

# Investment Philosophy

I see investing in common stocks as a way to build a personal holding company that aims to be a permanent owner of the best businesses around the world.

## Market

The stock market streamlines the process of price negotiation. Unlike private M&As, where customized deals can result in more efficient pricing, the public market sometimes offers buyers irrationally priced opportunities. Furthermore, the market provides access to shares of companies whose qualities far exceed the norm, allowing investors to capture both price inefficiencies and buy high-quality companies at a fair price.

## Valuation

Valuing a company is an exercise of turning equity into a bond, where its future yields are uncertain. This process relies on qualitative insights that require an in-depth understanding of both the industry and the specific business. Quantitative data, such as financials, then provides a structured framework to support and validate these qualitative assessments. By incorporating worst-case assumptions, the downside spread between anticipated and actual yields can be minimized.

## Risk

The risk of an investment lies in the performance of the underlying business relative to the price paid for its shares. Therefore, risk management naturally follows from sound valuation of high-quality businesses, as their undisruptable economics and the margin of safety in the price paid greatly reduce the likelihood of a loss. Assessing this risk requires determining the degree of certainty regarding the business's long-term economics and the management team's virtue. The former reflects the quality of the business, while the latter indicates the extent to which the business's economics can be leveraged to meet its valuation.

## Diversification

Diversification is the segmentation of capital to minimize the impact of a failed investment. Without strong conviction in any single investment, it is rational to segment capital widely so that each decision carries minimal weight. However, when one has conviction, it is only logical to deploy capital to the best ideas, as the likelihood of a blunder increases as conviction decreases. Ideally, this approach would focus on a single, unquestionable idea, but the nature of investing allows for a margin of error. In my view, holding between 3 to 10 companies in a portfolio ensures that investment decisions remain meaningful while still allowing room for mistakes.

## Acquisition Criteria

- Understandable
- Consistent earning power
- Good returns on equity with little to no debt
- Competent management with an excellent track record

### Steps to buy:

1. Determine if the company is within the circle of competence.
2. Develop a thesis and derive its intrinsic value.
3. Check the market price. If the market offers them below the calculated price, review the analysis to ensure nothing was missed.
4. Compare the opportunity cost with the current holdings. If the potential gain is substantial compared to an investment, or holding cash, invest. If not, move on.

### When to sell:

- Lose confidence in the management team. (100%)
- Initial investment thesis doesn't play out in 2~5 years. (100%)
- Economics of the business changes - the business is no longer exceptional. (100%)
- The market offers a chance to sell shares of an exceptional business at a price far above their intrinsic value when there is a new idea to take advantage of. (10~30%)