SPECIAL PRESENTATION

Winning The Loser’s Game – Harish Kawalkar

Investing is not One Game

Simon Ramo identified the crucial difference between a Winner's Game and a Loser's Game in his excellent book on playing strategy, *Extraordinary Tennis for the Ordinary Tennis Player.* Over a period of many years, he observed that tennis was not ***one*** game but ***two***.

One game of tennis is played by professionals and a very few gifted amateurs; the other is played by all the rest of us. Although players in both games use the same equipment, dress, rules and scoring, and conform to the same etiquette and customs, the basic natures of their two games are almost entirely different. After extensive scientific and statistical analysis,

Investing is not One Game

Dr. Ramo summed it up this way:
Professionals *win* points; amateurs *lose* points.

Professional tennis players stroke the ball with strong, well aimed shots, through long and often exciting rallies, until one player is able to drive the ball just beyond the reach of his opponent. Errors are seldom made by these splendid players.

Investing is not One Game

In his thoughtful treatise on military science, Strategy and Compromise, Admiral Morrison makes the following point:

"In warfare, mistakes are inevitable. Military decisions are based on estimates of the enemy's strengths and intentions that are usually faulty, and on intelligence that is never complete and often misleading."

(This sounds a great deal like the investment business.)
"Other things being equal, concludes Morrison,

"the side that makes the fewest strategic errors wins the war”

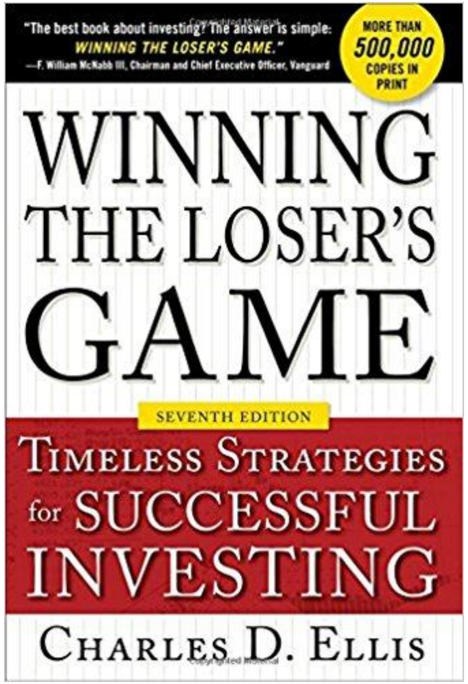
Investing is not One Game

The victor in this game of tennis gets a higher score than the Opponent, but he gets that higher score *because his opponent is losing even more points*

Golf is another Loser;s Game. Tommy Armour, in his great book *How to Play Your Best Golf All the Time,* says:

"The way to win is by making fewer bad shots.

Winning the Loser's Game: Timeless Strategies for Successful Investing by Charles D Ellis



As I am reading the wonderful book "Winning The Loser's Game" by Chares D Ellis, it's a great read, Charles wrote many books, but this book I Enjoyed lot, simple, deep insights, and practical.

[hk] http://harishkawalkar.com/

1 Question

How you can beat the market?

But beating the market is loser’s game, lets reframe the question,

How you can get extraordinary returns?

The Answer

The answer is simple,

Exploit the mistake of other investor, or

Exploit the difference between market price and value of Business.

But finding such kind of business is easy, but adhering to the investment over long term is not easy,

So let’s find the answer and ways to get the returns.

4 Ways....

1) Market Timing
2) Stock Specific
3) Change in portfolio structure and strategy
4) Investment Philosophy

Market Timing

The great way to increase potential return by timing the market, Investor moves the portfolio in and out the market, depending upon the overvaluation and undervaluation of market or specific stocks. He hopes fully invested during rising market, and out of the market when prices are falling, the same moves followed in sectors, fully invested when the sector are on rise, and out where sectors are out of favour. Investors followed this same method in Bonds and Equities.

Market Timing

A delightful comparative analysis of two kinds of investment perfection for the period 1940-73 gives a sense of the seductive "potential" of market timing. The first record was the result of perfect market timing with 100 percent in stocks in all rising markets and 100 percent in cash in all falling markets.

With 22 transactions (11 buys and 11 sells) in 34 years, and using the Dow Jones Industrial Average as a proxy for stocks, $1,000 was expanded into $85,937.

During the same 34-year period, with the hypothetical portfolio always 100 percent invested and always invested in the one best industry group, the same $1,000 (with 28 buys and 28 sells) exploded into $4,357,000,000! The last two years indicate the pluck requisite to the process: In January 1971, $687 million was invested in restaurant companies and became $1.7 billion by year end, and was then committed to gold stocks which carried it up to $4.4 billion by Christmas! Of course this example is absurd. It has never been done and never will be done. More important, even far less ***magical results have not and will not be achieved through "timing" because no one manager is so much more astute than his or her professional competitors on a repetitive basis.*** *(Source: Winning the loser's Game)*

Market Timing

Sell when stocks are overvalued and buy when stocks are undervalued, it’s not a effective way of increasing returns, and it does not work. Here lot of investors, troubles, even matured well known value investors are victims of overvalued and undervalued scenario, and they buy and sell on this parameter, but this does not work over time.

Sure way to get out of this trouble, is remain invested over a long period of time, despite of undervaluation or overvaluation until the business remain strong, run by ethical management. There are no investors, who have achieved success by timing the market. The greed and fear are main forces behind the market timing.

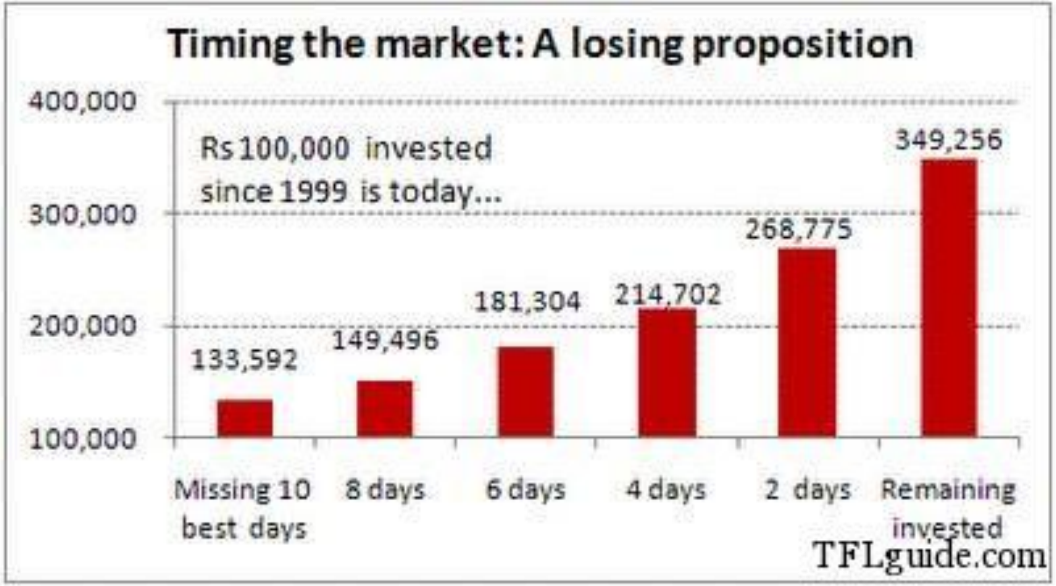
Market Timing - Timing the Market – A losing proposition

The main agenda behind remain invested for long term, that you never miss the best days of equities, if you miss best days, your returns are normal; let’s look at the following example from tfl guide.

Market Timing - Timing the Market – A losing proposition

During the last ten year period, if an investor would have missed out the ten best days in the stock market, a sum of Rs 100,000 would have returned only a sum of Rs 133,592 as opposed to Rs 349,256 had he stayed fully invested. Even missing the two best days would have lowered his final figure by a significant 23%. (Source: tflguide.com)

Market Timing - Timing the Market – A losing proposition



Source : Tfl guide is a great blog, the above chart and data are from tfl guide.

Market Timing - Timing the Market – A losing proposition

Market timing is a "wicked" idea. Don't try it ever.

Market timing is useless idea for wealth creation,

You can make short term profits, but not wealth.

Stock Specific

Professional investors devote lot of time, skills and efforts to research about stocks, they do financial analysis, valuation, take management interviews, Investors want to find great stocks, at reasonable valuation, when Investors find difference between price and value, they can buy or sell.

Stock Specific

Security analysis is not very profitable activity for Institutions but it’s very much profitable for retail individual investors, because institutions has large pool of money, and large money requires to follow blue chips for liquidity, while retail investors have small amount required less liquidity, and retail investors can focus on small cap, unknown business. Where the difference between price and value is undiscovered.

Stock Specific

For institutional investor they can buy or sell on their research, but they have to buy from each other making market efficient, the problem is not with research; the problem is that they share their reports, evaluation on their global networks with professional investors, and they take reactive action.

Stock Specific

For institutional investors, Exploiting the difference between price and value, is very tough, but In recent years, the midcap mutual fund done well in India, because most of the midcap are undiscovered as compare to bluechip stocks.

Portfolio Strategy

Portfolio strategy is very much individual choice, Investors shifts from growth stocks, to value stocks, or mix of both stocks, but judgment of which segment you want to be, involves risk. In recent years lot of Indian investors are heavily invested in Pharma stocks, no matter the valuation, investor thinks it's a evergreen sector, and it will never be out of favor, but they wrong on valuation front, and it's a well known opportunity, and many institutional investors are already heavily invested in it. After correction also, few investors are buying but still the valuation is not comfortable.

Portfolio Strategy

So moving from one sector to other sector is risky. Growth stocks are also risky, because, if growth not follows in earning, it will collapse. But Indian market is undiscovered; you can find growth stocks at undervalued level. But the main condition is don’t move from stocks to stocks, if specific stocks corrects, buy it, if its fully valued don’t sell, be with the stocks, for long term, it will give you amazing returns.

Philosophy

Investment philosophy is a set of guiding principles that inform and shape an individual's investment decision-making process. (Source: investopedia),

Philosophy

for example, Value Investing, Growth Investing, Diversification, Concentration, and lot of rules and checklist to follow the particular process while analysing the business and portfolio.

Philosophy

Growth stocks has high PE ratio, than individual stocks, growth stocks required high capital to sustain growth. Cyclical industries have lot of mismatch in value and price, and it remains out of favour lot of times. Value stocks have lot of value traps; you have to differentiate in quality terms.

Philosophy

The important test of an investment concept or philosophy is the manager's ability to adhere to it for valid long-term period, even when the short-term results are most disagreeable and disheartening.

Investment philosophy has great advantage, because it is different for different investors, it will not be same, for each and every investor, as an investor, you have to be comfortable with your investment philosophy and adhere to it in good as well as in bad times.

Summery

All above mention forms have one basic characteristic; They depend on the errors of others. The profit comes from, if other investors are wrong in stock selection, philosophy, Strategy or timing.

With lot of information available on price and value, communicated it through lot of internet platforms, the chances of discovering and exploiting profitable insights are rare, and it completely depends upon the errors and inattention of other investors.

In short term Market is fascinating, but in long term it is more boring and predictable.

Summery

Benjamin Graham's Mr. Market. He's a mischievous but fascinating fellow who persistently teases investors with such gimmicks and tricks as surprising earnings, startling dividend announcements, sudden surges of inflation, inspiring presidential pronouncements, grim reports of commodity prices, announcements of amazing new technologies, ugly bankruptcies, and even threats of war.
magicians use clever deceptions to divert our attention, Mr. Market's very short-term distractions can trick us and confuse our thinking about investments.

Summery (Weather Vs Climate)

The daily weather is comparably different from the climate. Weather is about the short run; climate is about the long run. And that makes all the difference. In choosing a climate in which to build a home, we would not be deflected by last week's weather. Similarly, in choosing a long-term investment program, we don't want to be deflected by temporary market conditions.

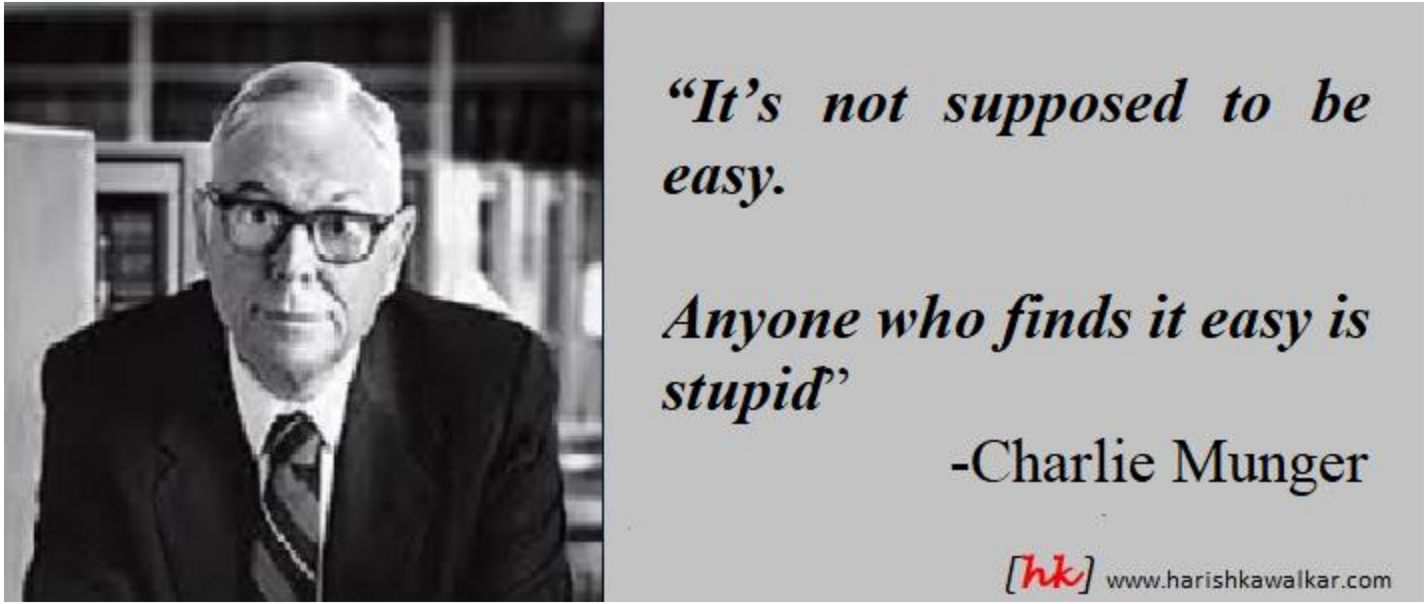
(Source: Winning the loser’s Game)

Summery

Ignore the Mr. Market, and stick to your stocks for long term, despite of good and bad times. and Exploit the mistake of other investor, also exploit the difference between market price and value of Business. But finding such kind of business is easy, but adhering to the investment over long term is not easy.

Summery

As Charlie Munger said



Winning The Loser's Game

For Winning the loser's game, you can consider following four points

1) Play your own game, give time to market to make mistake

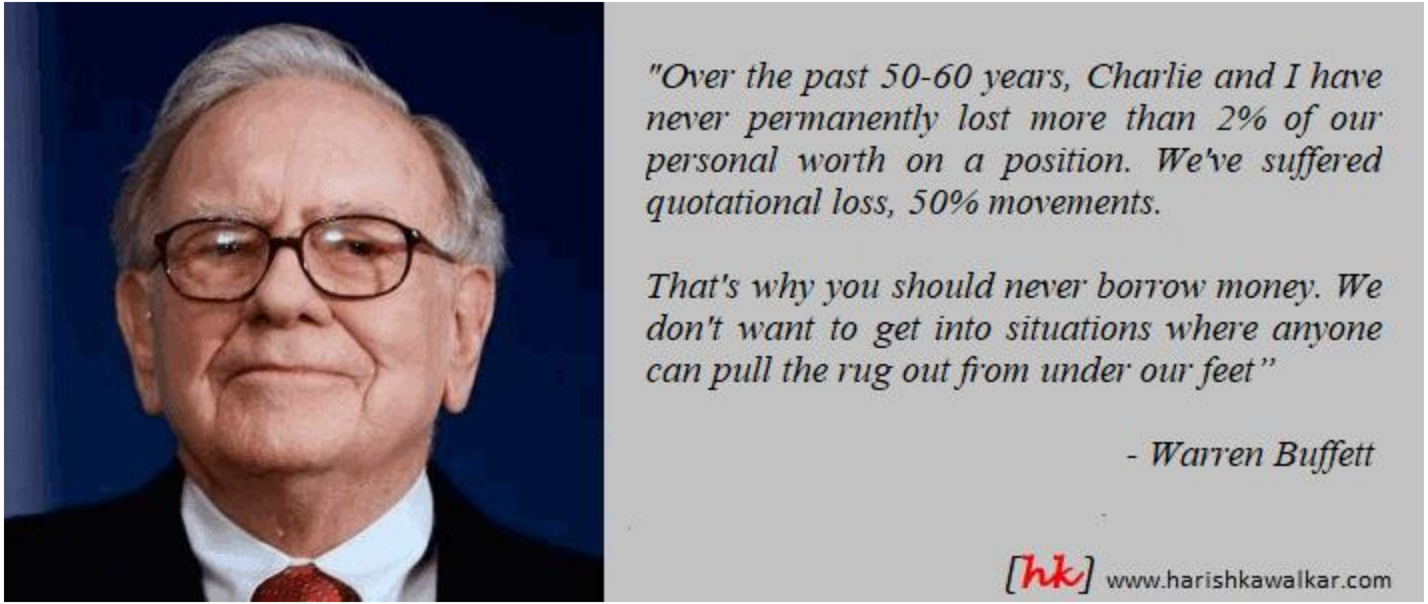
2) Keep it simple, Invest where you have greatest chance of doing well

3) Concentrate your bets, Concentrate on selling of stocks, rarely sell

4) Don't take it personally, Be disciplined, Stick to your philosophy, Have long term approach

Warren Buffett - Answer

Warren Buffett - Answer



Notes/Source

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1) The Loser’s Game by Charles D Ellis
2) Winning the Loser's Game: Timeless Strategies for Successful Investing by Charles D Ellis
3) Intelligent Investor by Benjamin Graham
4) *The Superinvestors of Graham-and-Doddsville*
5) http://www.tflguide.com/2011/10/timing-or-time-in-in-equity-markets.html

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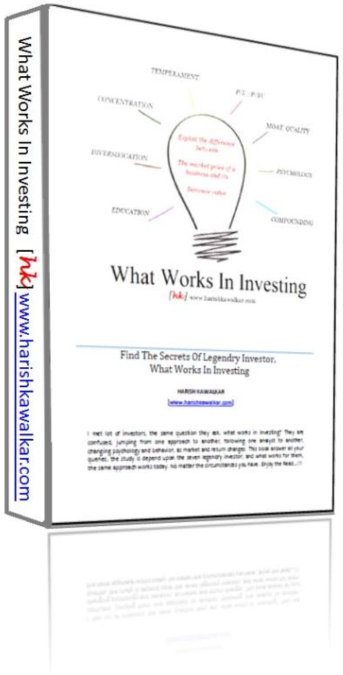

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"An investment in knowledge pays the best interest"
Benjamin Franklin

Kawalkar Investment
Consultancy Pvt Ltd
Value Investing Firm

I am a founder director of KAWALKAR INVESTMENT CONSULTANCY PVT LTD

Which is an Investment company. The company main focus involved in investing in long-term investments such as equity shares and equity-related securities. The original inspiration for launching Kawalkar Investment Consultancy Private Limited was to set up value investment firm in India, and develop a well educated investor in India.

You can read my blog at www.harishkawalkar.com