The Honest Truth

A Short Handbook of Things to Keep in Mind to **Achieve Financial Success** and **Lead a Happier Life**

The Honest Truth

A Short Handbook of Things to Keep in Mind to

Achieve Financial Success and

Lead a Happier Life

WGF 1 & 2, Hans Bhawan
Indraprastha Estate
New Delhi 110002 India
Phone: +91 11 41517061; +91 11 41517078
http://www.sanasecurities.com/

Please send your comments/feedback at:
thehonesttruth@sanasecurities.com

"New technologies will keep changing the way we do things. It would be grave injustice to ignore how much more is available to us today and how much more we can achieve. Violence could only ensue if we forget the basics which neither technology nor science may replace."

Table of Contents

What is the Stock Market?

Many people look at the share market as a place for legalised gambling, where every morning people place bets and win or lose small or big amounts of money. The truth is that this is exactly what seems to be happening for many of them. At least until they get tired of betting.

As the exchange commences business every morning; financial news channel plays a trendy adrenaline pumping music with a market opening countdown timer on the left side of the screen. The millisecond number scrolls faster than the speed of light. A man starts speaking really loud and fast, like an old radio commentator. Suddenly, green and red coloured tickers start scrolling all over the screen. As the day goes on, finance news channels come out with absolutely stunning moving graphic tickers, meters and gauges to measure volatility, fear, greed and much more. Those who trade based on these numbers get active; some others look at them in admiration. Mostly, neither of them have a clue about what the stock market really is?

> **The stock market is a platform through which investors can put their savings towards productive investments and earn money on their investments.**

This certainly is not a good thing.

The stock market is meant to serve a much more important purpose than this. It is the backbone of a nation's economy and highlights its corporate health to the world. It is a platform through which investors can put their savings towards productive investments and earn money on their investments. Most importantly, it is meant to bring together businesses and investors and ensure the flow of funds between them for trade and commerce.

When you buy a share, you become part owner of the company.

How does all this work?

When a company starts its business, it issues shares in proportion to the initial capital brought in by the promoters (i.e. those who start the business as a company). As the business of the company grows, the promoters often require more capital to meet the company's growth objectives like capacity expansion, new product development, increase in marketing budgets etc. They have 2 ways of raising this capital:

- Get a loan from a bank (Debt Capital)
- Sell equity shares of the company (Equity Capital)

Both means of financing have their pros and cons. Debt capital would burden the company and require it to make regular interest payments on the borrowed sum. On the other hand, Equity capital would increase the number of owners in the business thereby reducing the stake of the promoters. However, the advantage in the latter case is that the promoters by selling a portion of the company’s ownership (i.e. equity) in return for capital and thereby avoids any interest obligations which they would have incurred on debt financing.

When you buy a share, you become part owner of the company. For example, if a company issued 1000 shares and you bought 10, you own 1 % of the Company. This gives you the right to share in the growth and profits of the company, right to receive the company's report and accounts and right to vote on corporate affairs in company meetings. The more shares you own the bigger your stake.

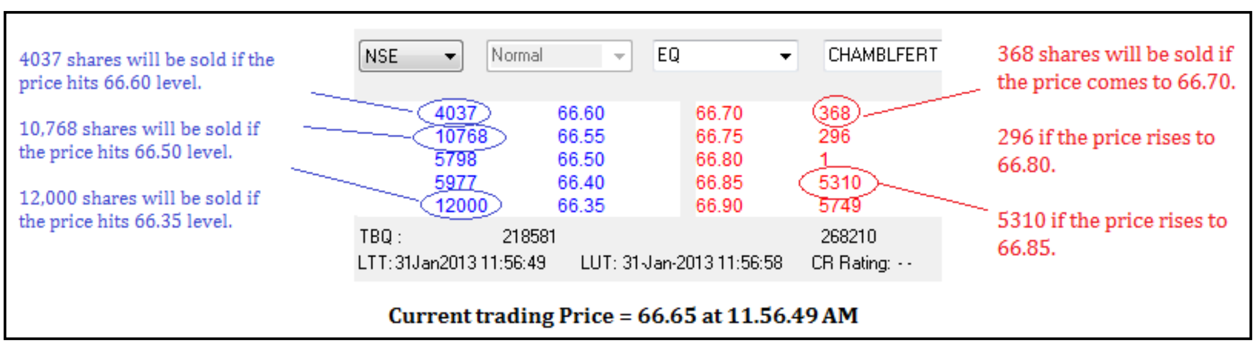
Now, it is easy to find new investors to come in as owners so long as the business is small and requires little capital. Imagine a company which requires ₹1,000 Cr. In such a case one often needs to talk to many prospective stakeholders at the same time because you don’t often find individuals or one group willing to put in that much amount. Hence, this is done by making an offer for shares of the company in the form of an Initial Public Offering or IPO. The company advertises its need for money and the purpose for such need and invites investors to become stakeholders in the company in return for capital. The process is regulated by the Securities and Exchange Board of India

> **Price of shares move because of the demand and supply pressure on the share and FOR ABSOLUTELY NO OTHER REASON’**

("SEBI") and the stock exchanges where the shares of the company get listed after their sale to those who apply in the IPO.

Once listed, the price of the share moves based on the demand and supply of the shares. When more people demand the shares, the price moves up and vice versa. This demand and supply establishes an equilibrium price which is where the share trades. Always remember this simple concept – price of the share moves because of the demand and supply pressure on the share and 'FOR ABSOLUTELY NO OTHER REASON'.

I don't want to get into any technical aspects but it may be helpful for you to understand the concept of equilibrium. In stock markets you can see this equilibrium being created by the demand and supply pressure on shares. Look at this screenshot of a company's shares trading on the exchange. Buyers and sellers have entered their bids at prices at which they will be willing to buy and sell the disclosed quantities respectively.



In addition to the pre entered bids, you can also buy in the open market. So for example if you place an order for 10,000 shares at the market price of ₹66.65, instead of entering a price limit bid, the market will quickly buy 10,000 shares at whatever price it gets them. In the above example, you will end up buying the lots of 368, 296, 1, 5310 (circled in red) and a part of the lot of 5749 until you get 10,000 shares. This will disturb the equilibrium because the price will suddenly shoot up to ₹66.90 levels. When it finds no buyers at those levels, it will come down gradually to wherever it finds buying and selling equilibrium. This is a very important concept to keep in mind. While buying and selling (i.e. demand and supply) of shares should be based on reasons such as growth prospects of the company, success of its goods and services, whether and how much profit the company will most likely make in future etc, it should be kept in mind that even if buying and selling happens for any other reason, it will still have the same effect on the share price.

In the long term, price of the share rises or falls based on how well the business of the company performs. Focus on understanding businesses and invest your money with a view to make profits over a period of time.

Why do people buy and sell frequently?

Often buying and selling happens on the basis of short term news flows (i.e. positive and negative news about the company). Analysts and fund houses constantly research and track companies and come out with quarterly and annual projections based on which they often buy and sell shares with the objective of being the first ones to benefit from any expected movement in the share price. For example, if a company does not report good sales number for a quarter, people sell their shares in the company as they feel that the business of the company is going down and hence the company may not make profit in the future.

These days a number of sophisticated trading software have come out in the market to help you in speculating how share prices will move in the next few minutes, hours, days, months etc. Most of these are premised on behavioural studies (i.e. when people sell, beyond a point, the trend of selling is likely to continue until a certain price level which will drive the price down up to a certain point and vice versa). These softwares have further added to volatile equilibriums and the confusion that prevails.

Empirical studies have shown that these volatile price movements do not in any way impact the portfolio of a long term investor. This is because **IN THE LONG TERM PRICE OF THE SHARE RISES OR FALLS BASED ON HOW WELL THE BUSINESS OF THE COMPANY PERFORMS**. Focus on understanding businesses and invest your money with a view to make profits over a period of time and avoid the entire buzz about trading styles, futures, options, calls, puts, the really well marketed software and algorithmic formulas.

This does not mean that you stop reading the newspapers and do not keep track of how your company is conducting its business. The important point is that, instead of looking at the share price every day, you need to give the company some time to execute its plans.

Buffet stated this point in the most articulate manner:

> ***"I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years."***
>
> ***– Warren Buffet***

Why Invest – A Case for Equity Investing

There are only two ways in which money making is done:

1. Hard work makes money

2. Money makes money

Investing is the art of employing money to multiply it.

Those in need of money for setting up or expanding a business are always willing to pay some premium for money. This is premised on their hope of making a higher return on this money compared to the premium that they pay for it (i.e. profit). When you buy shares in a company, this premium is nothing but the return generated on the invested money itself. This return comes to you, the investor in proportion to your investment in the company.

Investing is the art of employing money to multiply it

How does money reach those in need of it?

There are many ways in which money can be channelled to those in need. Banks move money between businesses and investors for a commission. Stock Exchanges are a great platform for channelizing money from investors to businesses. In either case, the underlying objective is to invest and make your money work for you.

Besides the fact that money multiplies itself, another reason as to why you should invest which people often overlook is the effect of 'inflation'. The rate at which the prices of goods and services rise (i.e. Inflation) causes money to lose its value over time. So your money will not buy the same amount of goods or services in future as it does now or as it did in the past. For example, if prices rise at a rate of 6% for the next 20 years, a ₹100 purchase today would cost ₹321 in 20 years. So remember, if your money doesn't grow at a rate higher than the inflation rate, its value decreases over time.

if your money doesn't grow at a rate higher than the inflation rate, its value decreases over time.

Where all can you invest?

- Bank deposits or FDs, government bonds, shares, property, gold etc.

Which one is the best for you?

That would depend on how much return you expect to make and the risk you are willing to assume for such return. This '**SHOULD**' further be based on other factors such as the age of the investor, the horizon over which the investment is to be made and the portion of income or savings available for investment.

It is generally believed, that fixed income investments like bank deposits are safer in comparison to equity or share market investments. This may be true only if you invest in highly risky equities or complex derivative products. Let's understand how you earn money on fixed income investments and equities.

Take the example of a simple fixed deposit ("FD") with a bank. Banks accept deposits and extend loans to their customers charging a difference in the rate at which this is done, i.e. commission. "Many fail to realise that banks don't create money, they just move it around and every time they move it, they charge a commission". The primary function of banks is to put their depositor's money to use by loaning it out to others. In the process, the bank keeps the difference in the interest rate it charges on loans and the interest rate it pays on deposits. So the fixed interest income which you earn on your FD, is a little below what the bank earns by extending your money further.

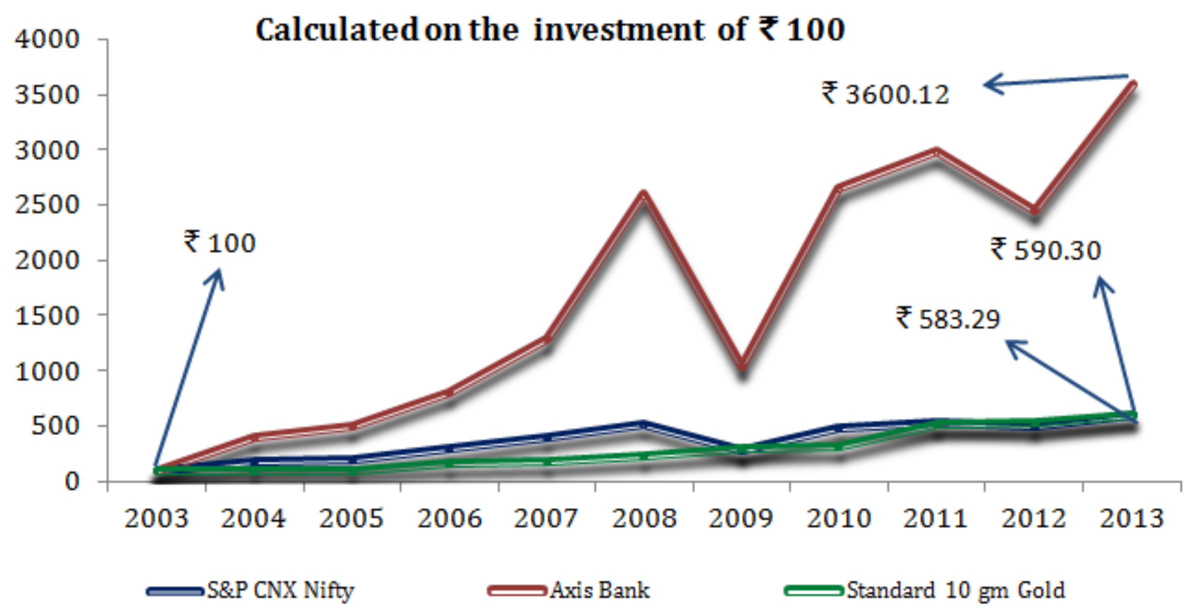
Many fail to realize that banks don't create money, they just move it around and every time they move it, they charge a commission.

When you invest in equities, you become part owner in the company and are entitled to the profits generated by its business. Companies can either return the profit to the shareholders as dividends or accumulate the profits in reserves if the management feels that it may be able to utilise the money better and earn an even higher rate of profit in future by capacity expansion, making an acquisition or by new product launches. Of course, the management could also do a bit of both (i.e. pay part dividend and transfer the rest to reserves).

it is absolutely imperative that you invest a portion of your savings in equities as they not only provide a hedge against inflation but are also tax advantaged

When you compare fixed income investments with equity investments, keep in mind that the return from FDs is taxable as per the income tax bracket of the investor and the effective post tax return rarely matches the inflation rate of about 7%. For example, for someone who is in the 30 % tax bracket, a fixed deposit with a 9.5 % interest rate is effectively only about 6.5%. This is why it is absolutely imperative that you invest a portion of your savings in equities as they not only provide a hedge against inflation but also tax advantaged, in that you pay no tax either on dividends or long term appreciation in the value of equities.

In addition to fixed income and equity investments, there is a lot of buzz about investing in property and gold. The first has some merit but the latter, in my view is unlikely to sustain its rising price in the long run. In any event, when you compare gold vs. other productive categories of investments such as equities, you will realise that equities have consistently outperformed.



What then is the reason for all this hype with the yellow metal? Was it just that people wondered where to put their savings with the equity markets (and mutual funds) performing so poorly over the recent years? Or is it something else? Will gold also see an equity market like crash? May be not but as I said, we can discuss the reasons at length in another discussion.

For now, let's just focus on 'safe equity investments'. I would not like to talk about large caps, mid caps or small caps in an effort to describe what may be 'safe' but if you can understand the correct way of defining an investment, you are unlikely to go wrong with it.

Will gold also see an equity market like crash?

> *"An investment* ***operation*** *is one which, upon thorough* ***analysis****, promises* ***safety of principal*** *and a* ***satisfactory return****. Operations not meeting these requirements are speculative".*
>
> ***– Graham & Dodd (Security Analysis 1st Edition 1934)***

Investment is a full time operation performed after thorough analysis to determine safety of principal, in order to earn a satisfactory return. It is not that speculation does not earn you money; it just lacks the element of safety and certainty. In the next chapter I will discuss this in the context of your 'purpose' for investing.

It is not that speculation does not earn you money; it just lacks the element of safety and certainty.

Why do you need to learn?

Tell me a fund manager or a stock broker or basically anyone who works on commissions who ever said something like:

"The economy looks gloomy, please sell your equity investments and cash out; I will see you in a few years by when markets should look stable again"

If you think that in future these things would be said to you, join me for a walk sometime and we can start from the beginning.

Please don't confuse me as saying that all fund managers and mutual fund companies are bad. I certainly don't mean that. I am just saying that it's a professional hazard for them to be negative. Some of them may become conscious of a possible turmoil in the economy and may realise that it's best to reduce exposure to equities and allocate more money to fixed income (i.e. government corporate bonds, FD's etc). How many do that is another thing. There are others, who do realise subconsciously but keep hoping for a revival

Please don't confuse me as saying that all fund managers and mutual fund companies are bad. I certainly don't mean that. I am just saying that it's a professional hazard for them to be negative.

until it's too late. Then there are some who genuinely don't see it. Yet another lot never pays attention. They all manage sizeable funds.

the best person to manage your money is 'YOU'.

The inability of the finest fund houses, around the world, to protect client moneys in times of economic turmoil should by now have convinced you that, "the best person to manage your money is 'YOU'.

Learning the basics of finance will not only help you manage your finances better, it will also make you realise about money making avenues which you never knew existed. While it is important to invest, what is even more important is to know the various avenues for investment and which one is the best for you.

For example, if you invest ₹1,00,000 in a scheme which pays you 9% interest p.a. how much will you accumulate after 10 years? The answer to that simple question would depend on how frequently your money was compounded and the results can vary considerably. If your money was compounded monthly, you will have a corpus of ₹245,135.71. If on the other hand your money was compounded yearly, it will add up to only ₹236,736.37 (that's 3.43% less). So just a little bit of knowledge and being careful could make you earn more over time.

just a little bit of knowledge and being careful could make you earn more over time.

This was with fixed income investments. Needless to say that when you invest in equities, the amounts could vary a lot more significantly and you must be a lot more careful with your decisions. The art of stock selection is in knowing which companies will do better than the others in favourable economic conditions. It is an art which is absolutely essential to learn if you want to accumulate wealth over a period of time.

The art of stock selection is in knowing which companies will do better than the others in favourable economic conditions

Do you understand your 'Purpose'?

One industry which has grown phenomenally over the last decade or so is the internet or the industry of 'how we do things now'. Courtesy the internet, I am able to reach out to all of you. It is easy today to learn everything you need to know about the basics of stock investing from the comfort of your home. You will find millions of pages of material on how to read and understand financial statements and how to calculate financial ratios. The formulas are simple. The hard part is to apply them. What's even harder is to apply them over and over.

So do you need to read a million pages?

Of course not, you just need to know what to read and ignore the million ways of writing the same thing. At the start you must define your 'goal'. Are you really looking to accumulate wealth over a period of time or are you looking to trade your money. Financial news and print media regularly describes market participants as 'investors' or 'traders'. Both strategies can be extremely effective. The intention in either case is to make profits but their psychology and styles differ. Most importantly, the discipline with which they go about their business differs.

you just need to know what to read and ignore the million ways of writing the same thing.

A seasoned trader keeps a strict stop loss and is happy to take losses in a few trades where his plan does not seem to be materializing. To that extent he does not let his emotions get the better of him. His inherent feature is not to allow huge losses on a single trade. If he is successful in 3 out of 5 trades, he is happy to book losses in the remaining 2. Typically, traders don't ride on 'hope of improvements'. This is why I said they have a pre-set goal.

How does an investor differ? As an investor, if you are convinced that something is worth holding forever, you will not let short term market volatility discourage you. Unlike traders, investors do not have a strict exit plan if the stock price goes down. They estimate the potential for future growth and are convinced that once the business starts performing as per their expectations, stock price will rise. To that extent, they look at being a shareholder as not very different from being part owners in the business.

investors look at being a shareholder as not very different from being part owners in the business.

The style you choose largely depends on your goals and psychology. One thing is for sure, if your strategy is based on a hybrid mix of the two, you are most likely to do harm to your portfolio sooner or later.

The contents of this e-book will be more useful for investors who are looking to pick up stakes in high quality businesses. So if you are or want to be an investor, remember this simple 'Warren Buffet Rule':

"Look at the underlying business as closely as you would if you were buying the whole company. Now ask yourself, would you like to own this company and run this business as your own"?

– Warren Buffet

If the answer is no, why buy a share of it?

How do you look at a business **closely**? What exactly does that mean?

Of course, the answer cannot be stated in a short e-book. The subject is a lot bigger. A brief overview may however be possible. I speak for value investing and fundamental analysis and do believe that these are the most powerful tools for successful investing. In the next chapter, I will talk about the most basic elements which can serve as a good starting point for those who are looking to invest in equities on the principle of 'Value'.

I speak for value investing and fundamental analysis and do believe that these are the most powerful tools for successful investing

"Select a portfolio of stocks by throwing darts at the stock listings .... and you will.... make fairly handsome long term returns. What is hard to avoid is the alluring temptation to throw your money away on short, get rich quick speculative binges. It is an obvious lesson, but one frequently ignored".

- *A Random Walk Down Wall Street,* by Burton G. Malikiel

How much should you learn?

There are some basic questions that you must ask yourself before you make a (stock specific) investment decision.

Have you studied the business?	1. Do you understand the business i.e. what does the company do? 2. Does the company have favourable long term prospects?
Have you studied those who are behind the business?	1. Is the management honest? 2. Are they competent, skilled, well-connected i.e. do they have what it takes to run the business? 3. The promises they make in the annual reports or otherwise – are those promises rational, achievable? 4. Have they been making efforts to fulfil their promises? Or does every annual report have a new promise?

Do you understand how they are managing their finances?	As we discussed in the previous chapters, it is important to understand the basics of finance. It is simple but requires a lot of practice. Practice of reading financial statements and understanding what they mean. We have written a lot on this subject on our website and highly recommend that you read some of the stuff which is linked below. In addition many books on finance are available in the market and I have provided a link to some of my favourite ones in the next chapter. You could also register for one of our web sessions to learn the basics. ❖ Is there a reason? – Beyond management integrity ❖ Fundamental Analysis ❖ 6 things to consider when looking at ratios ❖ Economic Moats ❖ Profitability Analysis ❖ Efficiency Analysis ❖ Liquidity and Credit Analysis ❖ Valuations - Closer look at PE ❖ Discounted Cash Flow analysis ❖ Weighted Average Cost of Capital ❖ Investor's Edge: What puts them ahead of the curve? ❖ How efficient is the efficient market hypothesis? ❖ What you must know about Mutual Funds. ❖ Things to read but best avoided: Brief introduction to derivative markets

Reading

I know many find it tedious to read and would prefer television or rather listen to those who have read. Rest assured, these are not the substitutes. Just read.

It's a habit which is hard to inculcate but one of the best to have. While I do have my favourites (you will get a list here) for reading on finance, you may look for others. Just to get a feel of finance you may even choose a more gripping book on finance. Yes, I am not kidding they do exist (try Barbarians at the Gate by John Vogel or Too Big to Fail by Andrew Ross Sorkin).

The reason why I wanted to have a separate chapter on of reading is just to highlight its importance. It will not only make you a smarter investor but also ensure that you do not fall prey to the many fraudulent schemes and products being sold in the guise of investments. It will make you question and realise the many possibilities that exist.

One of the most compelling arguments in favour of reading is that, you do not have to make all the mistakes yourself. Many before you have already done you that favour. Learn from their mistakes and it will shorten your learning curve. Besides the books which I have recommended above, make sure that you add at least one good finance newspaper (personally, I like the Business Standard) to your daily reading list. What else I like a lot is reading the blogs and reports written by some of my favourite investors and thinkers. For example, read the annual reports of Berkshire Hathway here. They are the finest example of disclosure standards.

You know the basics. Don't lie to yourself.

Warren Buffett was once asked what investment advice he would give a money manager just starting out. He said, *"I'd tell him to do exactly what I did 40-odd years ago, which is to learn about every company in the United States that has publicly traded securities."*

Moderator Adam Smith protested, *"But there are 27,000 public companies."*

"Well," said Buffett, "start with the A's."

Reading one of the many books on finance may be a great idea but personally, I think what helps the most is to do some number crunching yourself. Pick up some balance sheets and earnings statements and calculate the basic financial ratios. I say this also because if you have read everything so far (including all the linked articles) then you are more than capable of getting down to the practical. Further reading would make you smarter (and keep

Further reading would make you smarter (and keep you entertained) but will hardly be of much use unless you practice the art yourself

you entertained) but will hardly be of much use unless you practice the art yourself.

Play with the numbers until you get comfortable with the calculations.

Here is a short drill:

1. Select any 5 companies, preferably choose the ones whose business you understand;
2. Calculate their key financial ratios as per these formulas;
3. Re-work on these ratios by reducing and increasing certain key figures like sales, expenses etc.

Play with the numbers until you get comfortable with the calculations. You can compare your results with those reported in the various freely available brokerage reports and on the many finance portals over the internet. It is perfectly ok for the numbers to be slightly different based on the variation in the formulas being used.

I cannot overstate the importance of practice. While reading will equip you with all the tools you need, those tools get sharper only when you start using them. Another thing that has helped me a lot over the years is that I have subscribed to many newsletters which showcase the practical application of what you find in finance books. I read them when I am bored, when I am stuck in traffic jams, at the airports, and even when I want to avoid a chat. The last one is actually the best time to read them.

I read them when I am bored, when I am stuck in traffic jams, at the airports, and even when I want to avoid a chat.

Just take your phone out and pretend to be very busy. Look around the internet and subscribe to all the free newsletters you can find and if you are concerned about your inbox getting congested, create a new email ID something like iwanttolearn@gmail.com.

You should also subscribe to a good stock reports package. These services not only help you in picking profitable stocks, but also serve as great educational tools. Typically good stock recommendation packages are available for ₹2,000-4,000 annually which is little price to pay for learning and considering how quickly you can make back your money once you start investing with knowledge, a good research report package is a very valuable thing to invest in. On our website, we have various packages to choose from based on your investment objectives and risk appetite. You can compare our packages here.

Just make sure that before signing up you understand whether the service is designed for investors or traders. If you want to learn investing, make sure that the report calculates the basic financial ratios and are logical and coherent. Most importantly, they should not be too complicated and you should be able to understand them based on what you know already.

To sum it up, I would just say that if looking at numbers makes you feel uneasy or if you do not like to read annual reports and business plans and yet you manage to invest, then those investments are more likely to be extremely expensive and unproductive ones.

Are you able to spot marketing gimmicks?

"If you don't understand it, leave it, because chances are nobody else does"

For years I struggled to find out why some companies which cater to a small group of buyers use expensive mode of television commercials to market their products. For example, imagine a company which manufactures train engines coming out with a commercial saying "Our engines get you their faster", fair enough and I am sure they do. Now, am I (or anyone other the Government of India) looking to buy train engines? Why am I watching this commercial? Call the Government of India, email them, or talk to someone in the ministry. That's your only market given that railways are not open to private investments.

The litmus test is easy. If you see a commercial and you can validly pose a question to a friend such as: "Hey Sumit, have you tried the new chips by Lays or the new chocolate by Cadbury" then the commercial may be justified. But, "you know Vikram, let's buy some train engines to get to work" would be a funny one.

Selling shares or selling products? Look around and you will find a lot of commercials which may be meant to get people interested in buying the shares of a company and not so much its products. Now, this may not always be a cause of worry because companies do and should want to create brand awareness or talk about how ethically they operate. All I'm saying is, Be careful! Think why you are buying a share.

Look around and you will find a lot of commercials which may be meant to get people interested in buying the shares of a company and not so much its products.

A very first hand experience that I can share is one where a dear friend of mine who undoubtedly is a marketing genius asked me to sell research reports with a picture of an animal next to a stock. His idea would have looked something like this:

Company	Most Like	Character
Larsen & Toubro		**Strong enough to carry the burden.** **Trait:** Burdened with debt but strong track record and future prospect.
IDBI Limited		**This one loves to swing.** **Trait:** Swings between 90 to 115
ITC Limited		**King of the jungle.** **Trait:** Dominating market position and diversifying its reach.

Now, I will admit, I was fascinated by his unique approach. I asked him, where did you learn marketing and why are they paying you so much? Understanding the wit behind my question, he told me, **"Rajat, this is what sells!"**

God help us all if we started taking the help of monkeys and tigers to justify stock purchases. What's a next, fox, leopards and so on? I think the subject is slightly more serious.

The best text in this regard which I have ever read comes from one of my all time favourite books on finance:

> ***"Managers of conglomerates almost invented a new language in the process of dazzling the investment community. They talked about market matrices, core technology fulcrums, modular building blocks and the nucleus theory of growth. No one from Wall Street knew what the words meant, but they all got the nice warm feeling of being in the technological mainstream".***
>
> ***- A Random Walk Down Wall Street,* by Burton G. Malikiel**

Be realistic

It is far too easy to get carried away by the buzz and gleam of marketing. When you form an opinion, work on it and then …. Do it again. Slightest miscalculation in the expected growth or future prospects could make the results vary dramatically.

Do not to get carried away with your predictions just because you like a stock, or a business model, or because everyone thinks that a particular stock or business model is set for exponential growth. If you follow the basic rule of investing in business's which you understand, a common problem is that you are that much more likely to feel that the business will do really well which is sometimes why you like it in the first place. There is far too many who love to buy shares in Britannia, Colgate etc simply because they love their products.

> **When you form an opinion, work on it and then… do it again.**

What can you do to ensure that you don't end up buying overpriced companies?

First, do one of the 2 things preferably both, either talk to someone who dislikes the business which you so love or read about all the negative news flow about the company before going ahead and buying any shares. In light of what you discover, re-consider your decision. If you are still as bullish on the company, then it may well be a serious contender to be included in your portfolio of stocks.

Second, tell yourself this - “future is anything but predictable, your predictions will more often be wrong than right". Give yourself a margin of safety (i.e. margin to go wrong in your predictions). In other words, buy stocks which are available far below their fair or intrinsic value. How far below? You must decide that based on how wrong you could be in your assumptions.

Afterword: Finally, simplify and take it easy

I for one would never underplay the importance of being serious about your work. Nor would I ever undermine the importance of money. I only worry when I forget what I am working hard for.

I firmly believe in living with a purpose. Find that one thing that you love doing, and do it to your heart's content. Much like capital flows to where returns are, money finds its way to reward hard work. For years I worked as an attorney advising on corporate deals, and it was worth it until it came to a point where I stopped enjoying my morning coffee, oftentimes missing it completely. I stopped making time for things which I enjoyed the most and soon enough I stopped enjoying what I was doing in general. The process was gradual but I wanted to escape.

Much like capital flows to where returns are, money finds its way to reward hard work.

Why am I writing all this? I hope you can learn from my experience (or mistakes, if you may) and not go about things the way I did. Now I write for Sana, we do research, invest, and make money and debate. Most importantly though, I enjoy my coffee, every sip of it and I don't miss it any morning. Now when a friend tells me a joke, I do listen to it and laugh (unless it's a really bad one). I find happiness in what I do.

This is the secret to my success in the market, whatever little success I have had so far. Take your work seriously, but not yourself. Don't wait for a vacation, have your little vacations every day and never do something which is not for the love of it all.

About the Author

Rajat Sharma is a New York Attorney and currently serves as the CEO at Sana Securities. Mr Sharma has been associated with capital markets for over 10 years. During this time he has served as an advisor to domestic and foreign companies and banks on a range of securities law matters. In 2011, Mr. Sharma set up Sana Securities with a view to create a community of informed investors. His research interests include empirical analysis of equities and corporate governance.

Send your comments at:

thehonesttruth@sanasecurities.com