

INVESTMENT PHILOSOPHY

I view 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 simplifies the price negotiation process. Unlike private M&As, where customized deals can lead to more efficient pricing, the public market sometimes offers buyers irrationally priced opportunities. It also provides access to shares of companies whose qualities far exceed the norm.

Valuation

Valuing a company is an exercise of turning an equity into a bond, where its future yields are less certain. This process relies on qualitative insights that require an in-depth understanding of both the industry and the specific business. Here, quantitative data, such as financials, provides a structured framework to support and validate these qualitative assessments.

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 a sound valuation. Assessing the risk requires evaluating the degree of certainty regarding the business's long-term economics and the management's integrity. The former reflects the business's natural money-making ability, while the latter points to the potential utilization of its economics to maximize shareholder returns in the long-term.

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 thankfully the game 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

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 what I think to be is a fair price, review the analysis to ensure nothing was missed.
4. Compare the opportunity cost with other holdings.

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. (10~30%)