

(Not financial advice, only the opinion of the writer. Anyone who chooses to follow or take seriously anything written here is doing so at their own risk)

Over the last few years, I have been publishing, something similar to an opinion article once a month on average. This group grew from 5, to 20+, and I thank you all for not only reading what I write (and I know that the majority of the members do, since I get pounded with questions later) but also for pushing me to write more. Although I still don't know why me, as there are all those I mention on a regular basis to read and listen to. I am glad that many are reading or read the Intelligent Investor, a book I gave copies of and still do to group members. If you still didn't get your copy, please let me know. I also send letters from time to time to other people, who I see as shareholders of me, that is, people that have invested their most valuable asset (time) in having conversations with me and opening my eyes and ears to new ideas. I thank you all.

2 years ago, when I started off I wrote heavily on the subject of inflation, and spoke about commodities and materials. I personally believed heavily in Iron Ore (Fortescue Metals Group as an example), as also to my personal belief system that an investment needs to be made in a company or product line that is built to last, and not, enjoy just the "unprecedented" current situation. On the subject of "unprecedented times" I also spoke heavily, that we've seen these things many times in the past, but never in either this format, or this combination. Anyone who uses the word 'unprecedented' basically is saying "I have no clue what the fuck is happening" and is already preparing the excuse of why they will fail. Anyone who tells you that they can fully predict the future needs to be categorized in the same group as the "unprecedented", because anyone who claims to have a crystal ball (they might actually own one) definitely cannot predict the future. Predicting the future is impossible, however just like Felipe Alou described Barry Bonds' ability to anticipate the pitch that is coming (something that steroids does not enhance) is what separates the best from all the rest. As I repeat time after time again, that if you do not believe that you can be one of the best, then investing outside of index funds with absolute minimum costs is not for you. This is the world's most difficult sport, because you are constantly competing against everyone, and only the smallest percentile outperforms the market in a matter that gives them a worthwhile return on the premium of time invested (another subject I talked about heavily). If you do not believe you are one of them, enjoy gambling with 10% of your money, and stick all of it in an index fund. If you do that, you have no reason to worry about the turmoil that the market is experiencing. It goes up, it goes down, after the 20% drop now, you're still far better off than you were a few years ago. If you choose to invest on your own, you should be sleeping just fine even if your portfolio is taking a short term beating, because you know you will outperform it over time. This game is made for those who sleep better when they place these investments because the feeling is that you actually just reduced your risk. Yes, I am a firm believer that in capital allocation, reducing risk actually leads to higher returns over time (Howard Marks is there with me), and I am sure that if you asked Michael Burry, he would tell you that if he did not invest heavily on the concept of inflation 2 years and one year ago, he could never fall asleep and would constantly be worried about what the hell is going to happen, he felt that trading on inflation is the least risky thing he could do (About Michael Burry and Larry Summers we talked about too).

Risk is the first and most important thing to manage in life. Health, as a response to death, wealth as a response to starvation and so on and so forth. Managing risk is one of the first things we learn in life, we practice it constantly, and we are horrible at it. We search naturally for a return on the principal, when are first focus should be a return of the principal. Michael Saylor speaks of looking

for 10 investments that each one can provide with a return of 100X or can go to zero. “You just need 1”, and trying to find that 1 is most likely to kill you. The odds are completely stacked against us, or at least myself, there is no chance that I could ever do it, and I doubt that anyone I met can, it’s too damn hard. No one could promise you in the early days, that any company would turn into the success or failure it turned out to be, in hindsight it’s easy, but looking forward it’s extremely hard. If it was easy, everyone would make a killing shorting stock or buying options, so in the words of Mr. Munger “anyone who thinks it’s easy is just stupid”. There are numerous ways to explore the concept of risk, I personally find that combining all of them is the best approach for me. It is the only thing that makes sense the way I see it, right up my alley, as I have always been excellent at being good in multiple different areas. In the infantry, the first thing you are taught in the field of combat is to constantly be moving. Usually being stuck in what place and freezing in your place will get you killed. Perhaps a bit slower than someone who charges pointlessly at the enemy, but still, staying in pinned down in your place will get you killed. That is why the focus is placed on pinning down your enemy. In our field, of business, or finance, staying in your place will get you killed by inflation. That makes it the first risk to overcome. Inflation will kill you overtime, and overtime it seems to be on average around the 3%, at least that’s the number that I have interpreted, and it’s exactly why I always thought that purchasing bonds in order to get back a return of 3% or less is an act of insanity.

The next risk usually described is diversification. Ben Graham talks about this one, everyone repeats it, however, one must listen to and then have a look at the track record of Ben Graham’s number one student of all time, and the greatest investor in modern history, Warren Buffett. Warren and Charlie relatedly repeat a mantra that contradicts Graham, in regards to diversification. “Diversifying is for someone who doesn’t know what he is doing”. In theory he is 100% correct. In an annual shareholder meeting for Berkshire Hathaway (if my memory serves me well it was in the meeting of 1994) he was asked about this subject. He replied that 3 wonderful businesses are all you need. Warren and Charlie have proven (with an annual return record of 23% from 1964 to 1994 and further on) that they can pick wonderful businesses better than anyone. But they did not do it with a portfolio of 3, and not even 10. They did it with many more than that. They also made terrible mistakes along the way, but in Warren’s own words “avoid the mistakes that can kill you”. The ultimate diversification technique I have ever encountered is from the school of Jack Bogle. Buy an index fund with low operating costs. It is a mantra that is repeated by Warren, Charlie, and many of their students. Mohnish Pabrai describes a one sided conversation he had with his 18 or 19 year old daughter (she is now older than that) about how she managed to save 5000 dollars over the course of a summer. On their drive from LAX, he was talking to her about the importance of investing and compound interest and index funds she was pretending to listen while really falling asleep. When he

gave her an example on how if she invested the 5000 dollars in an index fund tracking the s&p 500 and left it there (which the annual average return is 7%) for 50 years, it would turn to more than half a million dollars. That caught her attention, as it should to all of us. That is the power of compound interest, and that can be undermined only by “no one wants to get rich slow”. The only weakness I can find in the concept of indexing is risks that are described by Peter Drucker in ‘Management Challenges for the 21st Century’. You can get killed on currency changes, or changes creating something to what Dalio speaks of as the new world order (But this is a very slippery slope to go down). If you choose to diversify out of one economy, for fear of complete failure of that economy, you should probably consider have a portion of your portfolio for complete catastrophes, buy insurance, hold bitcoin and have a bag ready for leaving your house within 30 seconds, in a manner similar to Robert DeNiro’s character from Heat, who was always ready for the heat coming from around the corner.

Guns Germs and Steel
Geopolitics halford mackinder

Modeling
Built to last
Good to great
Return on equity low debt