying businesses that can endure, compound, and protect capital across time. My philosophy is grounded in first principles, ownership thinking, and a deep respect for value, guides every decision I make. My process, structured, deliberate, and built around reading, thinking, and reasoning, helps me avoid the noise that dominates modern markets.

I invest because it is the most direct way to participate in the economic machinery while preserving and growing wealth responsibly. I avoid what I avoid because it distracts from the only thing that matters: the underlying business.

In the end, investing is simple, but not easy. It demands humility, patience, clarity, and conviction. It demands treating stocks as derivatives of businesses, focusing on what is real rather than what is moving, and making decisions that age well.