Varma Investment Strategy Guide

[Road to Retirement]

This guide outlines key investment strategies for personal asset based on prevailing market conditions. The current economic landscape is characterized by significant uncertainty, driven by inflated valuations, the policies of a newly elected, tariff-heavy president, and intensified global market competition that is challenging the stability of the U.S. stock market.

As of April 2025, inflation remains elevated, contributing to higher unchanged interest rates. The average home loan rate has risen to approximately 8%, a stark contrast to the 2–3% rates observed in 2021. This surge in borrowing costs has significantly reduced housing affordability and led to a decline in home purchase prices.

Given these dynamics, investors must navigate a complex environment that demands a strategic and informed approach to portfolio management.

Rules of Management:

Long term investment strategy is used to fill investment packaged portfolio. Every $100,000 is allocated to initial funding of package. Once that amount is fulfilled, Package B can start being seeded and invested and to package C.

In order to ensure growth, once Package A and B are built out, and additional 100,000 is distributed to both packages, bringing the grand total of a single package to $150,000.

Only and only then can balancing of the funds can take place (buying and selling within the package based on the $150,000 fund).

Package A, after the initial investment of $150,000 has grown to $180,000, some positions can be liquidated to keep profit, however the liquidated profit can only go back into building a new package, or to refund the original investments at a cheaper cost basis.

Stock Packaging Portfolio

Package A
Amazon (AWS)
Apple (Brand)
HOOD (Growth)
JP Morgan and Chase (Stability)
S&P 500 ETF's (Growth)
Treasury Bonds (Stablity)

Package B
SOFI (Growth)
Palantir (Brand)
VISA (Monopoly)
JNJ (Stability)
Lockheed Martin (Cutting Edge)
Direxion S&P 500 3x (Risky)

- Buy companies with PE less than 25 with a safe cash reserve.
- Only buy company with PE higher than 30, but lower than 60 when it enables a cutting age industry. (Apple 2010 - 2015).

Varma Strategy

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1. **Risk Management**:

Proper Risk Management results in a larger return on investment than an over aggressive approach that eats away on returns from previous years.


Which portfolio would you rather own?

	Annual Return											
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Avg Annual Return	Total Return
Portfolio #1	20%	30%	-50%	20%	25%	30%	-35%	20%	20%	20%	10.0%	70.8%
Portfolio #2	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8.0%	115.9%

- Limit option position to <10%
    - Purchase options only on companies where your thesis is proven, but must be less than 1:2 return.
- Limit turnaround stock – **don’t buy**
    - Waiting for company to turn around, ex. Enron, Intel, Tesla (behavioral issues)
- Limit unprofitable companies – **don’t buy**
    - Go bankrupt during recession or in high interest environment.
- Avoid high debt companies – **don’t buy**
- Avoid binary bets – **don’t buy**
    - Binary bets are investing into an electric car company, while trading oil futures appreciation.

Volatility

VIX Levels for 2025-2026

1. **VIX 10-12<** = 20% allocated
2. **VIX 12-15** = 20-60% allocated
3. **VIX 15-20** = 60-80% allocated
4. **VIX 20-30** = 80-90% allocated
5. **VIX 30>** = 100% allocated, new cash added to the brokerage.
    a. Increased cash secured puts to buy at a cheaper price.
        i. Continue to DCA the packages.

BUY/SELL Strategy

BUY only when S&P 500 is close to its larger year over year trendline. Retail investor mistakenly always buy when market is overextended from where it's supposed to be.

This would suggest that the tariff corrections have taken place, this is the selling threshold like 2017. The market and continue pricing and recovering.

However, if Tariff's stay, and interest rates are not cut. We will be positioned well for a massive recession if an outlier black swan event disrupts the world economy. Significant war, or pandemic. World War 3 (China vs USA, East vs West, Trade wars). Excessive inflation, over reliance on government spending, High debt levels.

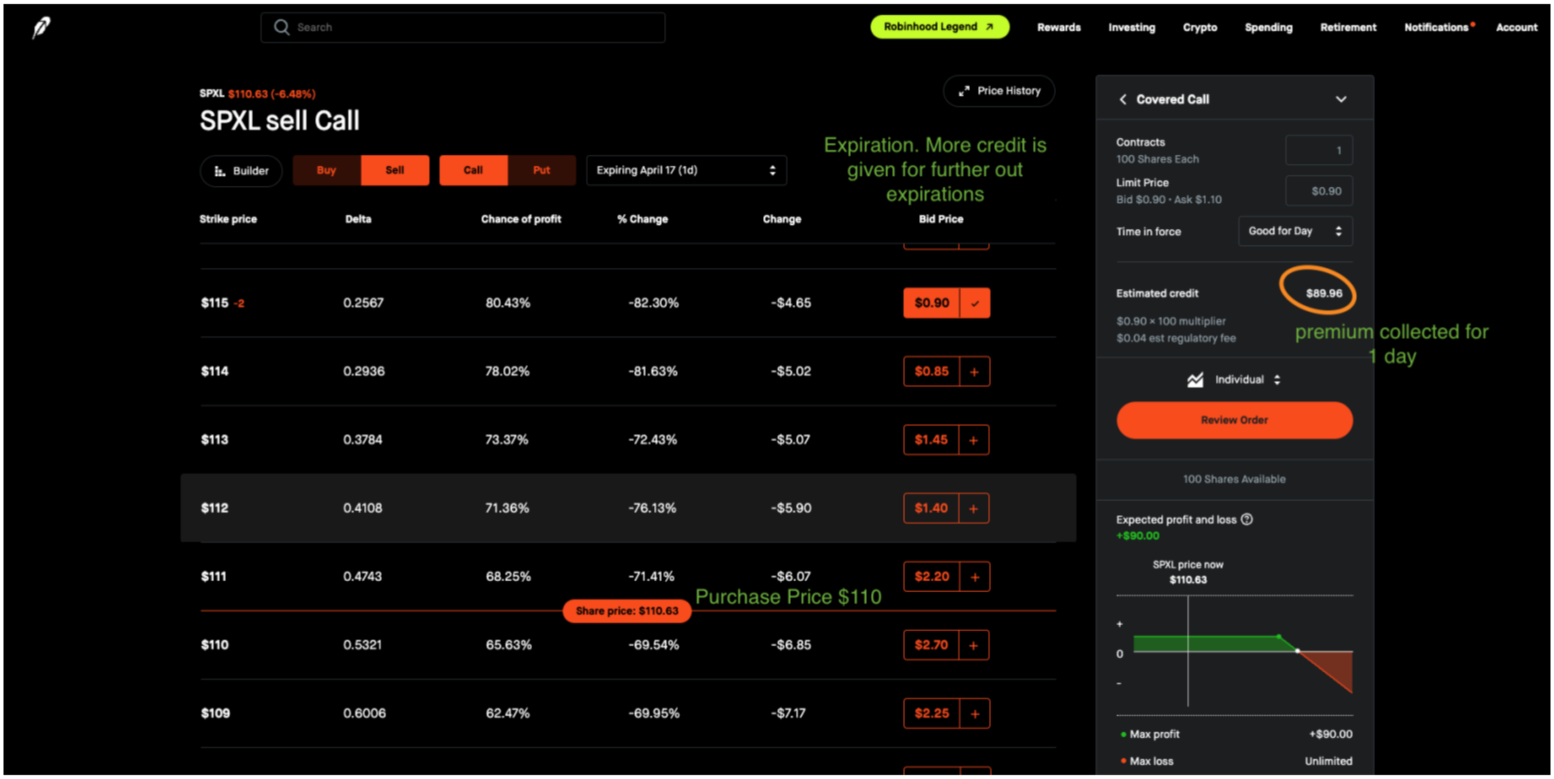
We would then move into a much larger depression/recession where top companies will remain, but high debt companies will get consolidated or bankrupted through the process. This includes huge hedge funds that are highly leveraged will be margin called.

BEAR MARKET OPTIONS
Cash Secured PUTS vs Covered Call

As the market moves down, and you see levels of relief, those are great Fibonacci levels to find buy zones. This is found by looking at the historical dip and drawing it out to the previous high. This gives a retracement of where the stocks **buy** value will be. Similarly, the **sell**, value is from the most recent top tracing it to the local bottom. The point between .926 and .786 is known as the golden zone for cash secured puts. This is where good companies become heavily discounted during a correction. The take profit level becomes the inverse fib retracement.

Because the numbers within these levels change, its best to sell a cash secured put for 1 contract, and remain to watch the price. If it dips below, purchase another contract, but if it moves above, either add to your position, or sell covered calls on your existing 1 contract at a price higher than your purchase price.

Covered Call after owning 100 shared of SPXL. Further dated contract will yield $200-$500 depending on the volatility.



Finding Intrinsic Value of a Company that Goes in the Turtle Portfolio

Key points about Buffett's valuation method:

- **Intrinsic Value Calculation:** He estimates a company's intrinsic value by projecting its future cash flows and discounting them back to present day using an appropriate interest rate, essentially determining what the company is worth based on its long-term earning power.
- **Focus on Quality over Price:** Buffett prioritizes buying high-quality companies with strong competitive advantages even if it means paying a slightly higher price, rather than chasing cheap stocks with weaker fundamentals.
- **Analysis of Company Fundamentals:** He carefully examines financial statements like earnings, cash flow, debt levels, and return on equity to assess a company's health and potential for future growth.
- **Long-Term Perspective:** Buffett is a long-term investor and doesn't get swayed by short-term market fluctuations, instead focusing on companies that can consistently generate profits over many years.
- **"Circle of Competence":** He only invests in businesses he understands well, staying within his "circle of competence" to make informed decisions.

Some key factors Buffett considers when evaluating a company:

- **Management Quality:** He looks for competent and trustworthy leadership with a long-term vision for the company.
- **Sustainable Competitive Advantage:** A strong moat or unique feature that protects the company from competition.
- **Profitability and Earnings Stability:** Consistent and predictable earnings over time.
- **Debt Levels:** A manageable amount of debt

Investment Philosophy

THE JOSEPH CARLSON SHOW

Overview

Buying, holding, and maintaining a portfolio of compounding machines with a disciplined and long term approach. Never speculating, gambling, or investing out of fear, FOMO, or hype.

Three main focuses are finding exceedingly high quality companies in stock selection, maintaining the right temperament, and exercising prudent portfolio management.

Stock Selection

1. Monopoly
2. Pricing Power
3. Operating Leverage
4. Organic Growth
5. Capital Light
6. Smart Capital Allocation

Temperament

1. Disciplined
2. Unemotional
3. Patient
4. Long Term Focused

Portfolio Management

1. Smart Position Sizing
2. Specific Buy Criteria
3. Specific Sell Criteria
4. Intrinsic Value Estimates

Be prepared psychologically and financially to hold onto a company like you would to a house. Would you sell a house a week after buying it?

1. Don’t loose money
2. Don’t forget rule number 1.

Buy wonderful business at a fair price, and not fair business at a wonderful price.
Be greedy when others are fearful, and fearful when others are greedy. ONLY buy when everyone panic sell.

MUNGER’S INVESTMENT GUIDE
5 Investing Tricks

1. Invert the problem you have.
    a. The air controller asking, “How can I kill the pilot”. So, you can avoid it letting him die.
        i. How can I lose all my money
            1. Then make a list of ways you can lose your money by investing in company A and avoid those.

2. Humility “knowing what you don’t know.”
    a. A guy who has 130 IQ but thinks he is 110, is better than a guy who is 160IQ and thinks he is 200. All analysts are idiots, and they follow the leader.
    b. Specialization is much better in being a generalist when investing.
3. Stay rational enough to not panic when stocks go down.
    a. Attitude in what you believe in is worth more.
4. Keep things simple. Straight forward business that can be run by anyone.