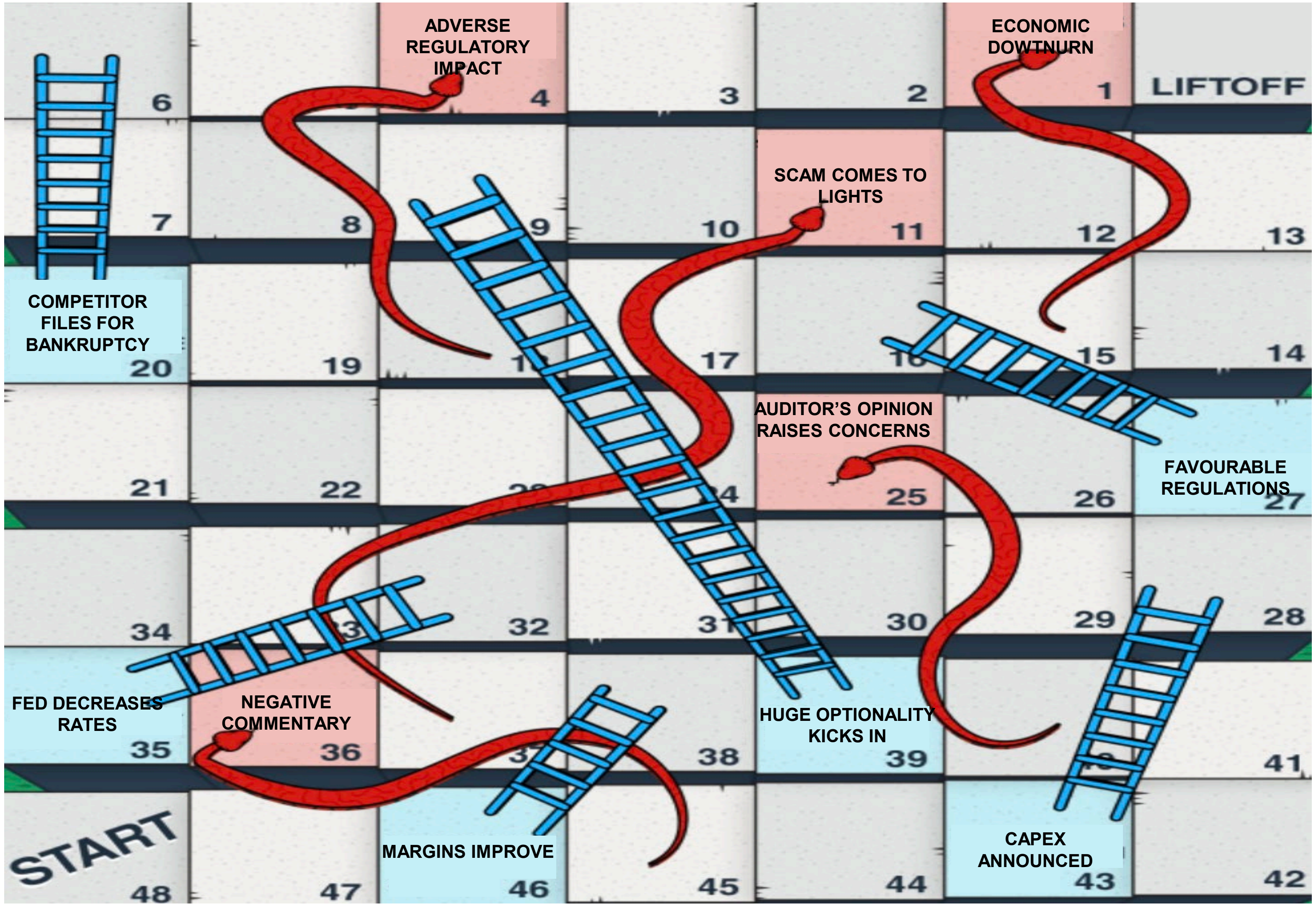
Library of Mistakes in Investing

FLAME UNIVERSITY

"A wise man learns by the mistakes of others, a fool by his own." – Latin Proverb

Kuntal Shah
TIA Bullet Proof Investing Seminar
20th Sept 2025

Unlike a Roll of Dice, Some Snakes of This Game can be Avoided



Myths

Errors of Commission

Errors of Omission

Avoid Mistakes That can Kill You

Myths in Investing

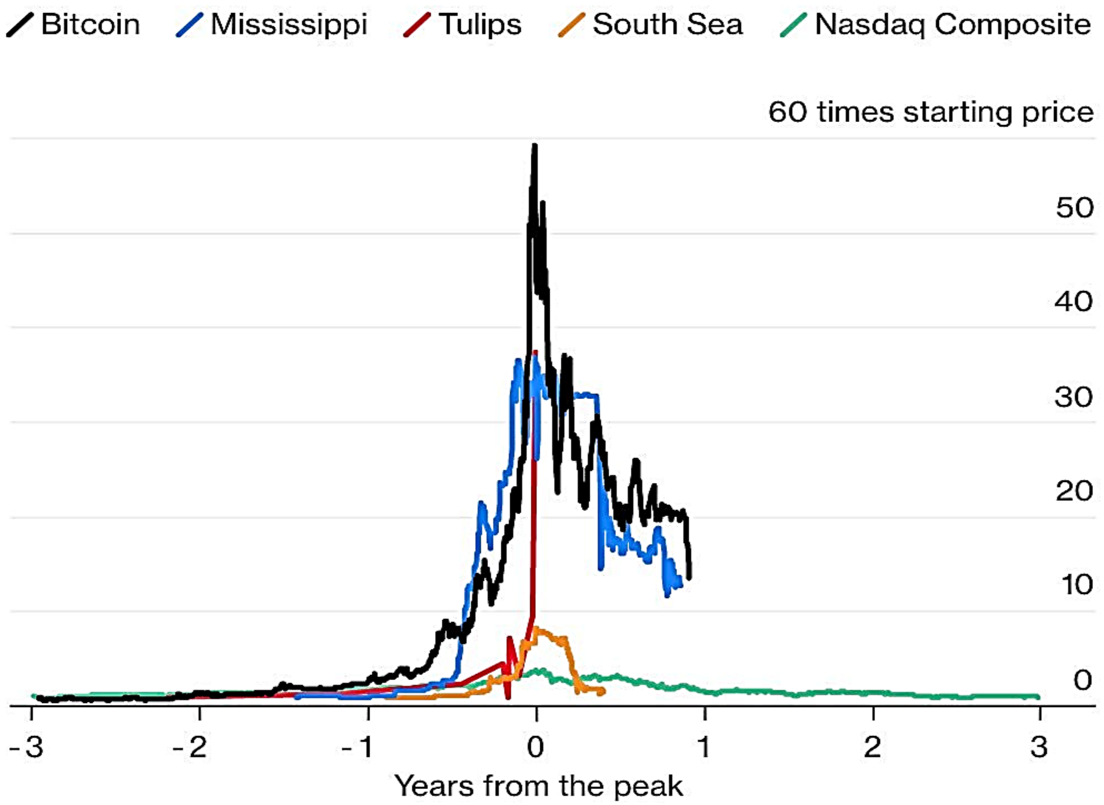
“To attain knowledge, add things every day. To attain wisdom, remove things every day.” - Lao Tzu

Myth: Bubbles & Crashes are Because of Monetary Printing

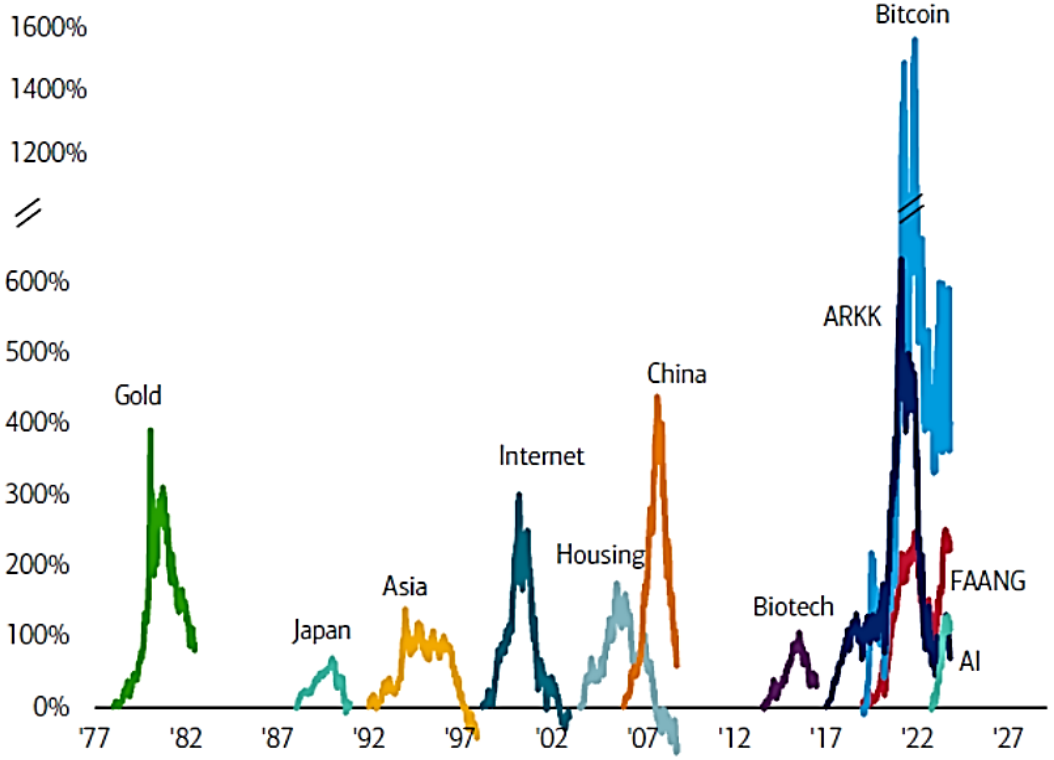
Early Modern States	The Age of Steam & Industrialization	Globalization	After Bretton Woods	Contemporary Inflections
1557 State Bankruptcy (Spain & France)	1836 Market Crash in UK	1890 'Barings' Crash in UK	1958 Market Panic in France	1987 Market Crash in US, UK, Australia
1607 Spain Bankrupt	1837 Market Crash in France & US	1893 Land Boom Crash in Australia	1961 Property Crash in Australia	1990 Market Panic in Japan
1614 Bankruptcy (Augsburg)	1847 Market Crash in UK	1893 'Silver Crash' in US	1962 Crash in Canada	1994 Market Crash in Mexico
1637 End of Netherlands Tulip Bubble	1848 Market Crash in Germany	1907 Market Crash in France & Italy	1963 Crash in Italy	1997 'South East Asian Crisis' - Panic in Thailand, Indonesia, Malaysia, S Korea, Russia, Brazil
1720 Mississippi Crisis in France	1857 Lombard Street Banking Crisis in UK	1907 Panic in US	1964 Market Panic in UK	2000 Dot-Com & Telecommunications Crash
1720 South Sea Bubble Crisis in England	1857 Market Crash in France, US & Germany	1921 Market Crash in UK & US	1967 'Transistor' Crash in US	2008 Global Financial Crisis
1763 Amsterdam Crisis in Netherlands	1864 Market Crash in France	1922 Swedish Bank Crisis	1968 Crash in France	2020 Covid-19 Pandemic Crisis
1772 Collapse of Ayr Bank in Scotland precipitates British Banking Crisis	1866 Over end, Gurney Banking Crisis-UK (owes £4.1m, National Budget is £67.8m)	1927 'Black Friday' in Germany & Brazil	1971 MinSec Panic in Australia	2022 Everything Bubble
1793 Market Crash in UK	1866 Market Crash in Italy	1929 Wall Street 'Great Crash' in US	1973 Wall St Crash in US	
1799 Market Crash in Hamburg	1869 Black Friday in US	1931 Market Crash in UK, Germany, Austria, Japan	1979 Market Crisis in US	
1810 Market Crash in UK	1873 Market Crash in Germany & Austria, Panic of 1873 in US			
1811 Austria Bankrupt	1882 Market Crash in France			
1816 Market Crash in UK				
1818 Market Crash in US				
1825 'Latin American' Crash in UK				
1827 Market Crash in France				

Myth: Markets are Efficient

Before & After Bubbles



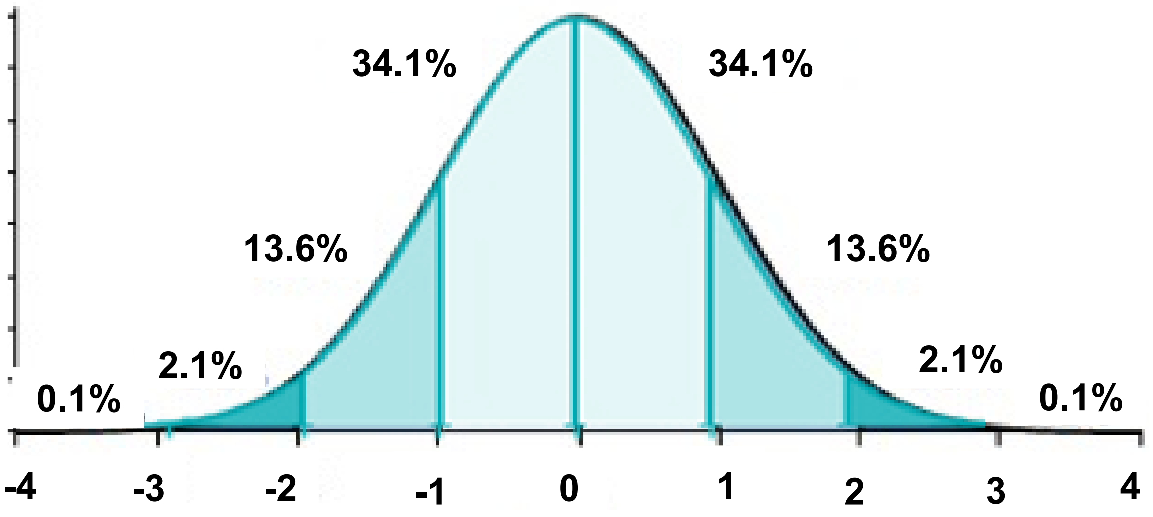
History of Manias of Past Decades



Small changes in psychology produce large changes in asset prices

Source: Bloomberg, International Center for Finance at Yale University, Peter Garber, BC Research, BOFA Global Investments

Myth: in Models we Trust- Fallacy of Modelling Human Greed, Fear & Stupidity



Translation of Risk as Measured by S.D	
1 SD (68%)	1 every 6 Years
2 SD (27.4%)	1 every 44 Years
3 SD (4.2%)	1 every 740 Years
4 SD (0.3%)	1 every 31,575 Years

Six largest movements of the Dow-Jones Industrial Average(Oct 2008)		
A Non-Normal October		
Date	**Change(%)**	**Average Frequency Under Normal Law**
7/10/2008	-5.11	Once in 5,435 years
9/10/2008	-7.33	Once in 3,373,629,757 years
13/10/2008	11.08	Once in 603,033,610,921,669,000,000,000 years
15/10/2008	-7.87	Once in 171,265,623,633 years
22/10/2008	-5.86	Once in 117,103
28/10/2008	10.88	Once in 73,357,946,799,753,900,000,000 years
(1) Daily Returns from 01/01/1971 to 31/10/2008		
(2) The Mean of the Distribution is set to Zero & the Standard Deviation computed over the whole sample(St. Dev. = 1.032%).		

Better be Vaguely Right than Precisely Wrong

Source: Wikipedia, Researchgate.net, Bloomberg

Myth: Everything That Counts can be Counted

AUM

1994: Founded with 1B$ in initial assets

1998:
May: (-6%)
June: (-10%)
July: (-18%)
August: (-44%)
September: (-83%)
Free Fall

Sep 23 1998: Warren Buffett offers to buy LTCM for 250M$ & recapitalize with 4B$, LTCM refuses

Sep 28 1998: Equity capital falls from 2.3B$ to 400M$. Debt over 100B$. Leverage ratio 250:1. Consortium of 14 banks: 3.6B$ for 90% ownership

Dec 1999: LTCM winds down positions, returns 3.6B$ to banks

2000: Same founder founded JMW

2007: (-44%) Return for hedge fund

2009: JWM shut operations

2010: Started 3rd Firm JM Advisors. Started 3 months after shutting down operations of JWM

2015: Leverage Ratio 10:1 against Industry Ratio 3:1

John Meriwether Founder of LTCM, JMW & JM Advisors

Myron Scholes & Robert Merton won Nobel prizes for their theory – How Options are Priced in Efficient Market

Myth: Investing Is Complex Math

How to Succeed at Investing

- ✓ Spend less money than you make
- ✓ Save the difference
- ✓ Buy a diverse portfolio of companies / assets
- ✓ Be Patient

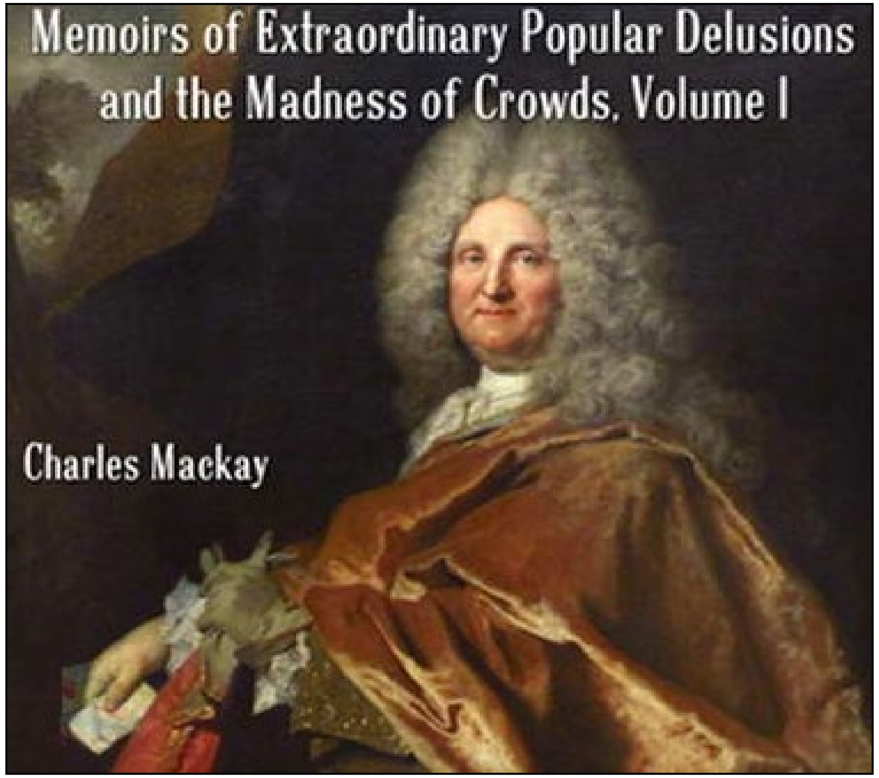
How Investing is Taught

Assessment of Confidence Limits of Selected Values of Complex-Valued Models

$$
\begin{aligned}
P(\mathbf{k}, t+\Delta t) = \sum_{i=1}^{n} \Big[& (\Lambda_i \Delta t + o(\Delta t)) P(\mathbf{k}_i^{-}, t) I(\mathbf{k}_i > 0) + (\mu_i \Delta t + o(\Delta t)) P(\mathbf{k}_i^{+}, t) \\
& + (d_i r_i \Delta t + o(\Delta t)) P(\mathbf{k}_i^{+}, t) \\
& + \sum_{j=1}^{n} \Big\{ (P^{+}(i,j) r_i \Delta t + o(\Delta)) P(\mathbf{k}_{ij}^{+-}, t) I(k_j > 0) \\
& + (P^{-}(i,j) r_i \Delta t + o(\Delta)) P(\mathbf{k}_{ij}^{++}, t) \\
& + (P^{-}(i,j) r_i \Delta t + o(\Delta)) P(\mathbf{k}_i^{+}, t) I(\mathbf{k}_j = 0) \\
& + \sum_{l=1}^{n} ((Q(i,j,l) r_i \Delta t + o(\Delta t)) P(\mathbf{k}_{ijl}^{++-}, t) \\
& + (Q(j,i,l) r_j \Delta t + o(\Delta t)) P(\mathbf{k}_{ijl}^{++-}, t)) I(\mathbf{k}_l > 0) \Big\} \\
& + (1 - \Lambda_i \Delta_t - \mu_i \Delta t - r_i \Delta t + o(\Delta t)) P(\mathbf{k}, t) I(\mathbf{k}_i > 0) \Big]
\end{aligned}
$$

"In theory there is no difference between theory & practice – in practice there is." - Yogi Berra

Myth: Intelligence Guarantee Investment Success



An investigation of Mackay's newspaper writings shows that he was one of the most ardent cheerleaders of the Railway Mania, the greatest & most destructive of these episodes of extreme investor exuberance.

1840s: Media branded railway companies as fool proof investments

1844 - 1846: Constructed approx. 55% of entire existing modern railway

"Investing, at its core, is about managing risk, not IQ." — Howard Marks

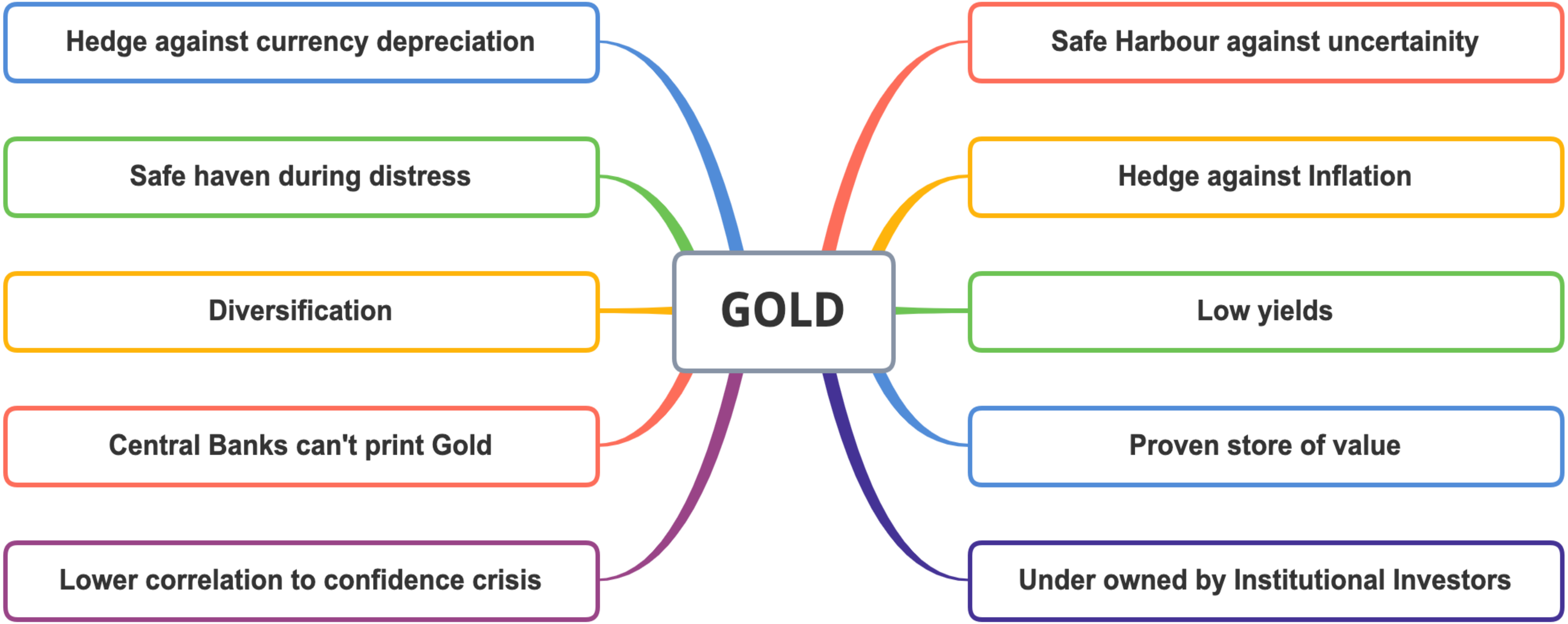
Source: Andrew Odlyzko ; thebubblebubble.com

Myth: Investors are Rational

Biases

Self Deception (Limits to learning)	**Heuristic Simplification (information processing errors)**	**Emotion/Affect**	**Social**
Over optimism illusion of control & knowledge	Representativeness	Mood	Imitation
Overconfidence	Framing	Self control (Hyperbolic discounting)	Contagion
Self Attribution bias	Categorization	Ambiguity aversion	Herding
Confirmation bias	Anchoring Salience	Regret theory	Cascades
Hindsight bias	Availability bias		
Cognitive dissonance	Cognitive dissonance		
Conservatism bias	Loss aversion/ Prospect theory		

Myth: Gold is an Asset



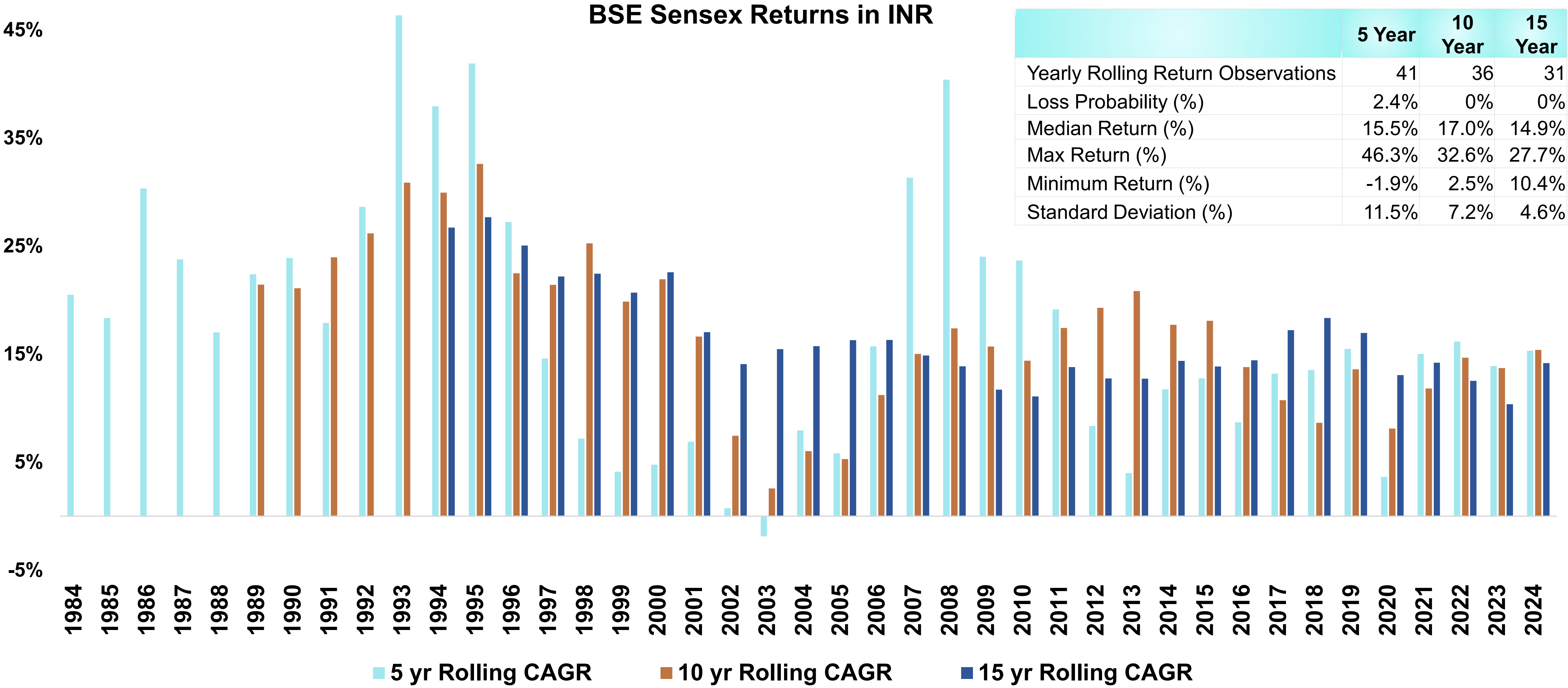
Gold is a currency

Source: FLAME University

Myth: Diversified Uncorrelated Portfolios do Well

“During financial crises, previously uncorrelated assets often move together in panic-driven sell-offs.”
— Jeremy Siegel

Myth: Equities are Risky



	5 Year	10 Year	15 Year
Yearly Rolling Return Observations	41	36	31
Loss Probability (%)	2.4%	0%	0%
Median Return (%)	15.5%	17.0%	14.9%
Max Return (%)	46.3%	32.6%	27.7%
Minimum Return (%)	-1.9%	2.5%	10.4%
Standard Deviation (%)	11.5%	7.2%	4.6%

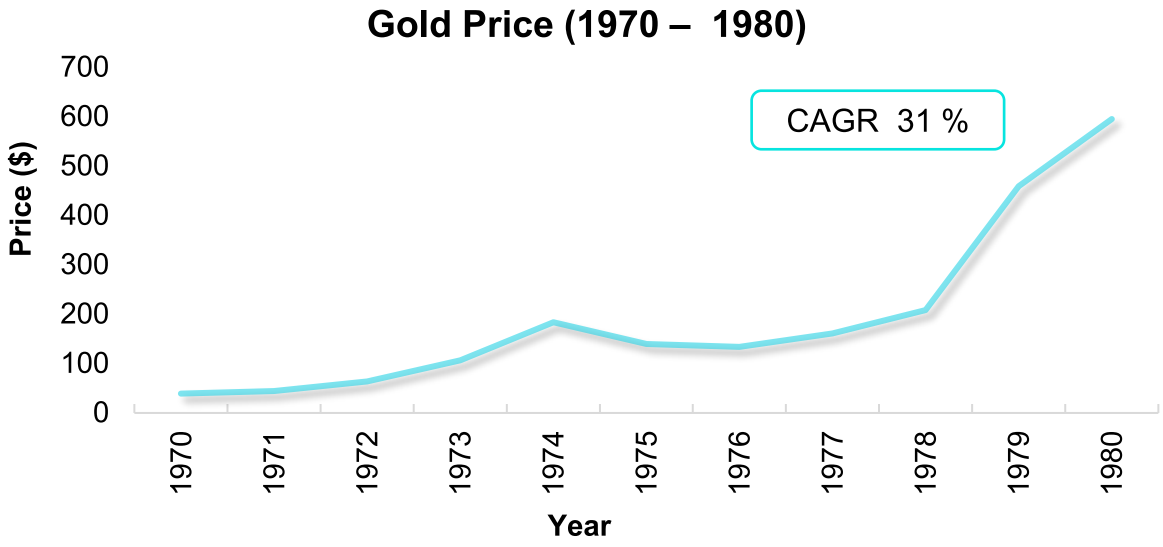
“They only become risky when your holding period isn't long enough.” – Brian Feroldi

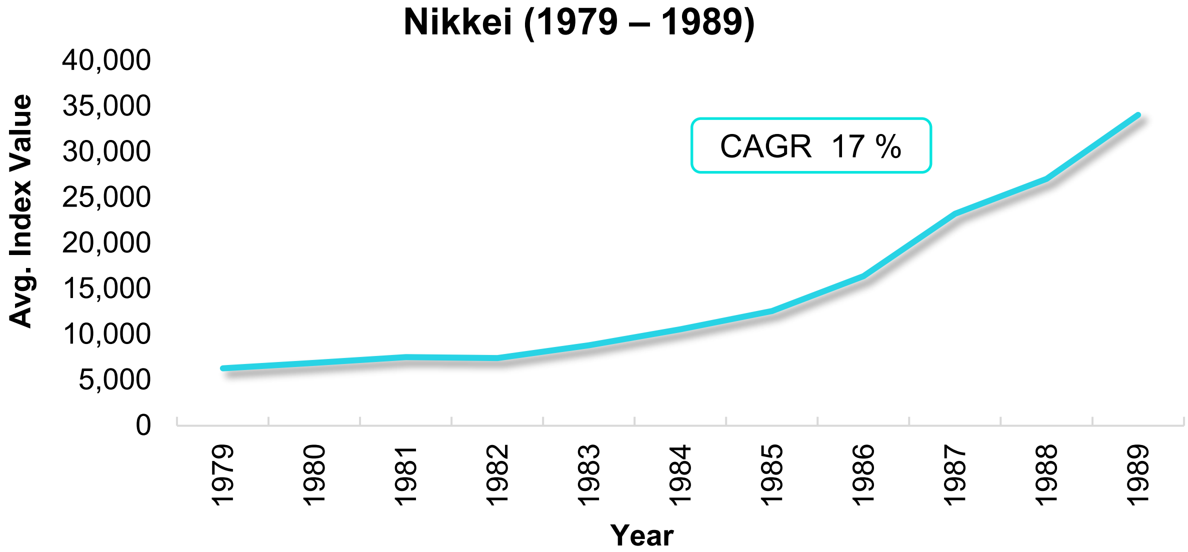
Source : BSE , RBI

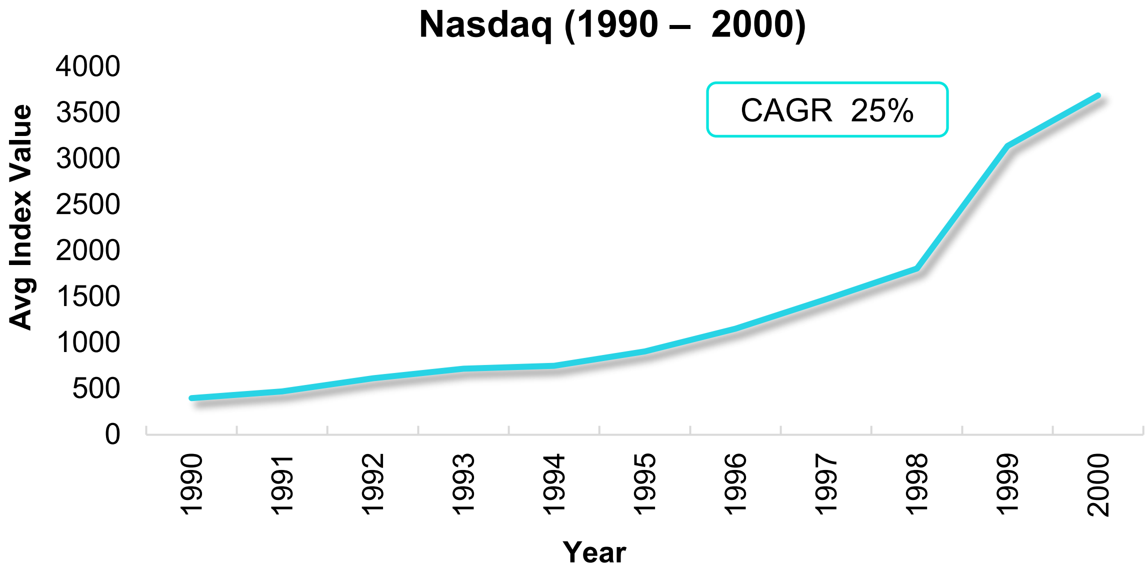
* Includes 1.5% Dividend Yield, & are reinvested in the market

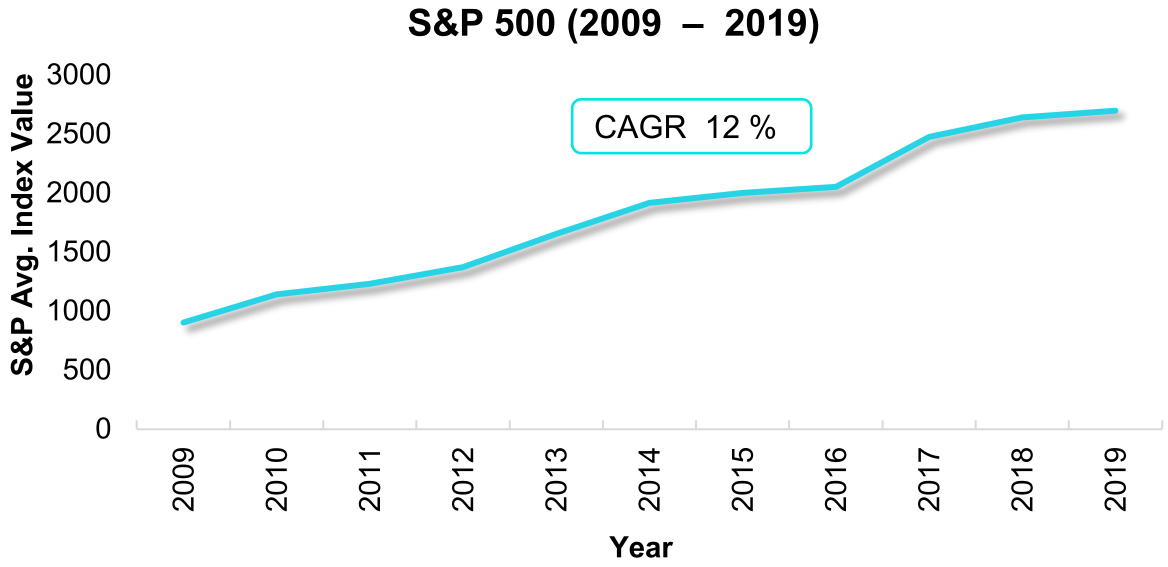
Myth: Bottom-Up Investing Suffice

Key Asset Allocation Decisions which Matter









Source: Macrotrends.com, Gold.org

Myth: Complex and Exotic Investments Are Required to Beat Market Benchmarks

	15Y Return	20Y Return
Average US Endowment Fund (805 Institutions)	**5.2%**	**6.8%**
US Equities (S&P 500 TR)	5.8%	7.9%
Global Equity/Bond Portfolio (60.40)	5.3%	6.0%

Bloomberg

Live TV Markets Economics Industries Tech Politics Businessweek Opinion More

Markets

Wall Street's Love for Alternative Assets Isn't a Good Deal for Clients, Expert Warns

Larry Swedroe
@larryswedroe

Research on endowments shows that despite taking on more risks in the form of often opaque and illiquid investments (hedge funds, VC) they have generally underperformed appropriate risk-adjusted benchmarks. evidenceinvestor.com/index-funds-43...

7:56 PM · Jul 13, 2020

A study by Richard Ennis ("Endowment Performance," June 2020) found that endowment funds consistently underperformed passive benchmarks, with none of the 43 funds showing statistically significant outperformance.

The last thing investors need is access to illiquid funds charging 400 bps/yr in fees and yet underperforming

Source: Caia, Bloomberg, X, Advisor Perspectives

Myth: Illiquid Investments Generate Higher Returns than Liquid Investments

What good is a piggy bank if you can't open it?

Asset Class	Allocation
Private Equity	39%
Hedge Funds	32%
Public Equities	14%
Real Estate	5%
Bonds/TIPs	5%
Other Real Assets	3%
Cash	3%

THE WALL STREET JOURNAL.

World Business U.S. Politics Economy Tech **Markets & Finance** Opinion Arts Lif

The Ivy League Keeps Failing This Basic Investing Test

Elite universities are again stuck with illiquid assets just when they badly need cash

Harvard to Borrow $750 Million After Warning of Funding Threat

Summary by Bloomberg AI

- Harvard University plans to borrow $750 million from Wall Street amid threats to its federal funding from the Trump administration.
- The debt will be taxable and proceeds will be used for general corporate purposes, with Goldman Sachs Group Inc. as the sole bookrunner on the transaction.
- Harvard is preparing for potential funding losses, including up to $9 billion in grants and contracts, due to the Trump administration's scrutiny of colleges accused of mishandling allegations of antisemitism on campuses.

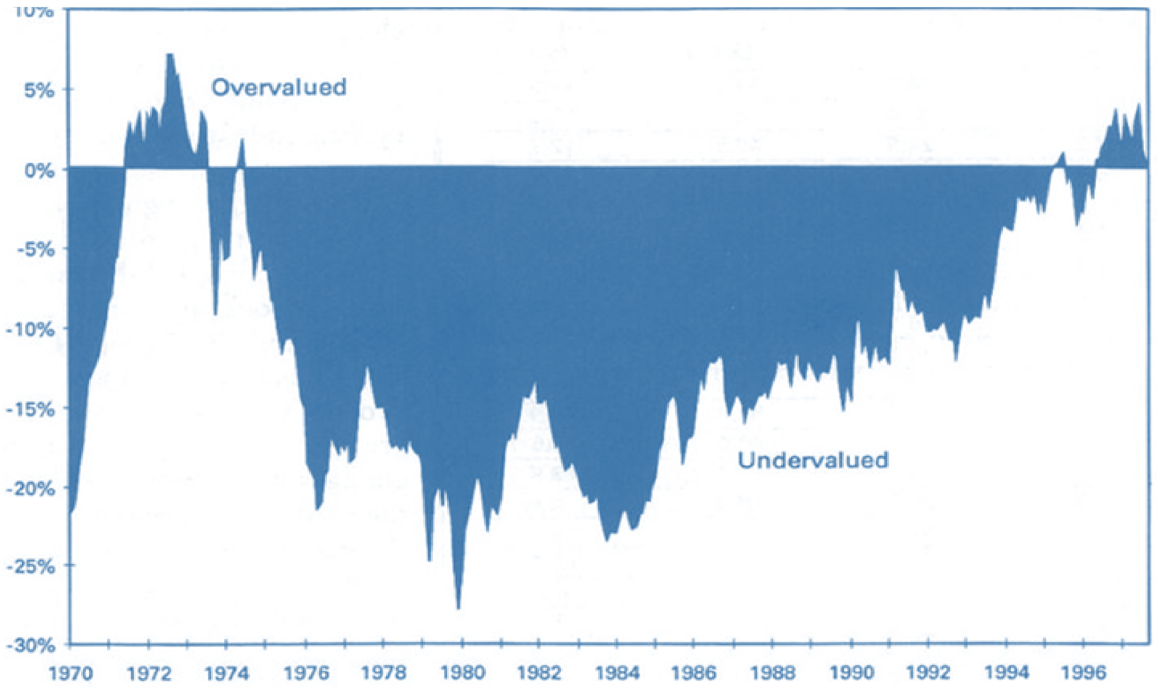
By Amanda Albright
04/07/2025 12:11:53 [BN]

"In investing, liquidity is like oxygen — you don't notice it until it's gone, and by then it's too late." – Warren Buffett

Source: Bloomberg, X, WSJ

Myth: Overpaying for Quality Works!

Valuation of Equally-Weighted Nifty Fifty Portfolio
Relative to the S&P 500; Dec 1970 through Aug 1998



Date Started: 1/11/1973

Date Ended: 12/06/1974

Total Days: 694

Starting DJIA: 1051.70

Ending DJIA: 577.60

Total Loss: -45.1%

Expensive Stocks		
Company	**Starting P/E**	**10- Yr Annualized Return**
McDonald's	86	1.75%
Int'l Flavors	76	-5.24%
Walt Disney	82	-3.78%
J&J	62	1.72%
Coca Cola	48	-6.93%
Eli Lilly	46	-0.72%
Merck	46	-0.23%

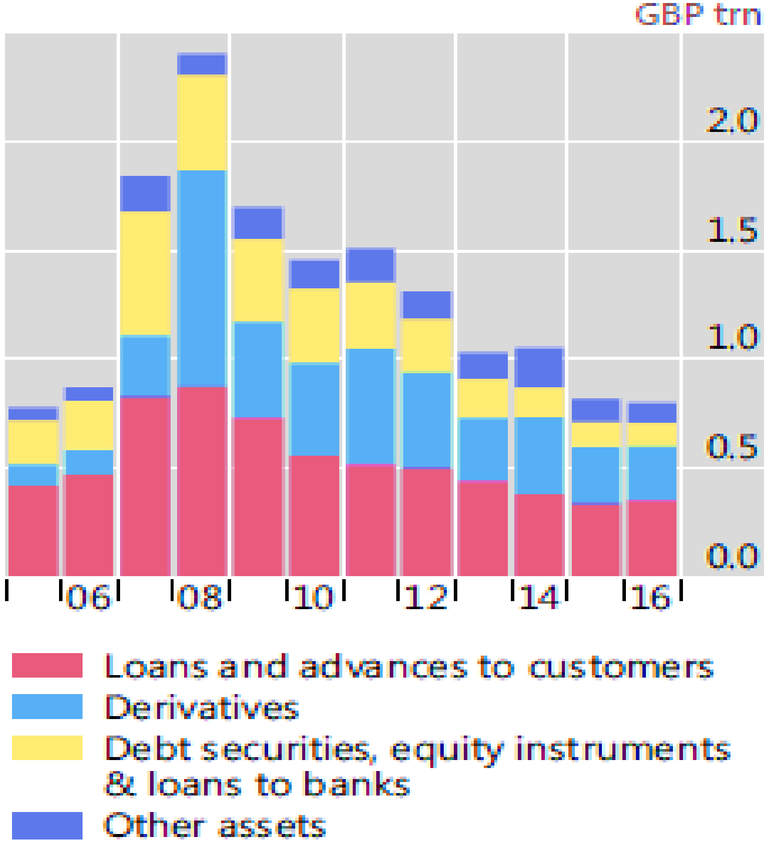
Nifty 50 Stocks		
Security	**PE Multiple 1972**	**PE Multiple 1980**
Sony	92	17
Polaroid	90	16
McDonald’s	83	9
Intl. Flavors	81	12
Walt Disney	76	11
Hewlett Packard	65	18

Source: Forbes 1977 Revisited Nifty Fifty

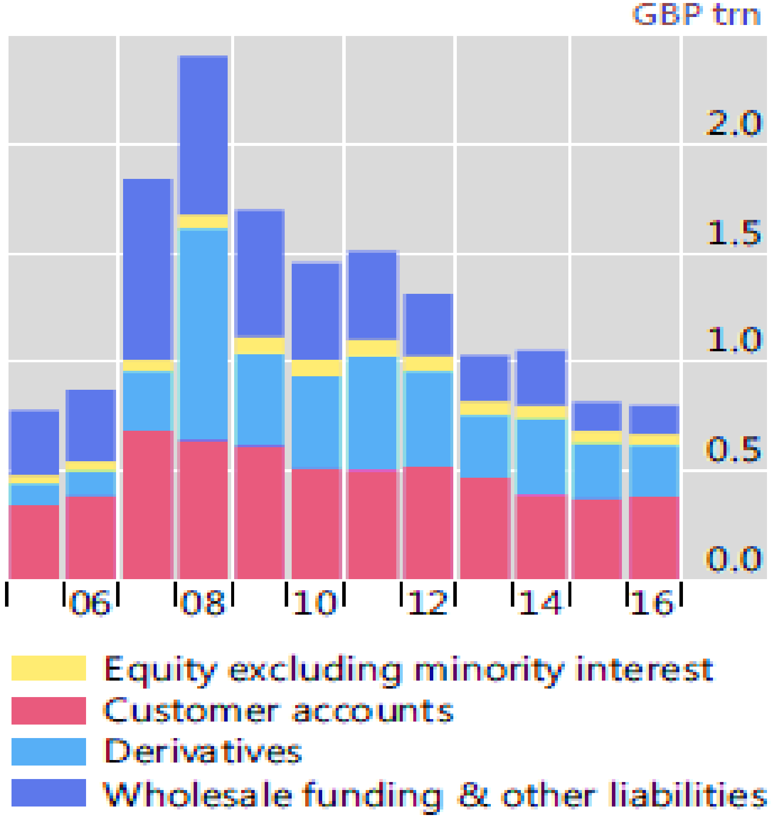
Myth: All Growth is Good

Royal Bank of Scotland- Balance Sheet & Profit

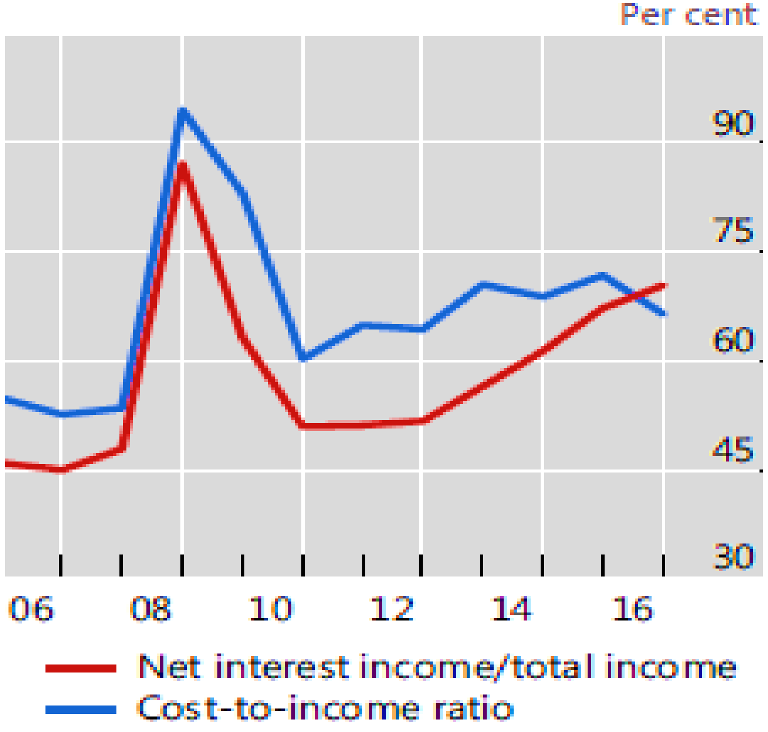
Asset Composition



Liability Composition



Revenue & Operating Expenses



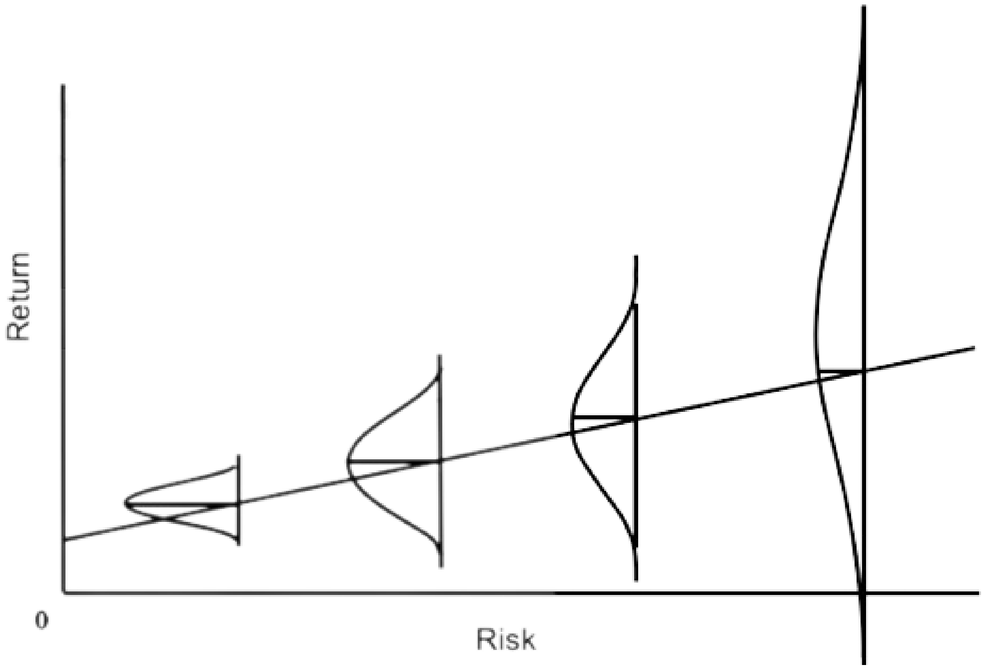
Cancer is also Growth, Unwanted Growth

Source: RBS Annual Reports

Myth: Higher Risk leads to Higher Potential Returns

This May Not Always True

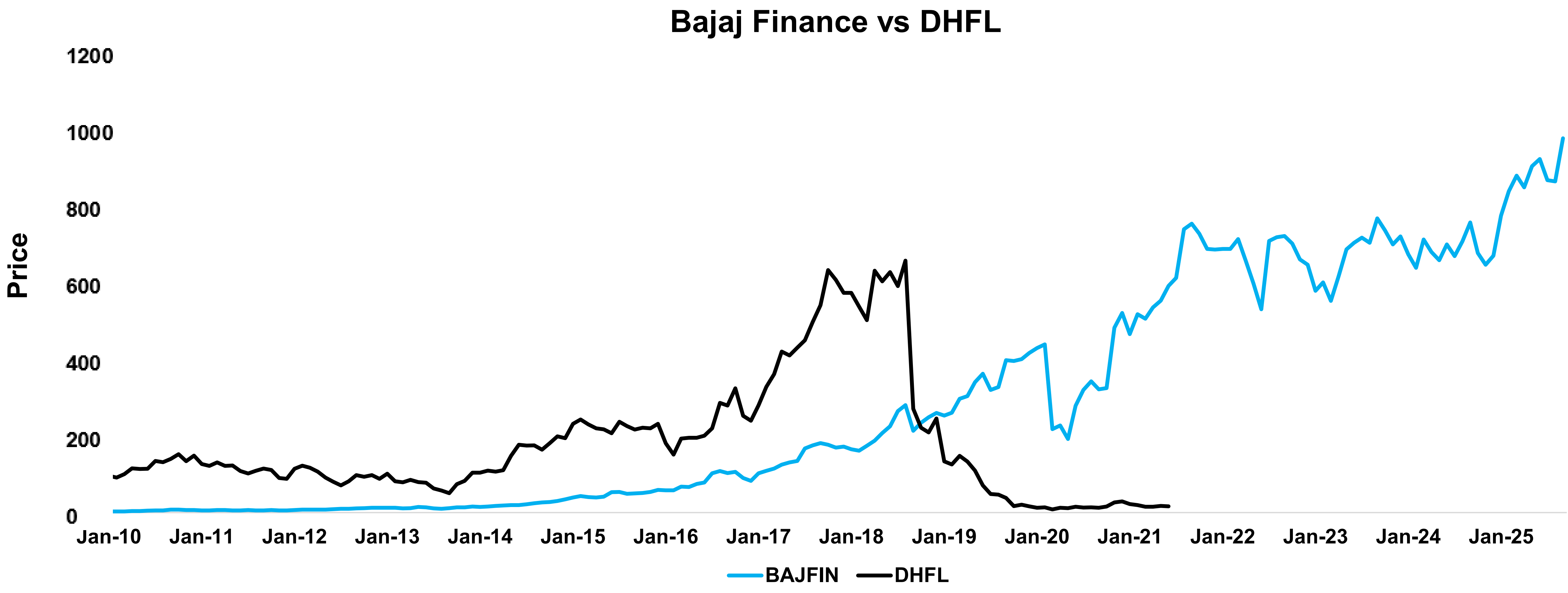
Uncertainty & Probability of Loss Increases, as One Goes Up The Risk Curve



"Investments that seem riskier have to <u>appear</u> likely to deliver higher returns, or else people won't make them." -Howard Marks

Source: Quote Master, Oaktree Capital

Myth: Volatility = Risk



"The riskiness of an investment is not measured by beta (volatility) but by the probability of permanent loss of purchasing power." — Warren Buffett

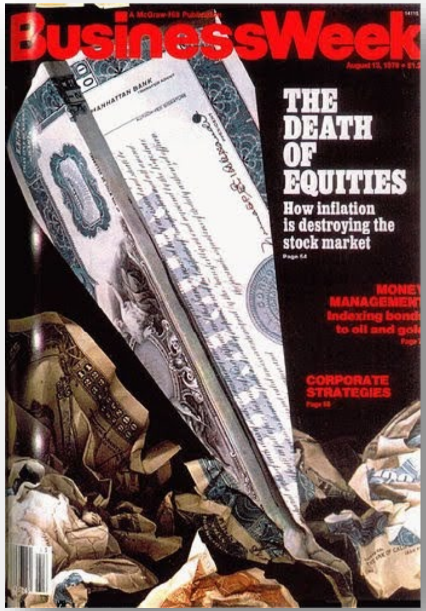
Source: Ace Equity

Myth: Narrative vs Numbers. Letting Stories Trump Statistics

Sector	Narrative	Narrative Period	Comment/outcome
Public sector	Privatization	2024	No progress despite a lot of hope before and after 2024 general elections
Judiciary	Judicial reforms	2024	Limited progress
Manufacturing	Shift in manufacturing to India due to China+1	2021-25	Only noteworthy success is EMS; limited progress in autos, capital goods, chemicals, etc. so far
Economy	Private sector capex to recover	2021-25	Private sector GFCF/GDP broadly flat over the past few years (around 11% over FY2020-24)
Capital goods	Elevated EBITDA margins of capital goods to sustain	2024-25	Profitability peaked in FY2024; margins down significantly since then
Construction materials	Cement cos will see improved profitability from consolidation	Ongoing	Companies have struggled to maintain profitability
Commodity chemicals	Competition unlikely to disrupt the moat of paints companies	2021-25	Loss of market share, deterioration in margins of incumbents
Consumer staples	Green-shoots of recovery in demand for consumer staples	2023-25	Continued disappointment, despite positive commentary by select companies after every quarter
QSR	QSR to see strong growth with no impact from food delivery	2023-current	SSSG has been quite weak

Source: Kotak

Myth: What is Popular is Investable

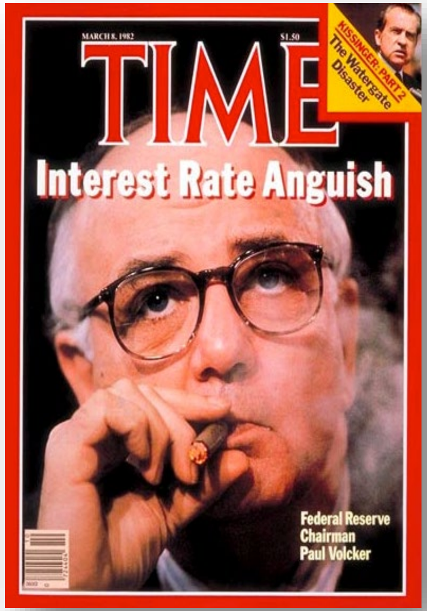


Asset Class: US Equities

August 1978

1979-1990: +14% CAGR

(Dow Jones)



Asset Class: Treasury Notes

March 1982

1983-2012: -6% CAGR
(in Bond Value)

Asset Class: US Equities

June 2000

2000-2003: - 39% CAGR

(NASDAQ)

Asset Class: Real Estate

June 2008

2008-2013: -11% CAGR

(in Real Estate Value)

Asset: Coal

Dec 2020

2020-May 2022: +509%

(Coal)

"Investment success doesn't come from 'buying hot stocks' but from buying undervalued companies with solid prospects." — Seth Klarman

Source: Business Week, TIME, The Economist, Trading Economics

Myth: Valuation Shortcuts Work

BSE/NSE Ticker	Company Name	Industry	PAT 10 yr. CAGR	P/E	P/B	Share Price 10 yr. CAGR
511218/ SRTRANSFIN	Shriram Transport Finance Company Ltd.	Finance	18%	14	2.2	12%
500096/ DABUR	Dabur India Ltd.	FMCG	7%	62	11.3	12%
500940/ FINPIPE	Finolex Industries Ltd.	Polymers	9%	43	3.6	20%
517354/ HAVELLS	Havells India Ltd.	Capital Goods	11%	95	16.1	23%
500104/ HINDPETRO	Hindustan Petroleum Corporation Ltd.	Refineries	31%	4	1.6	19%
500165/ KANSAINER	Kansai Nerolac Paints Ltd.	Paints	12%	34	4.1	10%

“P/E ratios are meaningless in isolation; they must be interpreted in context of growth and industry.” — Philip Fisher

Source: Screener

Myth: Valuations are Precise

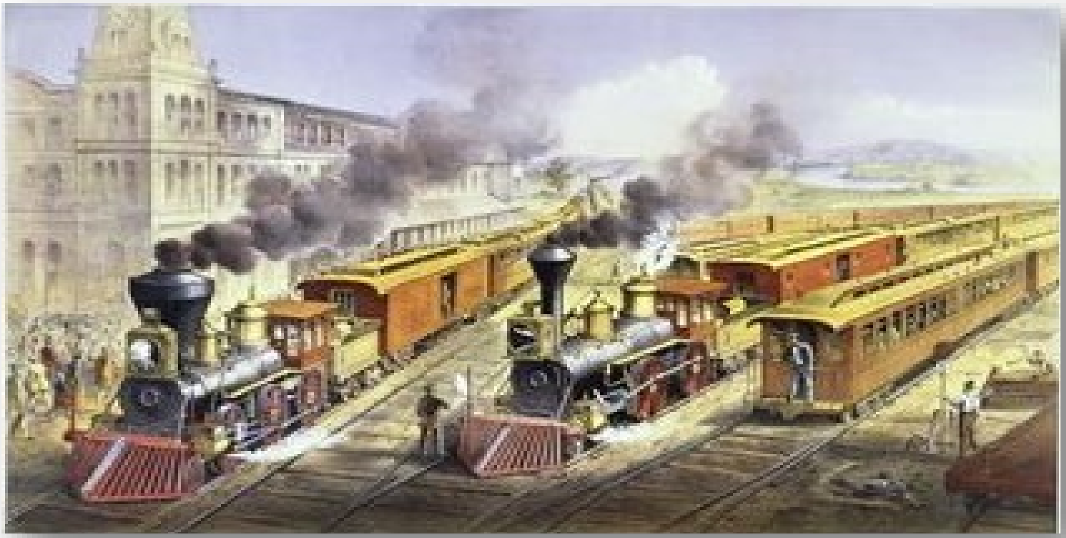
Common DCF Errors	Implications
Forecast horizon	• Too long : Any forecast beyond a few years is suspect, with higher probability of estimation error Too short : Intelligent capital allocators take a long term view • The forecast period should capture at least 1/3rd of corporate value
Uneconomic continuing value	• A high % of value accorded to the continuing value reflects that • Explicit forecast periods are too short
Cost of capital	• Estimating cost of equity is more challenging than debt. CAPM factors stale inputs for Beta and ERP. Both are non-stationary so which period's historical estimate must be used is a problem
Risk free rate	• Difficult to make estimates for long forecasting periods
Mismatch between assumed investment & earning's growth	• Underestimates the investment necessary to achieve an assumed growth rate • Fails to explicitly link growth & investments via ROI
Improper reflection Of other liabilities	• Other liabilities like ESOPs, employee benefit plans are trickier to capture in an economically sound way. So the model fails to capture true shareholder value
Discount to private market value	• Model lacks transparency because it conflates the base & synergy cash flows
Double counting	• Common problem with share repurchases, causing miscalculations of future stock price
Scenarios	• Small changes in assumptions can lead to large changes in value • Sensitivity analysis fails to capture interactivity between value drivers

Source : Michael Mauboussin & Aswath Damodaran

Errors of Commission

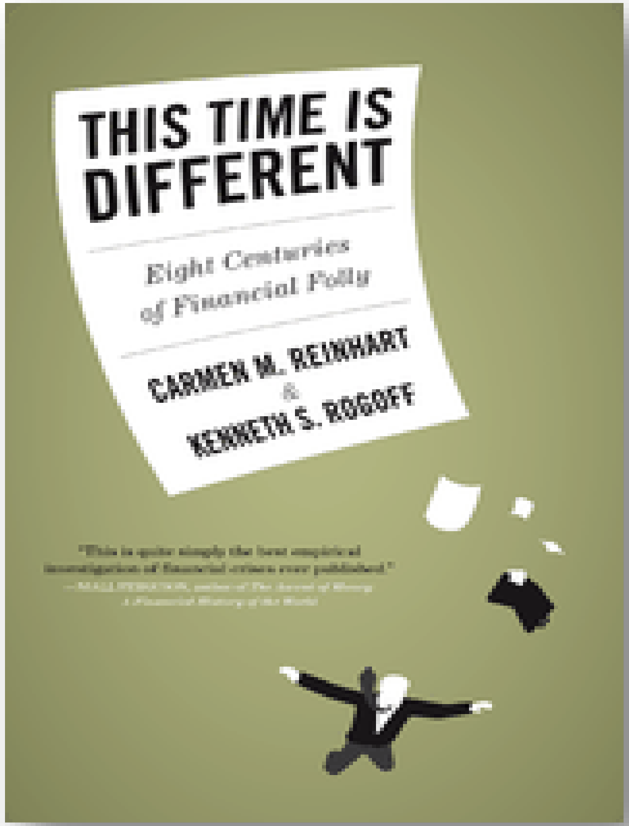
"The only mistakes you can learn from are the ones you survive." - Jim Collins

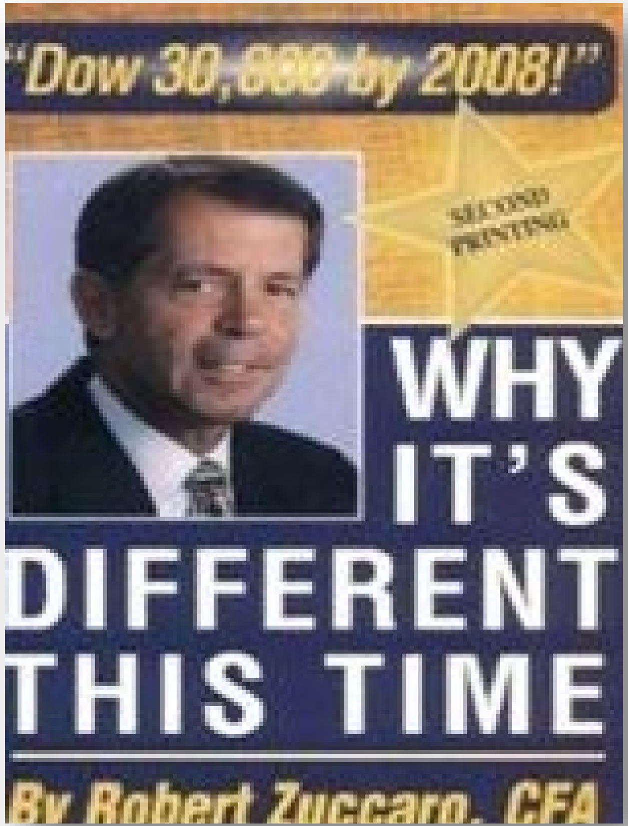
Errors of Commission: Ignoring history of Markets & Human Behaviour



Source: thedayintech.wordpress.com

"The four most dangerous words in investing are, 'This time is different'."
– Sir John Templeton



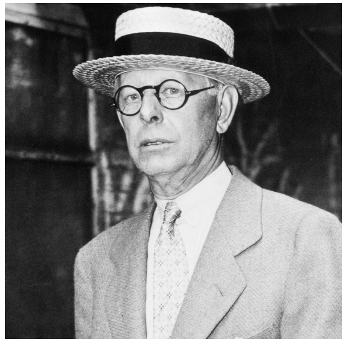


What we learn from history is that we don't learn from history

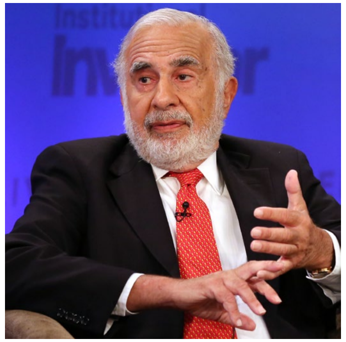
Source: https://www.slideshare.net/sherifshicko/this-time-is-different

Errors of Commission: Taking Financial Cues from People Playing a Different Game than You Are

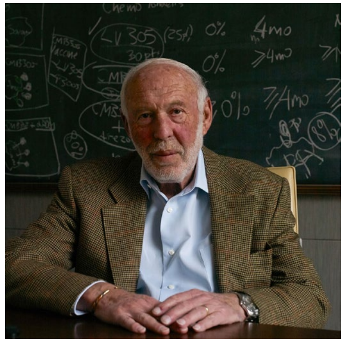
George Soros
Speculator



Jesse Livermore
Speculator



Carl Icahn
Activist



Jim Simons
Quantitative

Howard Marks
Distressed Securities

Paul Singer
Vulture

Joel Greenblatt
Special Situations

Benjamin Graham
Cigar Butt

Charlie Munger
Moat & Franchise

Warren Buffett
Long Term Investing

You Can Borrow Ideas but You Can't Borrow Conviction

Errors of Commission: Cloning without Context

"The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, & then earns little or no money. Think airlines."

Berkshire Hathaway owned Delta, American, United & Southwest Airlines from 2016 to 2018

"In our view, however, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal."

Berkshire Hathaway is one of the largest underwriters of derivative contracts

"Diversification is protection against ignorance"
"An idiot could diversify their portfolio"

Berkshire Hathaway is one of the most diversified conglomerate in the world.

"Change is more rapid & unpredictable in technology relative to the broader economy. To me, all technology sectors look like 7-foot hurdles."

Apple & IBM became part of Berkshire Hathaway's portfolio

"Be greedy when others are fearful" **is practiced, but** "be fearful when others are greedy" **is forgotten**

“The young man knows the rules, the old man knows the exceptions.” — Oliver Wendell Holmes, Sr

“Our favorite holding period is forever.”- **Warren Buffett**

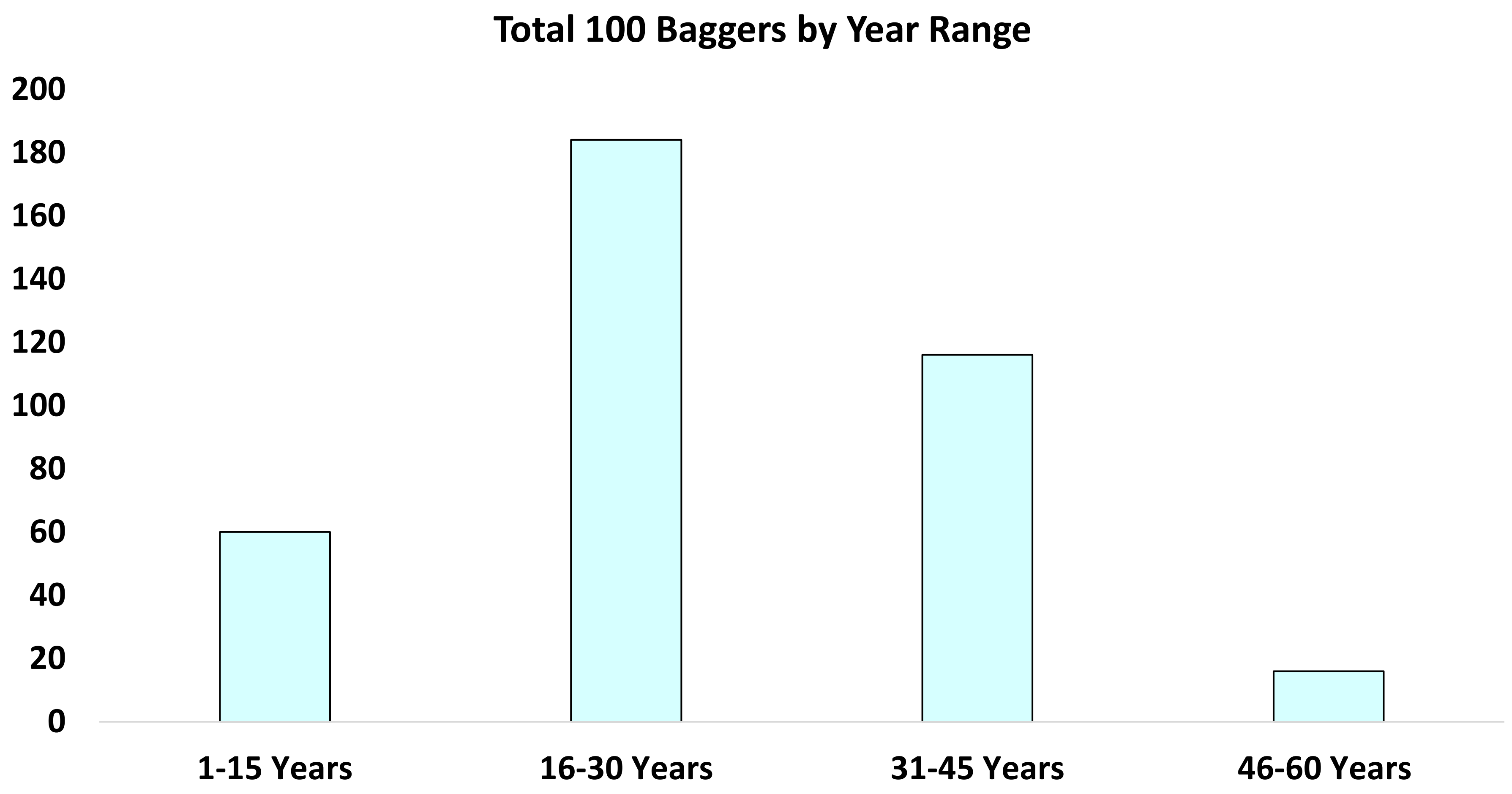
Holding Period Lengths & Number of Stocks Held by Berkshire Hathaway			
Holding Quarters	Number of Stocks	Percentage	Cumulative Percentage
1	39	16.96	16.96
2	29	12.61	29.57
3	16	6.96	36.52
4	55	23.91	60.43
5-10	34	14.78	75.22
10-20	20	8.70	83.91
20-30	15	6.52	90.43
30-40	13	5.65	96.09
40-50	2	0.87	96.96
>50	7	3.04	100
Conclusion	230	100	

“An investor should act as though he had a lifetime decision card with just twenty punches on it.”- **Warren Buffett**

Do What They Say (20 Punch Card Investing) vs Do What They Do (Churn Baby Churn) ?

Source: John Hughes, Jing Liu & Mingshan Zhang

Errors of Commission- Hyperactivity

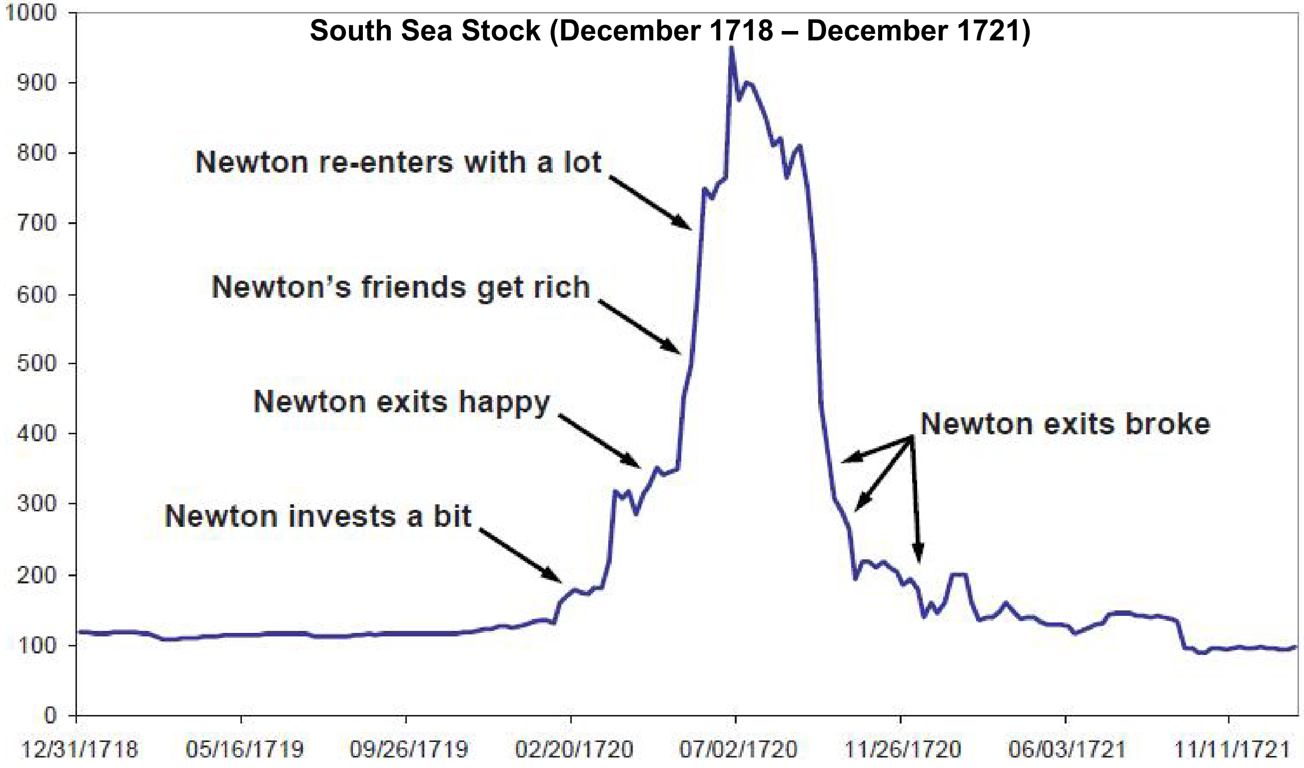


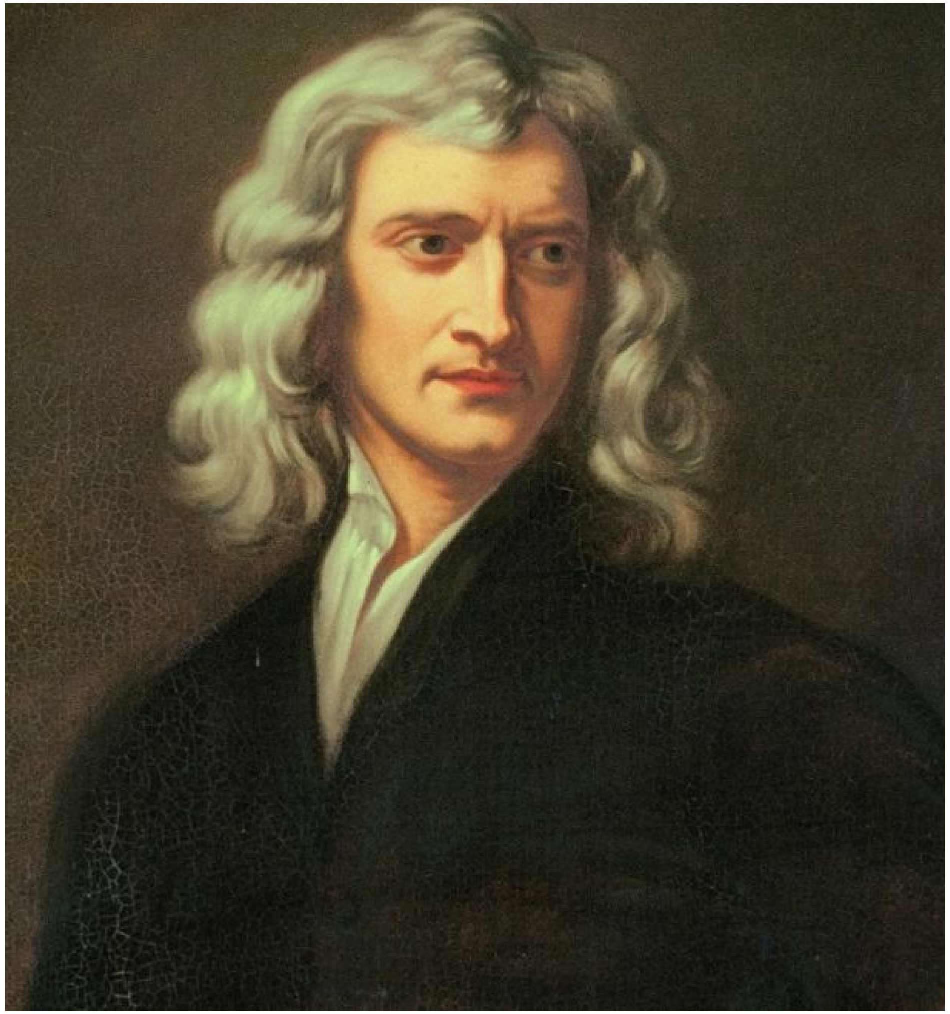
“Fourth Law of Motion: For investors as a whole, returns decrease as motion increases.“- Warren Buffett

Source: CS Investing

Errors of Commission: Fear Of Missing Opportunities (FOMO)

“There is nothing as disturbing to one’s well-being and judgment as to see a friend get rich.” – Charles P. Kindleberger



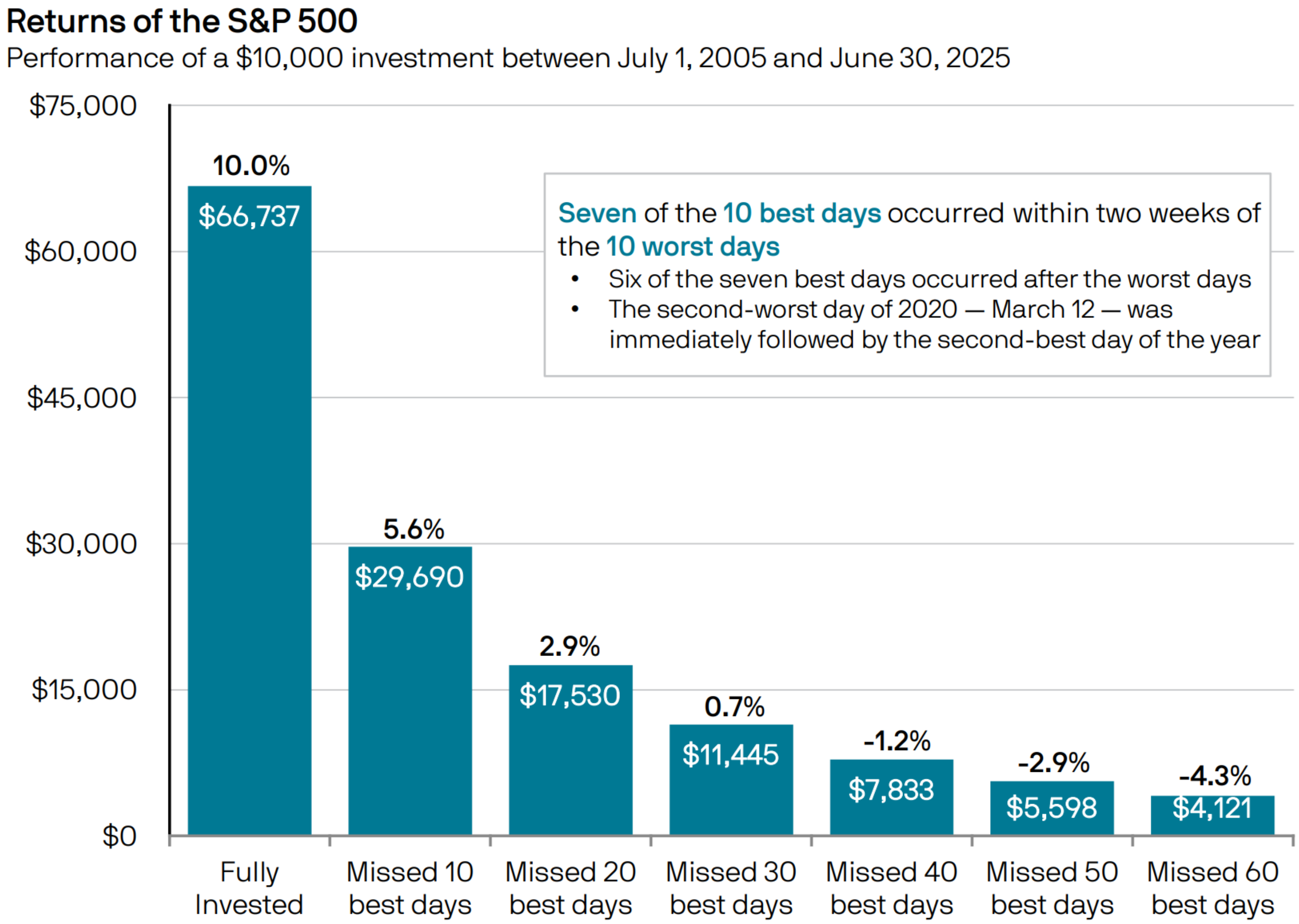


“I can calculate the movement of the stars, but not the madness of men” **– Isaac Newton**

- The South Sea Company was given a monopoly over all trade to the South Seas
- Great enthusiasm got built around the profits that might be made from trade with the New World
- Word spread among investors price soared almost ten-fold
- Company issued more & more stock, aligned even with an installment plan
- Price eventually peaked at one thousand pounds a share, & then the bubble burst

Source: thebubblebubble.com

Errors of Commission: Timing the Market



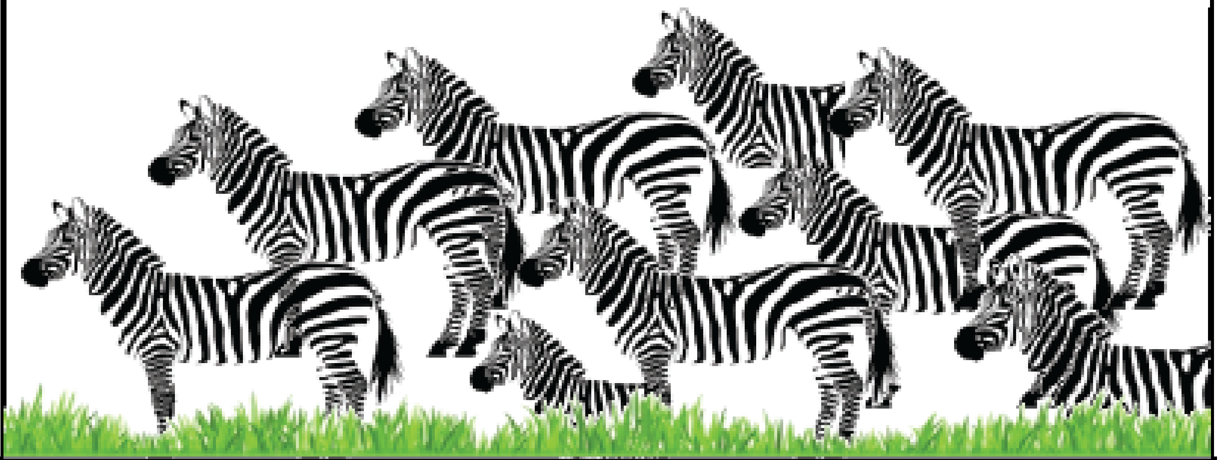
“Market timing is speculating and it rarely, if ever, pays off.” — Henry Singleton

Source: Morgan Stanley

Errors of Commission: Herding Behaviour

FM = Above-average performance
Zebra = Fresh Grass

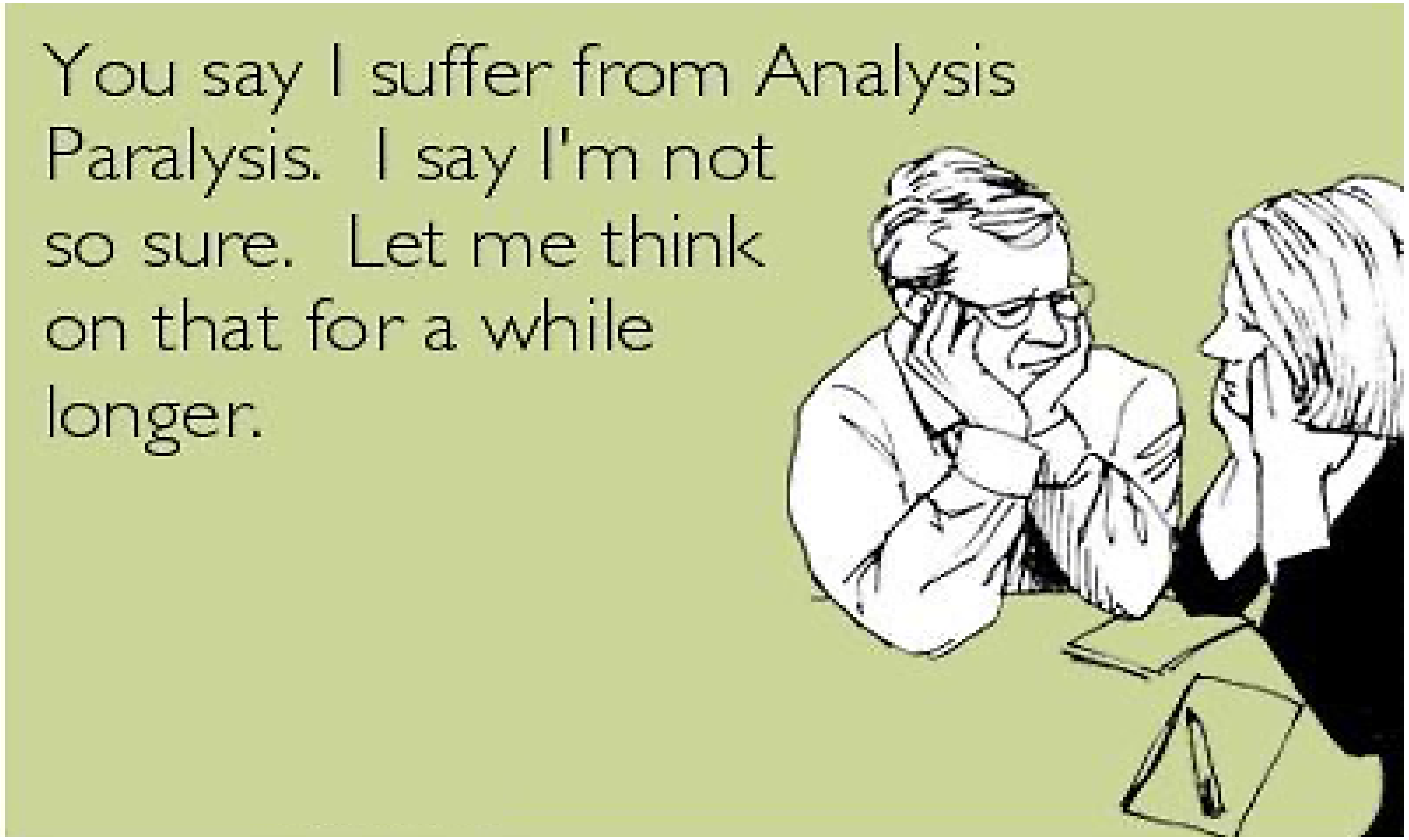
“Men, it has been well said, think in herds. It will be seen that they go mad in herds, while they only recover their senses slowly one by one.” – Charles Mackay



Zebra’s Place → Relation to Herd
If (Safe). Outside Herd = Fresh Grass. Middle = Trampled Grass
Outside Herd = Aggressive. Eat Well but risk being eaten
Middle of Herd = Eat less but not get eaten

FM =/= Outside Zebra (career Risk)
FM = Centre of Herd (Optimal Placement). Seek Safety in conventional ideas
Buys Popular Stocks = Faultless. Avoid success unconventionally

Errors of Commission: Analysis Paralysis



“Be not a thinker; be a doer, who thinks.” - Ralph Waldo Emerson

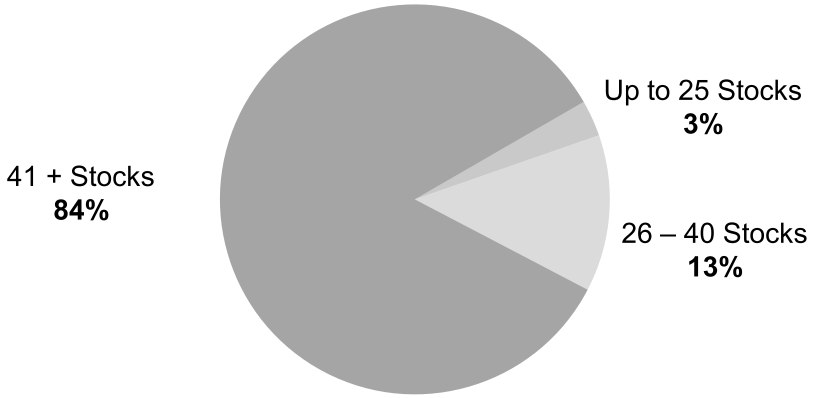
Errors of Commission: Closet Indexing

- Two decades ago, a portfolio manager would say he “owned” a stock. Now he is more likely to say he is “overweight” it, always implicitly comparing with the index

Negatives of Closet Indexing:

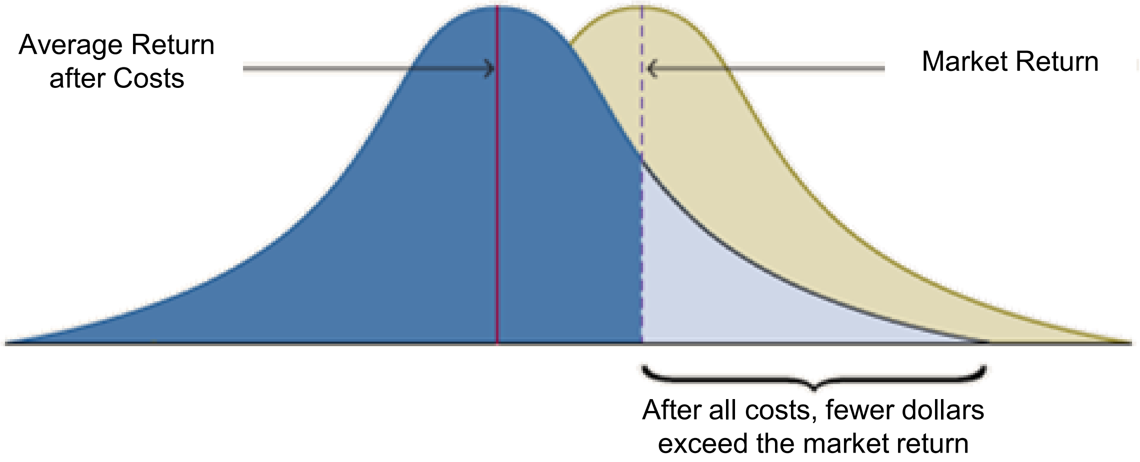
- Contradicts the fiduciary duty of fund managers towards their investors
- Works in an efficient market, which does not exist. A wise investor should ask himself whose risk is being diversified, the investor’s or the fund manager’s?

AUM – Total INR 4 Trillion



Investing is a Zero-Sum Game

Half of all dollars invested will outperform the market return before costs (tan curve).
After costs (blue curve), a much smaller portion outperforms the market return (light blue)



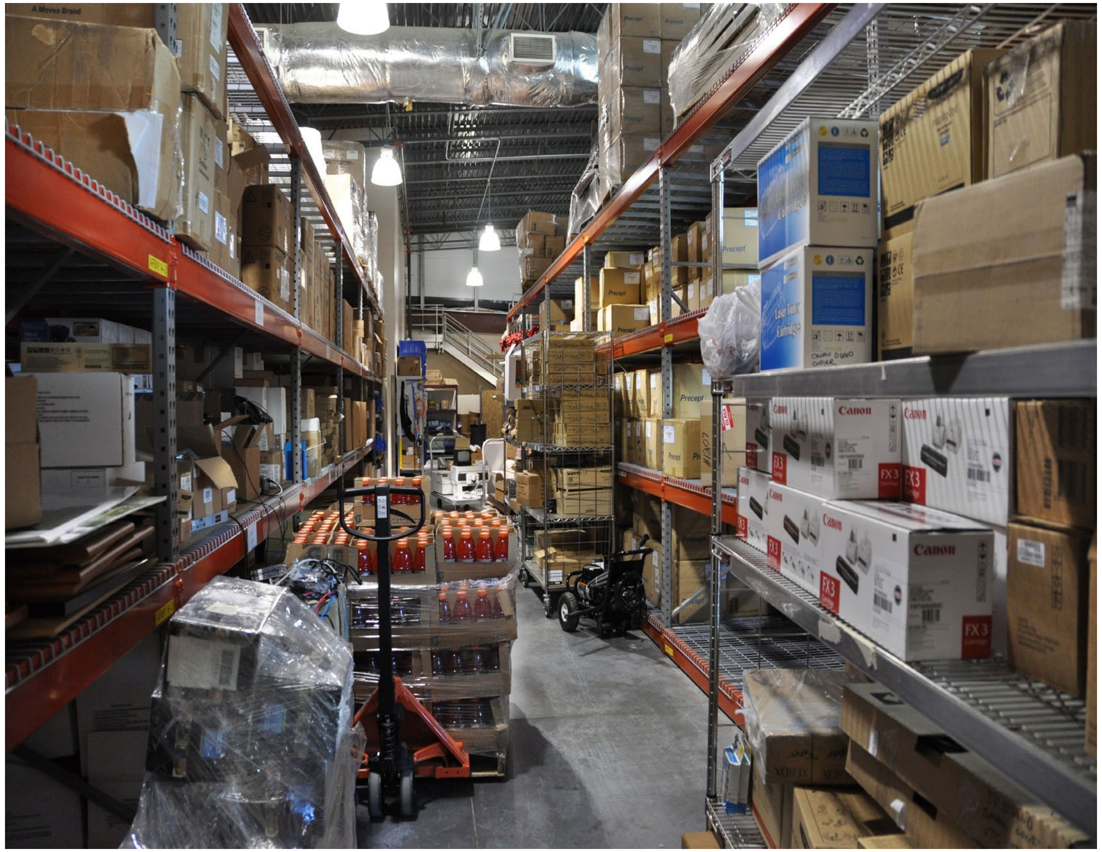
“With closet indexing, you’re paying a manager a fortune and he has 85% of his assets invested parallel to the indexes. If you have such a system, you’re being played for a sucker.” – Charlie Munger

Errors of Commission: Buy Only Blue-Chip Companies of Today

1986	1996	2006	2016	Current
ACC	ACC	ACC	Adani Ports	Adani Ports
Ballarpur Industries	Aditya Birla Nuvo (now Grasim)	Ambuja Cements	Asian Paints	Asian Paints
Bharat Forge	Ballarpur Industries	Bajaj Auto	Axis Bank	Axis Bank
Bombay Dyeing	Bharat Forge	BHEL	Bajaj Auto	Bajaj Finance
Ceat Tyres	Bombay Dyeing	Bharti Airtel	Bharti Airtel	Bajaj Finserv
Century Spinning	Ceat Tyres	Cipla	BHEL	Bharti Airtel
Nestle	Century Textiles	Dr Reddy's Labs	Cipla	HCL Technologies
Glaxosmithkline	Cummins India	Grasim Industries	Coal India	HDFC Bank
Great Eastern Shipping	Futura Polyesters	HDFC Bank	Dr Reddy's Labs	Hindustan Unilever
GSFC	Glaxosmithkline	Hero Motocorp	GAIL	ICICI Bank
Gwalior Rayon (now Grasim)	Grasim Industries	Hindalco Industries	HDFC	IndusInd Bank
Hindustan Unilever	Great Eastern Shipping	Hindustan Unilever	HDFC Bank	Infosys
Hindustan Motors	GSFC	HDFC	Hero Motocorp	ITC
Hindalco Industries	Hindalco Industries	ICICI Bank	Hindustan Unilever	JSW Steel
Indian Hotels	Hindustan Motors	Infosys	ICICI Bank	Kotak Bank
Indian Rayon (now Grasim)	Hindustan Unilever	ITC	Infosys	Larsen & Toubro
ITC	Indian Hotels	Larsen & Toubro	ITC	Mahindra & Mahindra
Kirloskar Cummins	ITC	Maruti Suzuki India	Larsen & Toubro	Maruti Suzuki
Larsen & Toubro	Larsen & Toubro	NTPC	Lupin	Nestle
Mahindra & Mahindra	Mahindra & Mahindra	ONCC	Mahindra & Mahindra	NTPC
Mukand	Mukand	Ranbaxy Laboratories	Maruti Suzuki	Power Grid Corporation
Pieco Electronics (now Philips)	Nestle India	Reliance Industries	NTPC	Reliance Industries
Premier Automobile	Philips	Reliance Infrastructure	ONGC	State Bank of India
Reliance Industries	Premier Automobile	Satyam Computer	Reliance Industries	Sun Pharma
Siemens	Reliance Industries	State Bank of India	State Bank Of India	TCS
Tata Power	Siemens	TCS	Sun Pharma	Tata Motors
Tata Steel	Tata Motors	Tata Motors	Tata Motors	Tata Steel
TELCO (now Tata Motors)	Tata Power	Tata Power	Tata Steel	Tech Mahindra
Voltas	Tata Steel	Tata Steel	TCS	Titan
Zenith	Voltas	Wipro	Wipro	Ultratech Cement

Source : BSE

Errors of Commission: Over Diversification and Dilution of Returns



Is your Portfolio a Museum or a Warehouse?

Errors of Commission: Concentration

Bill Ackman

- Bill Ackman bought a massive stake of 8.5% stake in Valeant pharmaceuticals
- This concentrated position led to permanent loss of capital to the tune of ~$4 bn

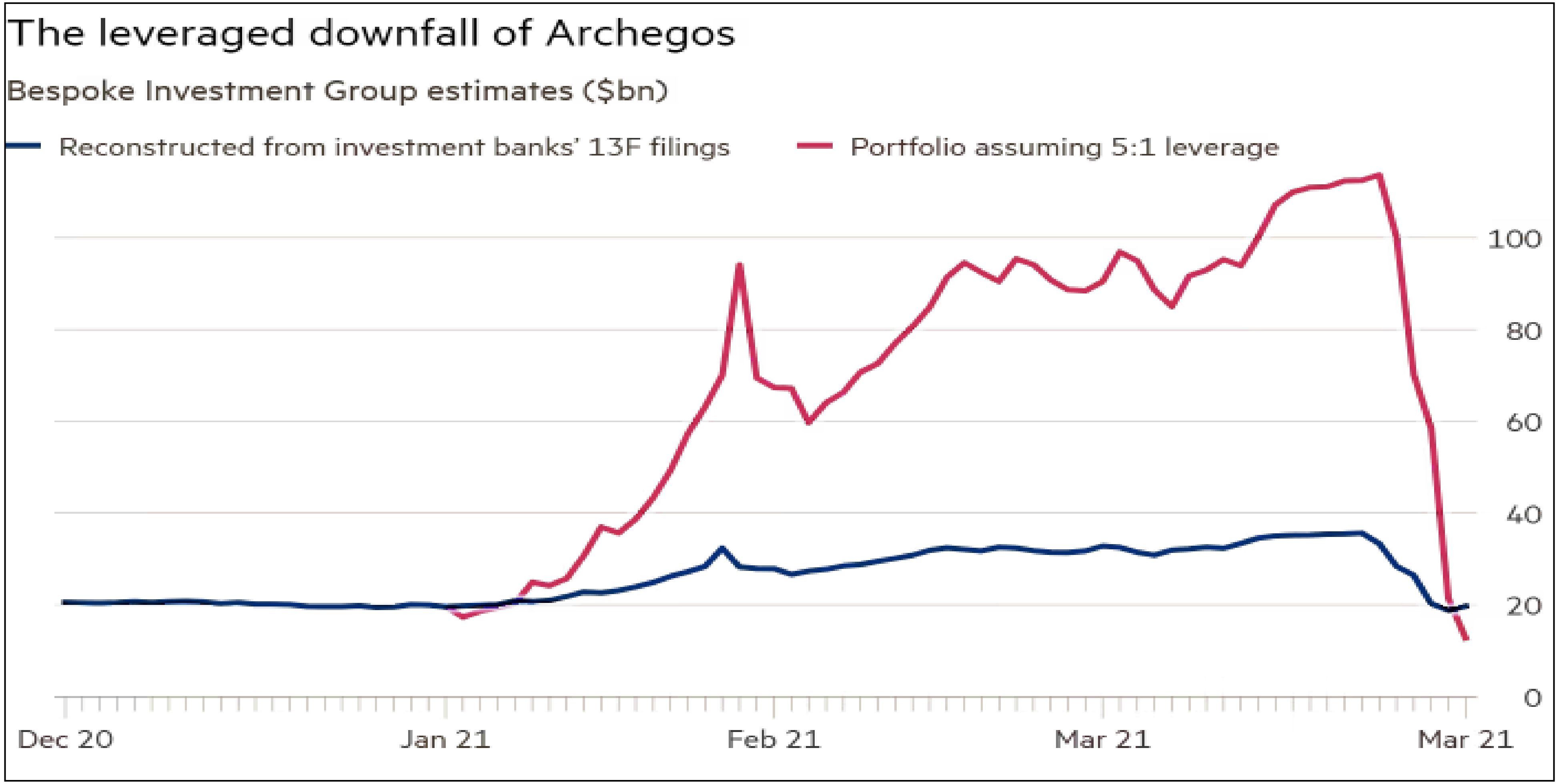
Nick Sleep

- Nick sleep invested 20% of portfolio in amazon, which made his clients uncomfortable because of too much concentration
- He ended up losing some clients
- From 20% it became 33%, & he ended up losing even more clients.

Concentration is a double-edged sword- The more concentrated fund is better to cut losses & avoid big drawdown

Source: Yahoo Finance

Errors of Commission: Leverage Implosion

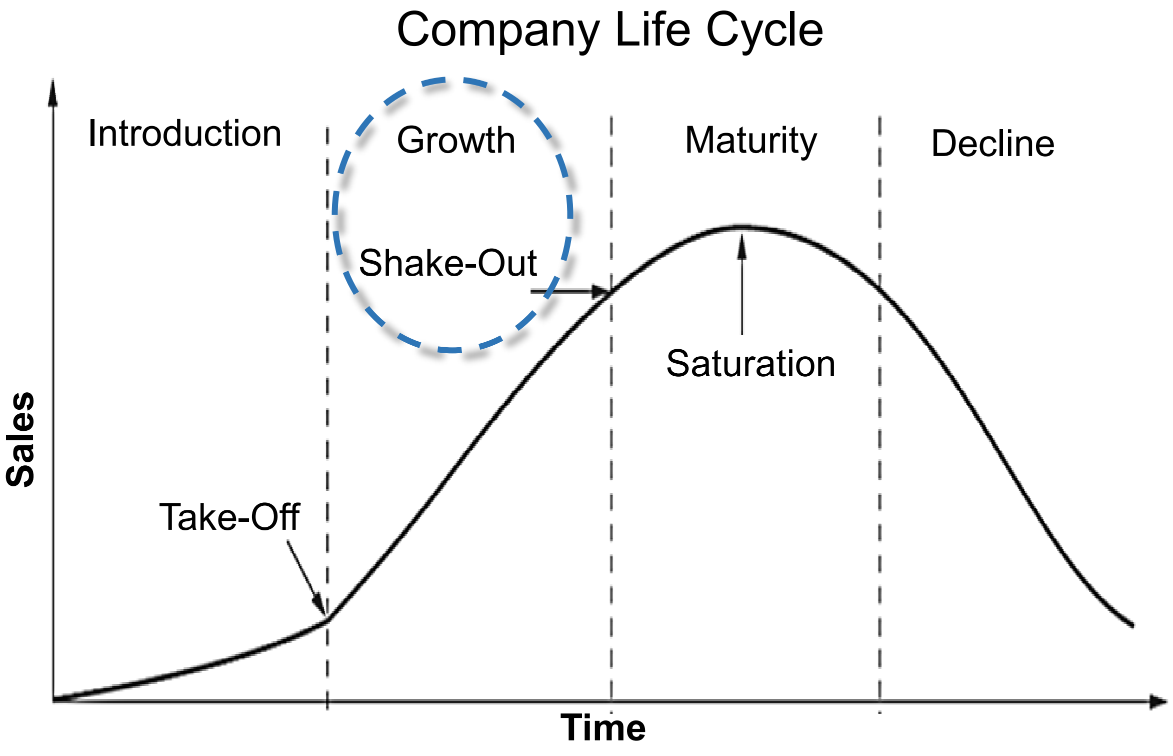


"Using leverage is like playing Russian roulette. It means that you are inevitably going to get a bullet in the head." — Ray Dalio

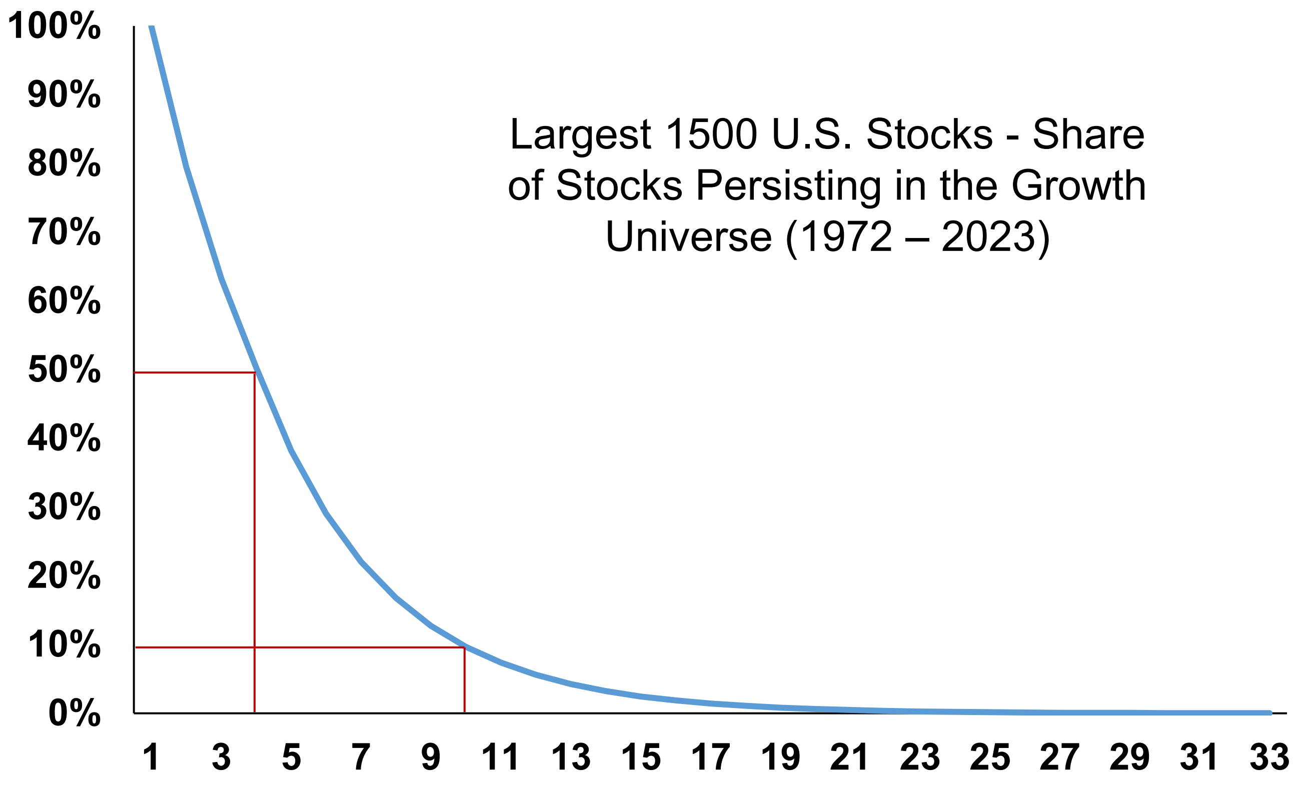
Source: FT

Errors of Commission: Assuming Growth will go on Forever

There are No Growth Companies, but there are Companies in different Growth Phases



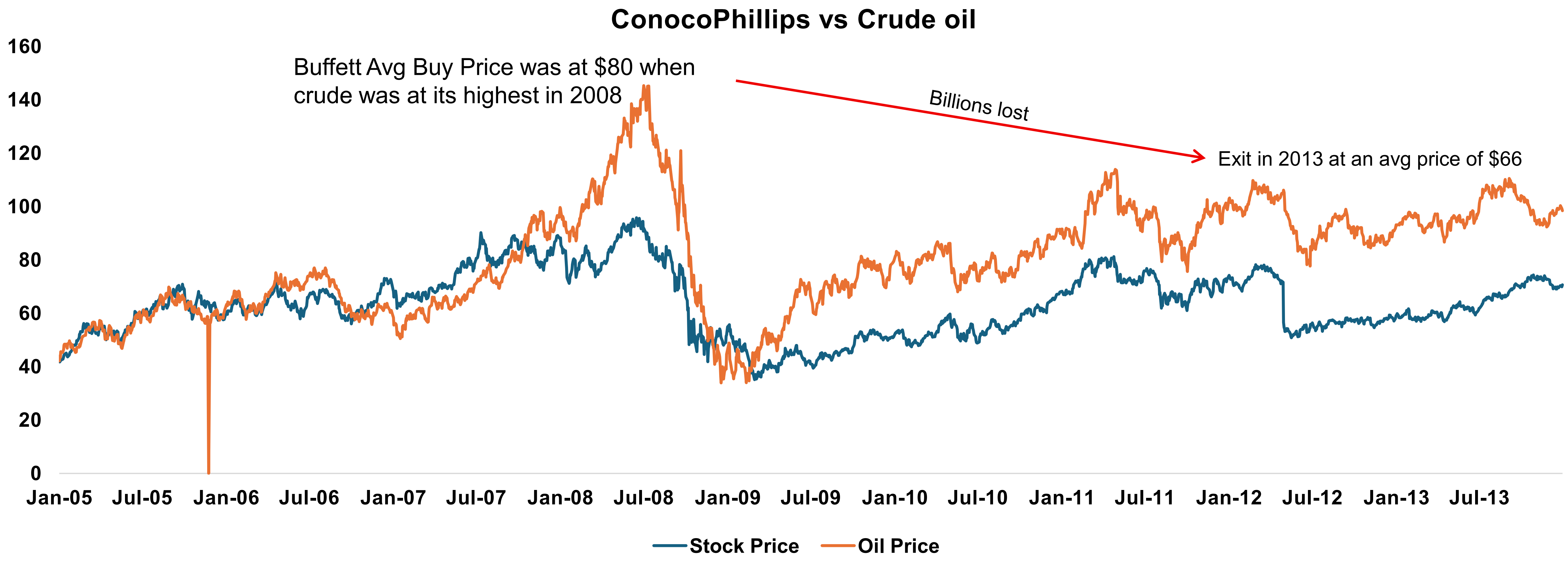
After four years, only half of the stocks remain in the growth universe, & only ten percent last ten years



Marry your stocks but have a prenuptial agreement in place

Source: Marketing Insider, FactSet. CRSP, IBES, Bernstein

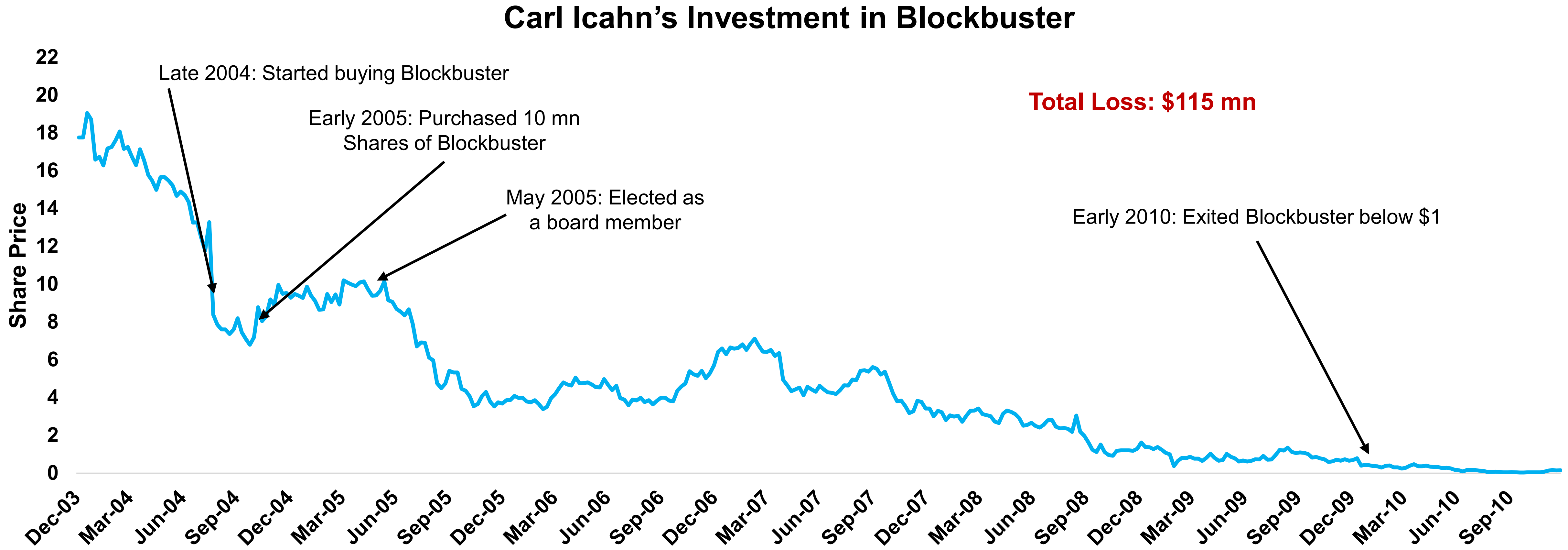
Errors of Commission: Buying at the Top of a Commodity Cycle



"The most dangerous thing you can do is buy a cyclical company at the peak of its cycle, assuming it's a growth stock." – Peter Lynch

Source: Investing.com

Errors of Commission: Investing in Melting Icebergs

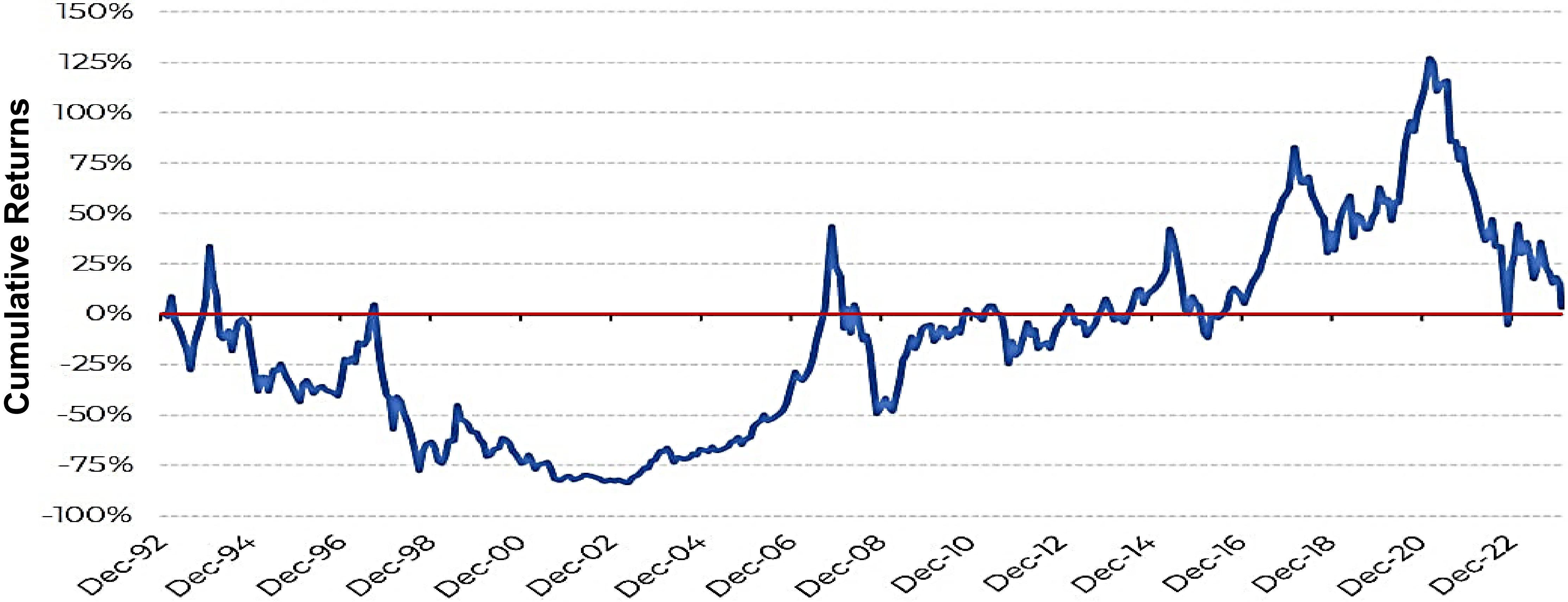


"The biggest mistake is buying cheap stocks without understanding the cause of cheapness." - Peter Lynch

Source: Investing.com

Errors of Commission: Buy & Hold does not mean Buy & Forget

MSCI China has delivered a 0% return in nearly 32 years since inception

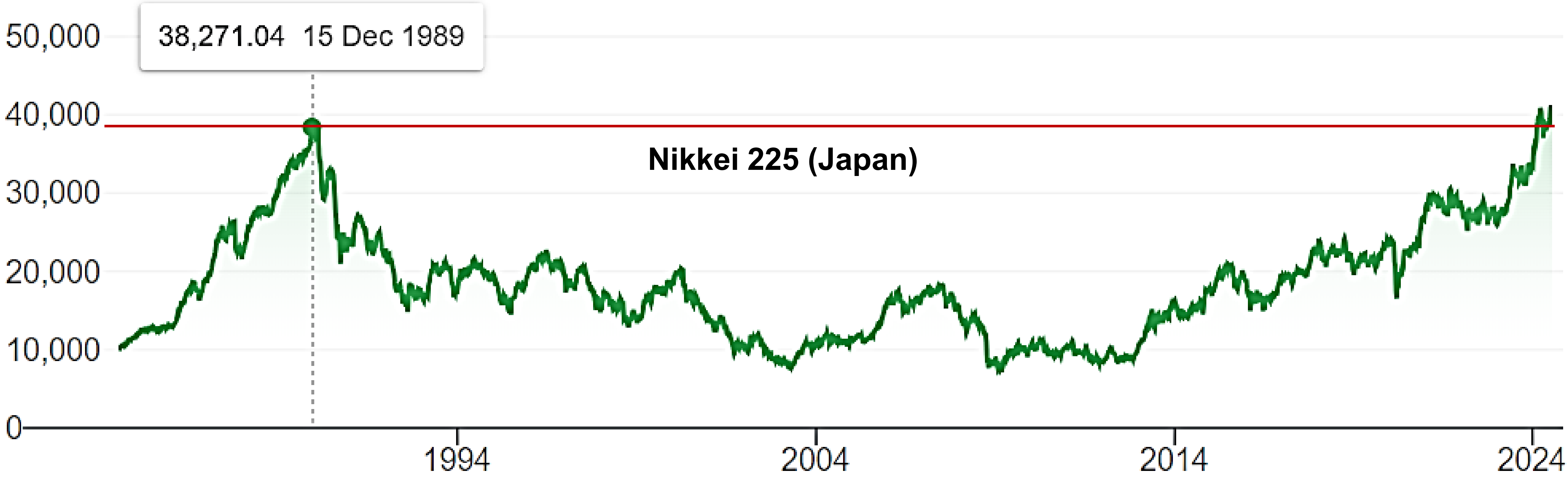


Buy & hold investing will face limitations as more businesses become cyclical & economic cycles shorten

Source: Refinitiv, Schroders.

Errors of Commission: Buy & Hold does not mean BAAP

The lost generations- 34 painful years

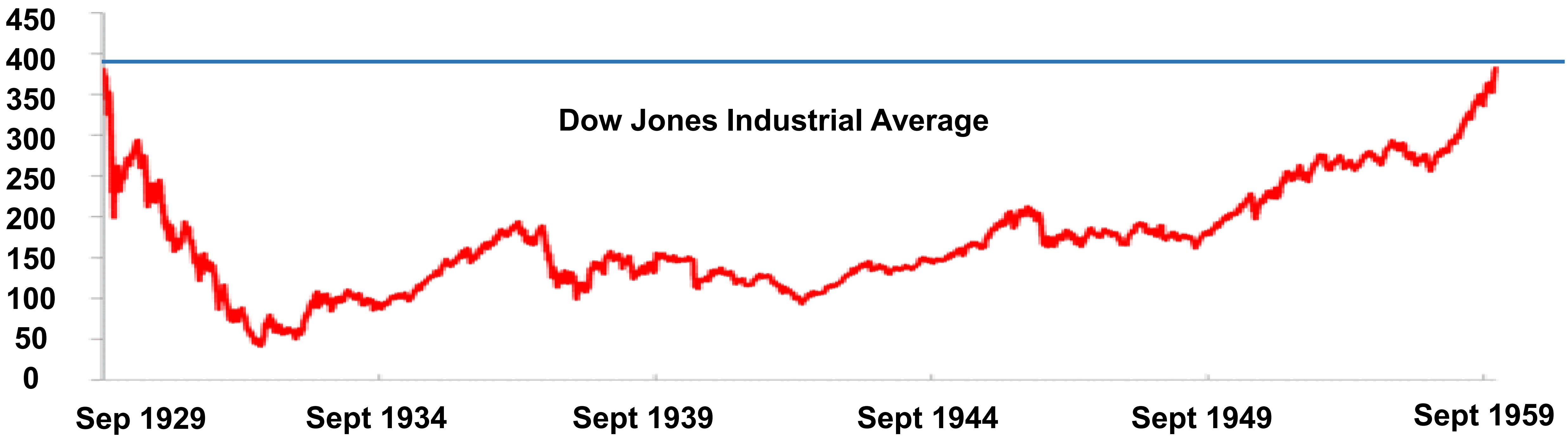


"Remember, no investment is forever."– Sir John Templeton

Source: Google Finance

Errors of Commission: Breakeven Fallacy

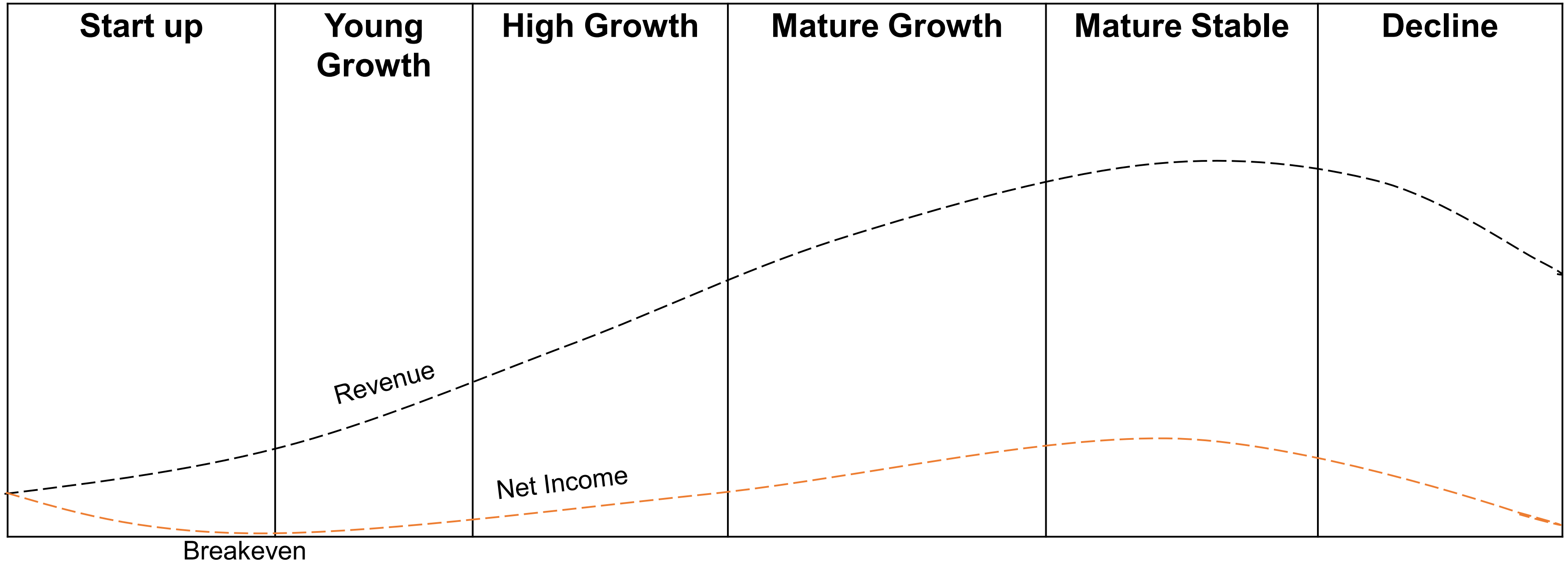
It took 25 years for the index to recover to 1929 levels



"Waiting to sell a loser until you are back to even is often more costly in time & capital than taking the loss today & moving the remaining capital into something you believe in."- Ian Cassel

Source: Refinitiv, Schroders.

Errors of Commission: Selling Multibaggers Early



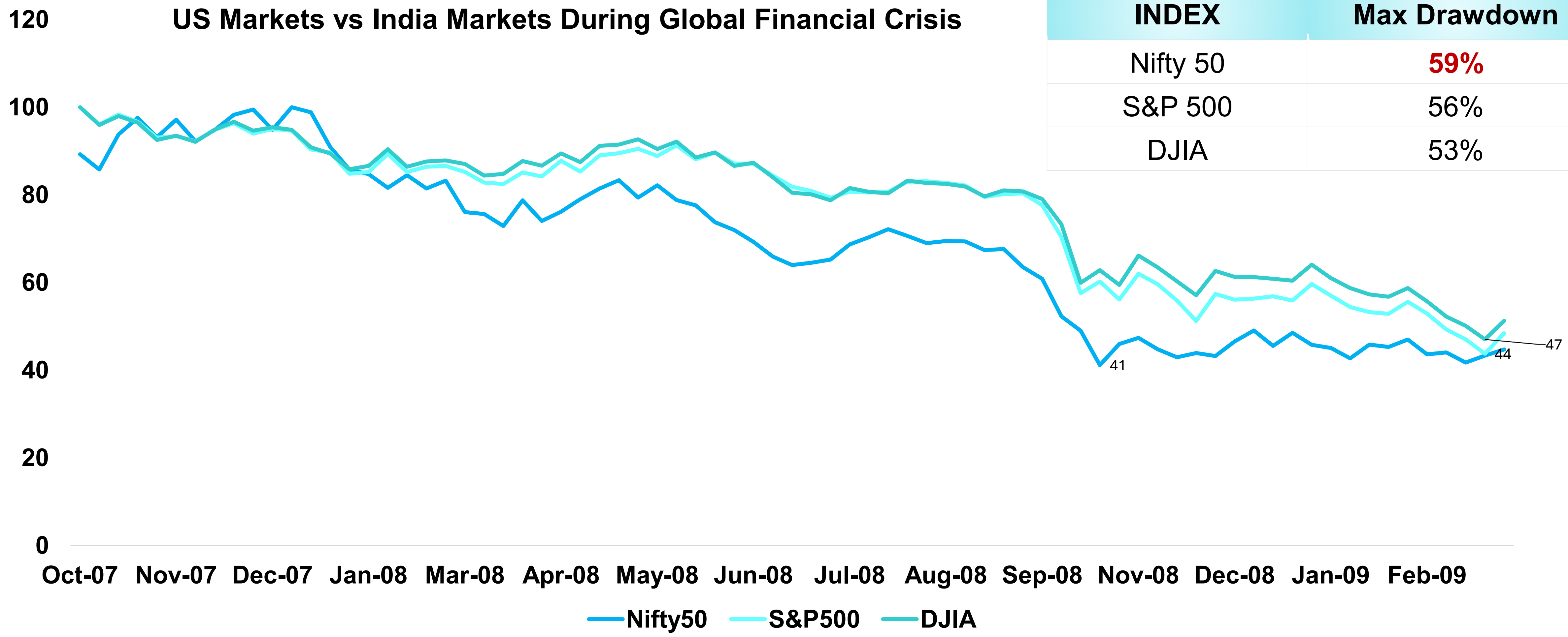
Revenue	None, Little	Growing Rapidly	Growing Rapidly	Growing Modestly	Growing Slowly	Declining
Profitability	Negative	Very Low	Low	High	High	High & Declining
Liquidity	Very Low	Low	Mid	High	High	High
Expected returns by marginal investor	**Very High**	**High**	**Mid**	**Low**	**Very Low**	**Very Low**
Investment action	**Valley of Death**	**Small Buy Zone**	**Long Hold Zone**		**Small Sell Zone**	**Short sell zone**

Source: Aswath Damodaran

Errors of Omission

"The biggest mistakes I've made by far are mistakes of omission and not commission" – Warren Buffett

Errors of Omission: Ignoring Macro



INDEX	Max Drawdown
Nifty 50	**59%**
S&P 500	56%
DJIA	53%

No market is an island; global tides can drown the best local fundamentals.

Source: Investing.com

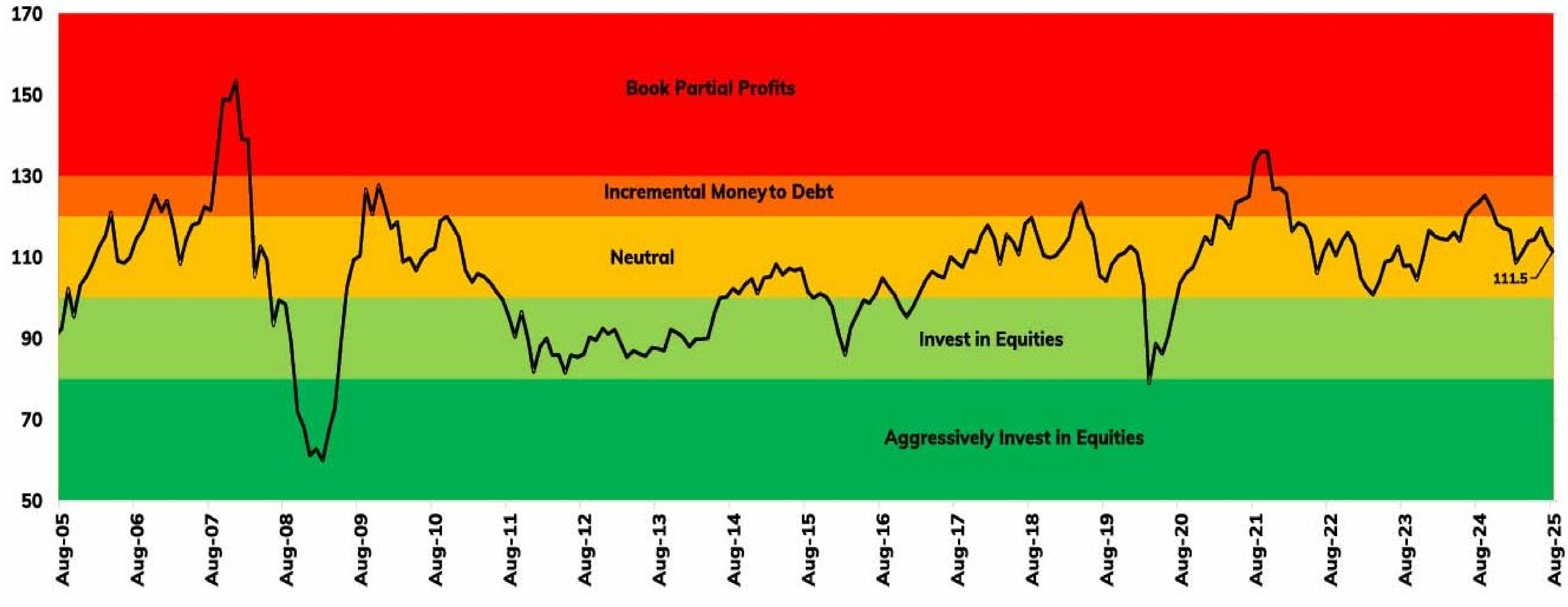
Errors of Omission: Not Planning your Exit

Chakravyuh of Investing- Do you want to be Abhimanyu?

Take control of your exit: don't let the market dictate unfavorable terms

Source : Narendra Soni, Thisday

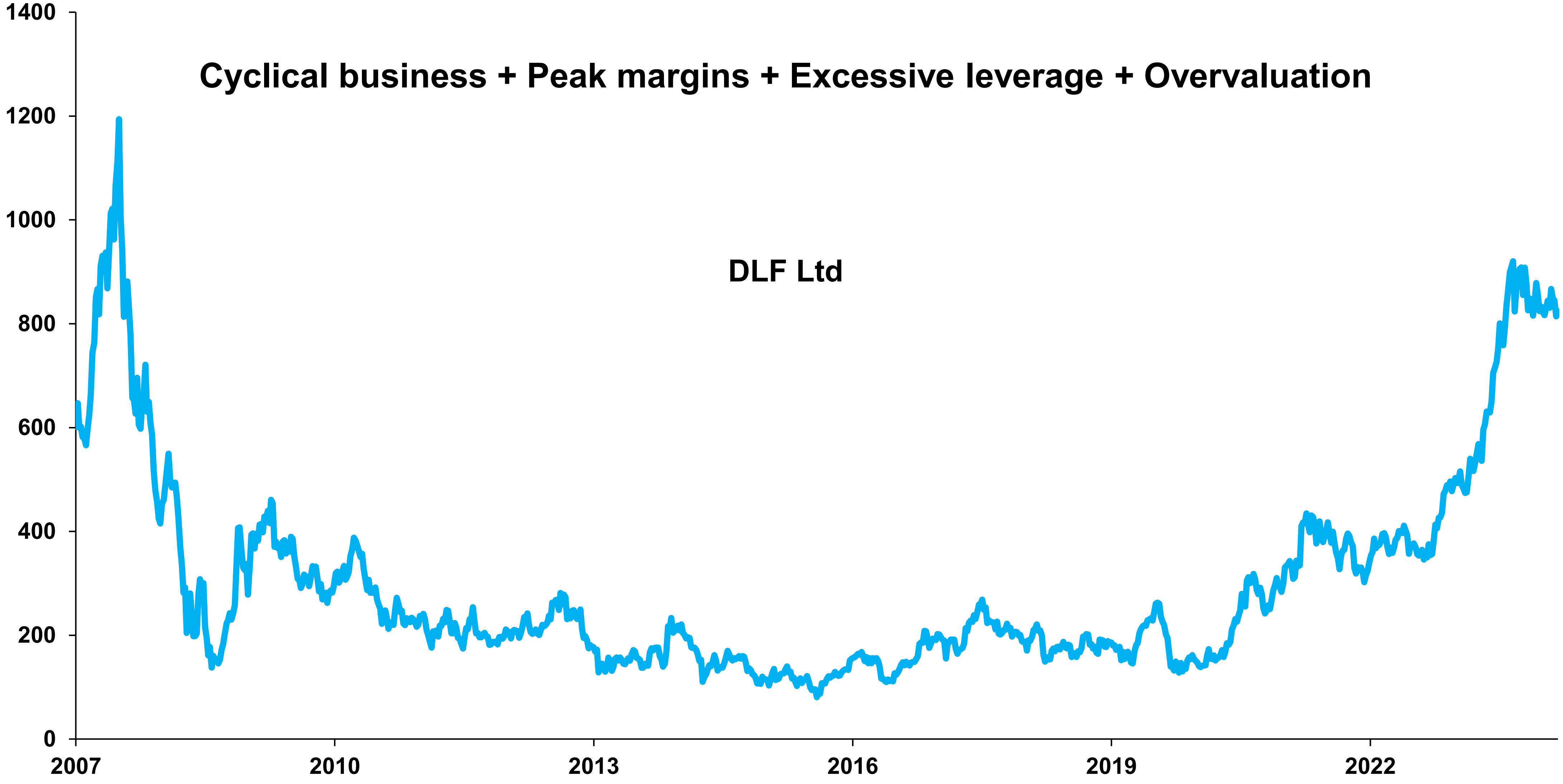
Errors of Omission: Cash Call- You Can Play Offence only if your Defense Permits you to



“The young man knows the rules, the old man knows the exceptions.” — Oliver Wendell Holmes, Sr.

Source: ICICI Prudential

Errors of Omission: Role of Cycles & Mean Reversion



Bull market is a good time to clean the mistakes

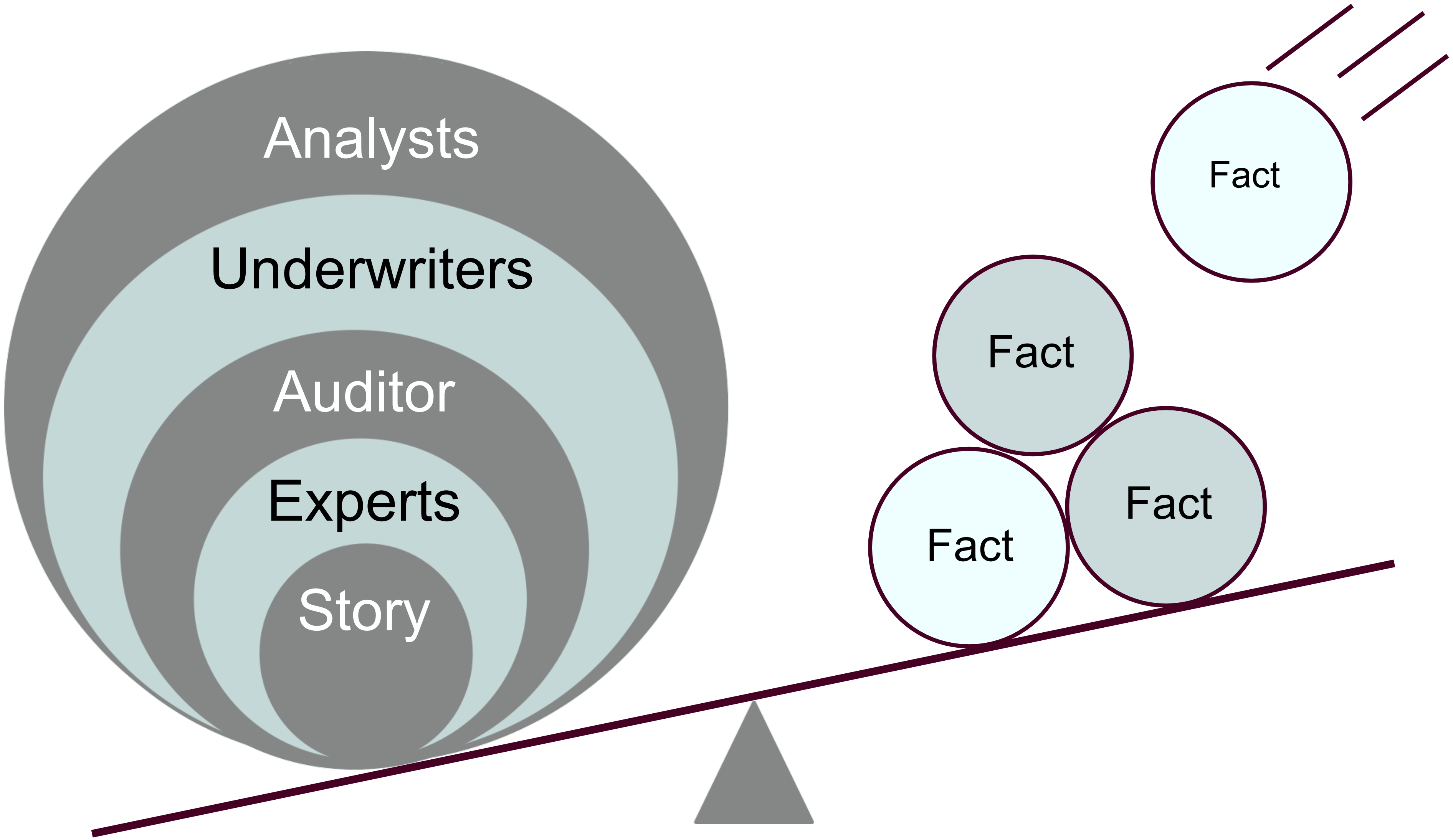
Source: Investing.com

Errors of Omission: If You Don't Sell at the Right Time, You Get an Exit in the Next Cycle

Akin to Kumbh Mela which happens once every 12 years

Source: Maharashtra tourism

Errors of Omission: Failure to Question the Narrative



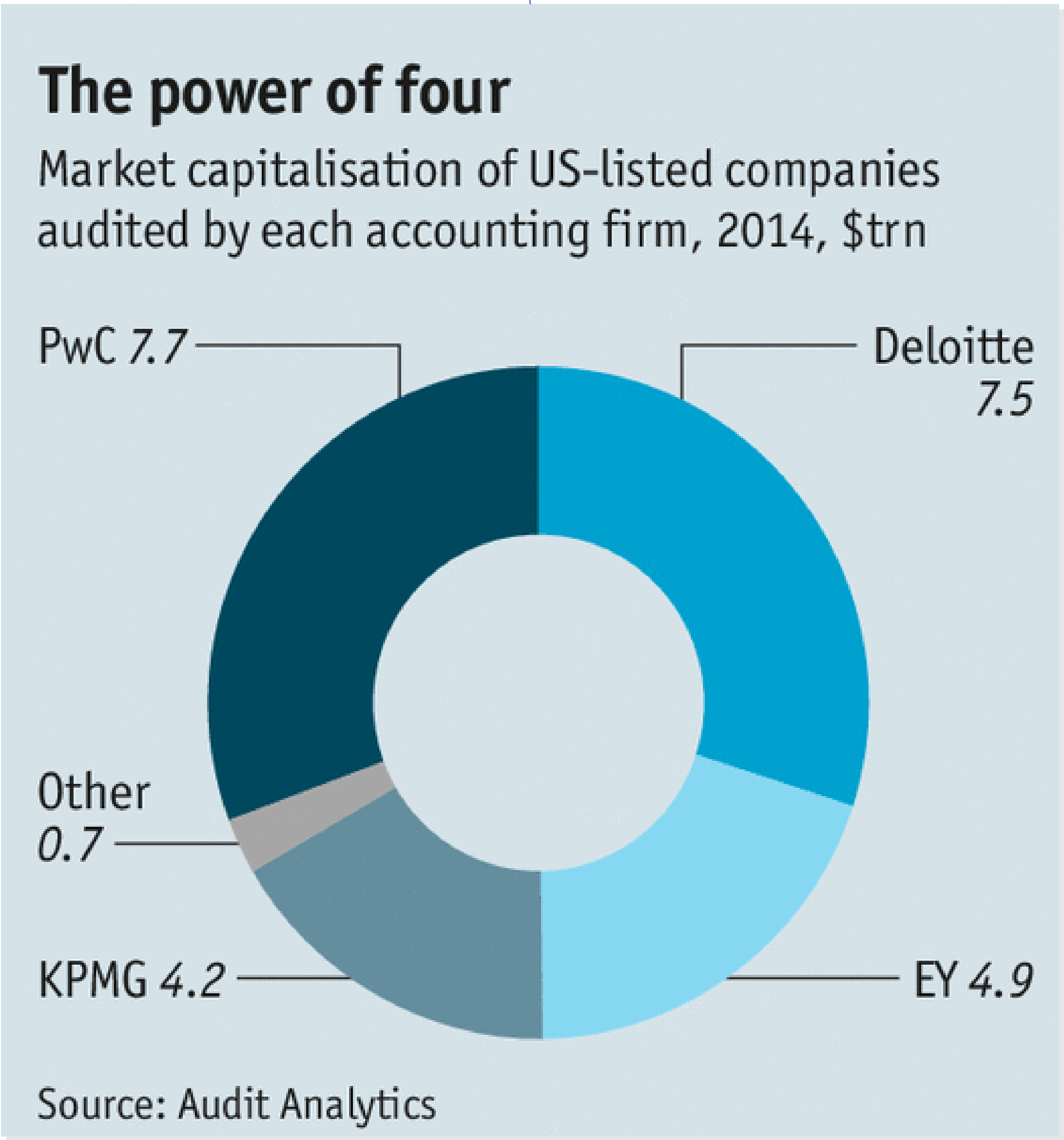
Narratives are seductive but facts are the foundation for sound investing.

Source: Veritas Investment Research

Errors of Omission: Failure to do your Own Due Diligence

Every fraudulent company had audited statements and most were rated & regulated

AUDITOR	SCAM	YEAR
ARTHUR ANDERSEN	WASTE MANAGEMENT	1999
	ENRON	2001
	WORLDCOM	2002
DELOITTE	UNIFY CORPORATION	2000
	MERRILL LYNCH	2002
	RELIANT ENERGY	2002
EY	CENDANT	1998
	AOL	2002
	HEALTHSOUTH	2003
	LEHMAN BROTHERS	2008
KPMG	COMPUTER ASSOCIATES	2000
	XEROX	2000
	IMCLONE SYSTEMS	2002
PWC	FREDDIE MAC	2002
	AIG	2004
	SATYAM	2009



Source: dinmerican.wordpress.com , Audit Analytics

Errors of Omission: Ignoring Accounting Fine Print & Interaction amongst Financial Statements

FLAME UNIVERSITY

Profit & Loss Statement

+ Revenue
- Cost of goods sold
= Gross Profit

- Operating Expenses
- Depreciation
- Stock-Based Comp.
= Operating Income

+ Interest Income
- Interest Expense
- PP&E Write-Down
+ Debt Write-Down
= Pre Tax Income

- Income Tax Expense
= Net Income

/ Shares Outstanding
- Earnings Per Share

Balance Sheet

Current Assets:
+ Cash & Cash-Equivalent
+ Short Term Investments
+ Accounts Receivable (AR)
+ Inventory

Long-Term Assets
+ Long-Term Investments
+ Goodwill
+ Property & Equip. (PP&E)

Current Liabilities:
+ Short-Term Debt
+ Accounts Payable (AP)
+ Accrued Expenses.

Long-Term Liabilities:
+ Deferred Revenue (DR)
+ Long-Term Debt
+ Deferred Tax Liabilities

Shareholders' Equity (SE)
+ Common Stock
+ Additional Paid-In Capital
+ Treasury Stock
+ Accumulated Other Comprehensive Income
+ Retained Earnings
Total Liabilities + SE

Assets = Liabilities + SE

Cash Flow

Cash Flow from Operations:
+ Net Income
+ Depreciation
+ Stock-Based Comp.
+ PP&E Write-Down
- Debt Write-Down
+ Deferred Income Taxes

Changes in Op. Assets / Liabilities
- Increase(Decrease) in AR
- Increase(Decrease) in Inventory
+ Increase(Decrease) in AP
+ Increase(Decrease) in Accrued Exp.
+ Increase(Decrease) in DR
Cash Flow from Operations (CFO

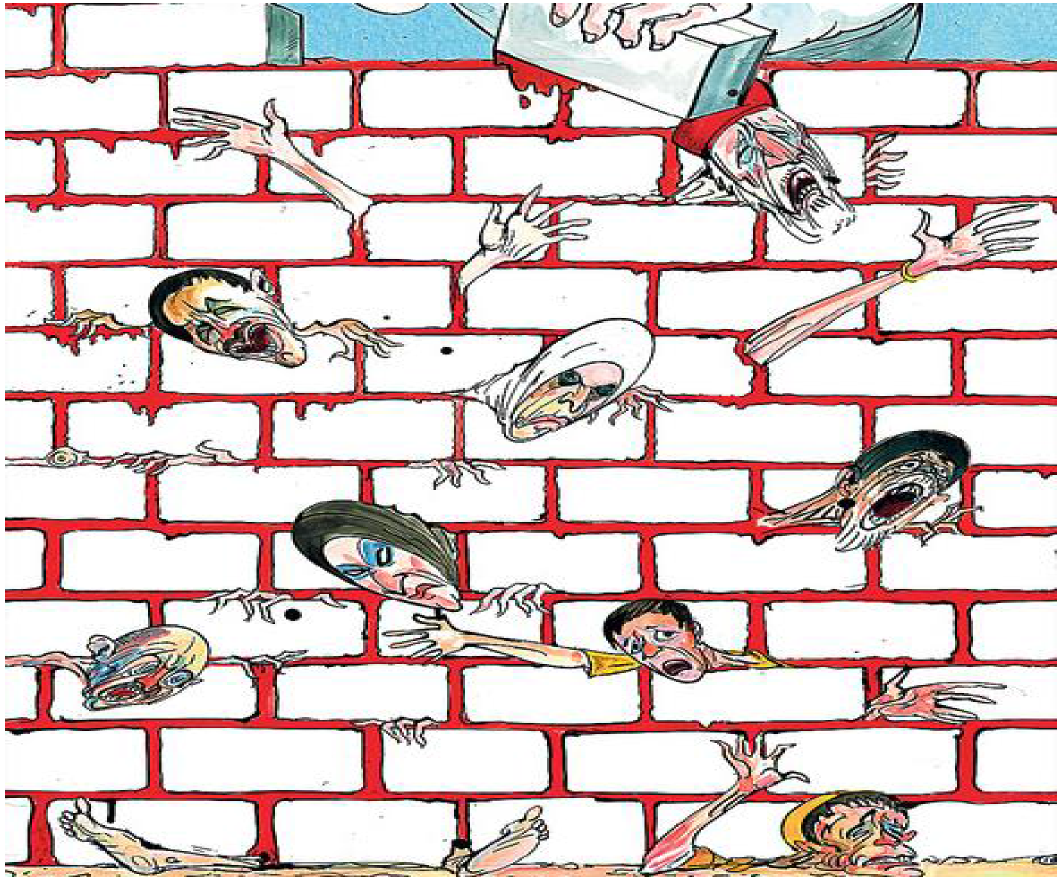
Cash Flow from Investing
- Capital Expenditures
- Buy (Sell) Short-Term Investments
- Buy (Sell) Long-Term Investments
- Cash Flow from Investing (CFD

Cash Flow from Financing
- Dividends Issued
+ Short-Term Debt Raised(Paid Off)
+ Long-Tom Debt Raised(Paid Off)
+ Issue(Purchase) shares
- Cash Flow from Financing(CFF)

Net Change in Cash = CFO + CFI + CFF
Ending Cash = Beginning Cash + Net Change in Cash

Legend
Blue arrows: Simple addition/ subtraction
Red arrow: More complex formula
(Parentheses):
Use the opposite sign for the change.

“Murder (Earnings Management) is easy, it’s the disposal of the body that’s a bit more difficult”



In response to a shareholder’s question on what he found that made him so certain, both Buffett and Munger replied that “there isn’t a 40-point checklist” and that value investors need to **understand the interaction between the underlying business model dynamics, and the people running the enterprise when examining the numbers.**

Source: Blogspot, Bamboo Innovator

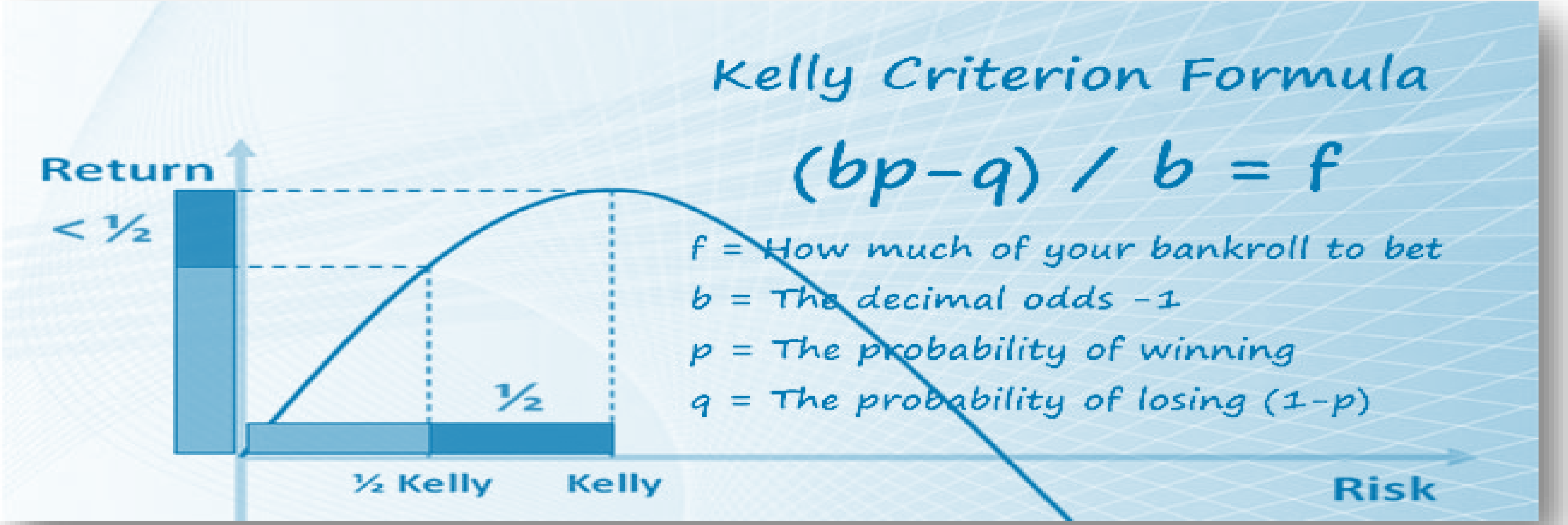
Errors of Omission: The Importance of Stop Loss

Investors should consider - Stop Loss, Time Loss & Tax Loss

Source: B.R. Chopra

Errors of Omission: Not Investing Big when the Odds are in your Favour

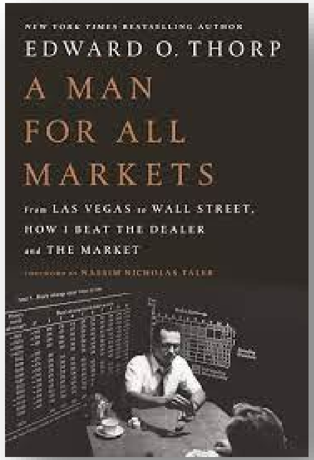
$$\text{Position Size} = \frac{\text{Expected Return}}{\text{Range of Outcomes}}$$

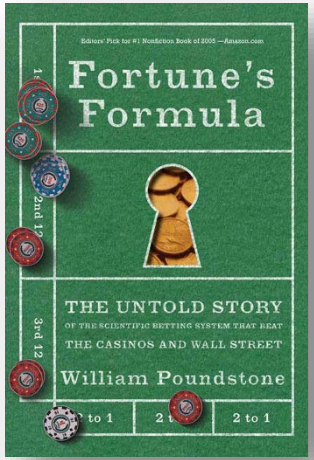


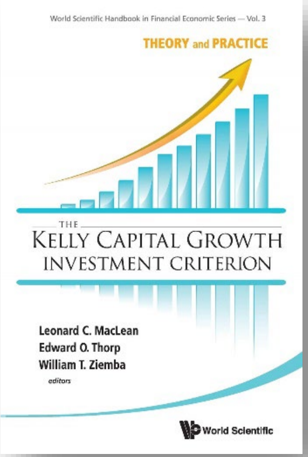
Position Sizing

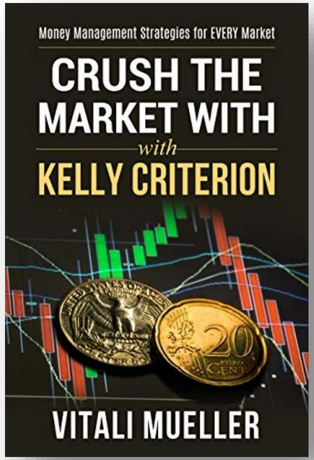
The math implies to two important points, the first being more obvious than the second

- The larger the expected return, the bigger the position should be
- The larger the possibility of ranges, the smaller the position should be



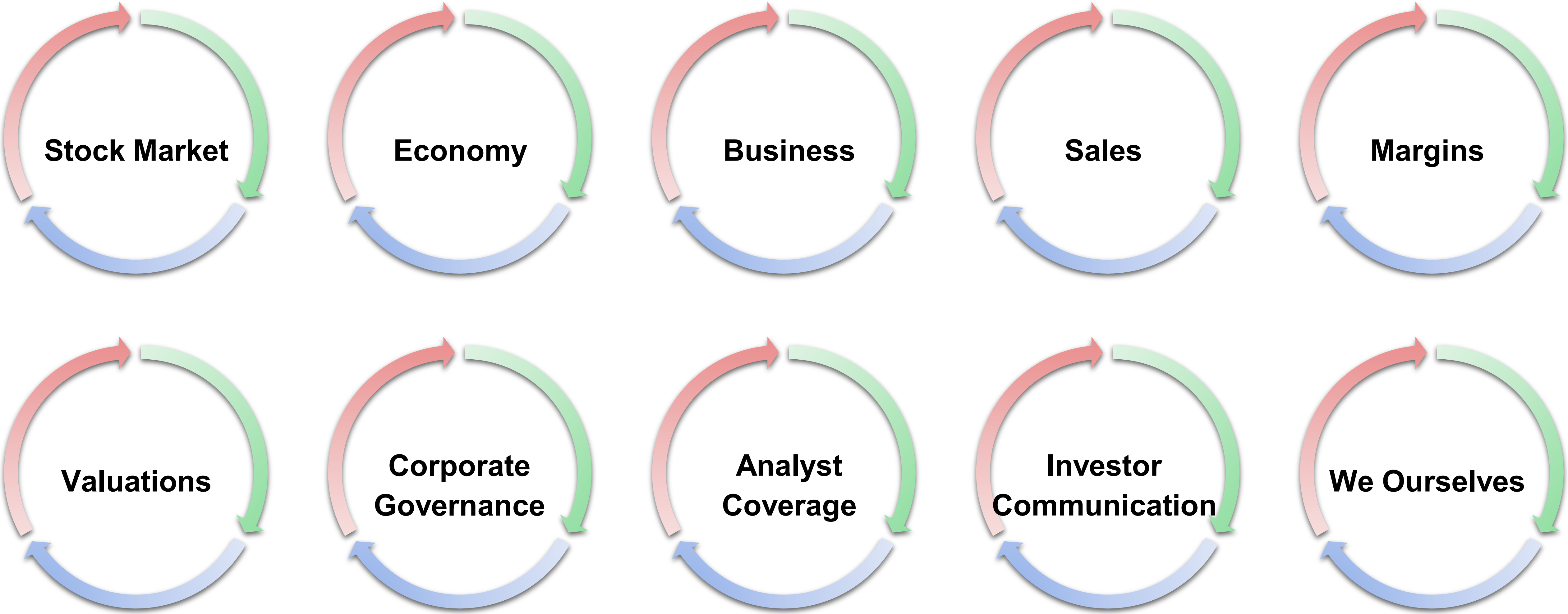






Source: VSRE Collective

Everything is Cyclical



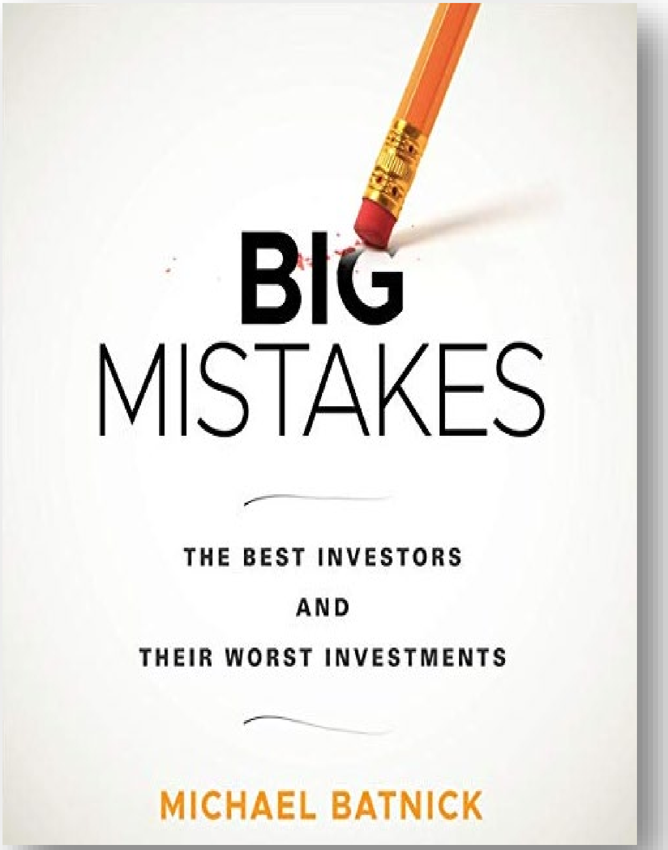
The Journey from Start to Finish is Full of Commonly Recurring Potholes

Buying	Sizing	Holding	Trimming	Selling
Buying on tips without insights	Buying too little or too much	Not selling at all- holding too long on a subpar opportunity	Trimming from large position to a manageable one	**Seller's remorse- selling early & subsequent up move of price**
Unable to buy stocks with insights	Adding to average up/ down			**Bragging rights- selling early & subsequent down move of price**
				Selling purely on valuations
				Premature selling
				Booking your mistakes

You can't get all decisions right- avoiding blow ups is important

Big Mistakes: The Best Investors & Their Worst Investments by Michael Batnick

- Graham (Value Traps)
- Jesse Livermore (Timing The Short & Over Leverage)
- Mark Twain (Holding On Wrong Position Too Long)
- John Meriwether (Trusting The Models & Risk Management)
- Isaac Newton (Intelligence Does Not Give Success)
- Jack Bogle (Can't Beat The Market)
- Michael Steinhardt (Investing Outside Your Zone)
- Jerry Tsai (Momentum Investing)
- Warren Buffett (Dexter Shoes – Overconfidence & Bad Deal Structuring)
- Bill Ackman (Herbalife – Ego)
- Stanley Druckenmiller (Tech Stocks – FOMO)
- Sequoia (Concentration)
- John Maynard Keynes (Macroeconomics vs. Market)
- John Paulson (Searching For Next Big Bet)
- Charlie Munger (Handling Big Loss)
- Chris Sacca (Dealing Regret)



While experience is a good teacher, she sends in terrific bills!

Thanks for the Valuable Insights shared by :-

Kuntal Shah

Ashwini Desai

Upasna Lamba

Utsav Adani

Radhika Modi

Shantanu Sudame

Anoushka Sanghvi