Notes from Interview of Sanjoy Bhattacharya

- Compiled my Venkatesh (@SuccessProject_)

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Important Update

- These notes were made to understand investing insights by fund managers and famous investors
- This work is an ongoing work, where I updated it periodically as and when I listen to/read new interviews.
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Source: https://www.youtube.com/watch?v=8DDMu9hMzw0

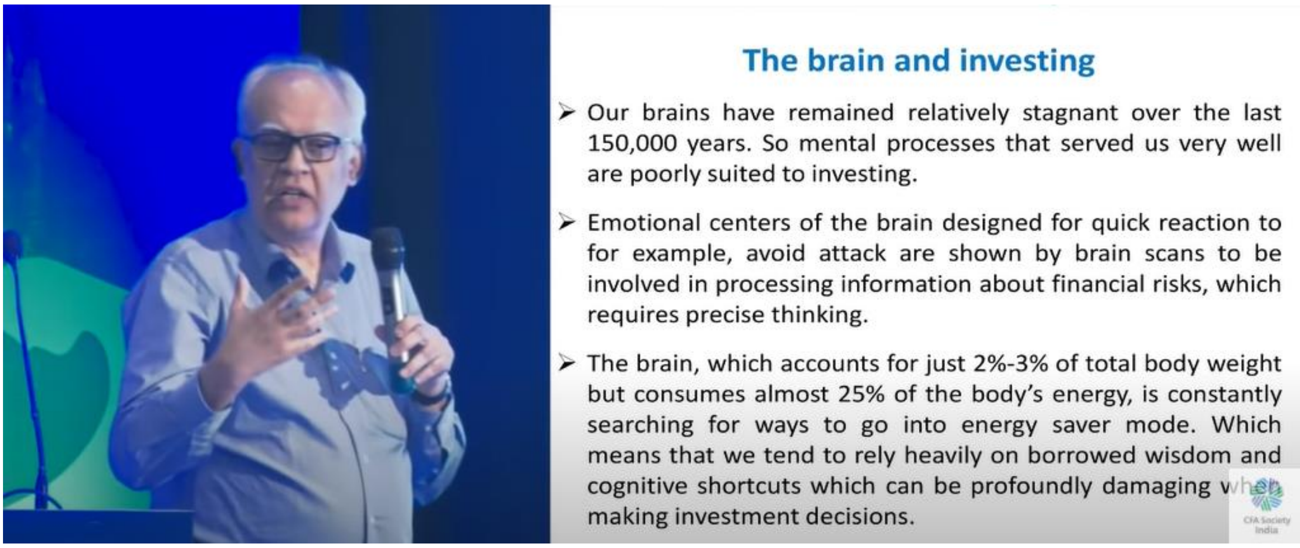
Sanjoy Bhattacharya is the MD of Fortuna Cap.

Many people say that Behavioural finance is a great thing, but it does now work. How to structure a portfolio? We will see how to make Behavioral finance meaningful in practice. The ideas discussed in this video are not original but sourced from Daniel Crosby, Jason Zweig, James Montier and Michael Moubossin.

What makes you rich?

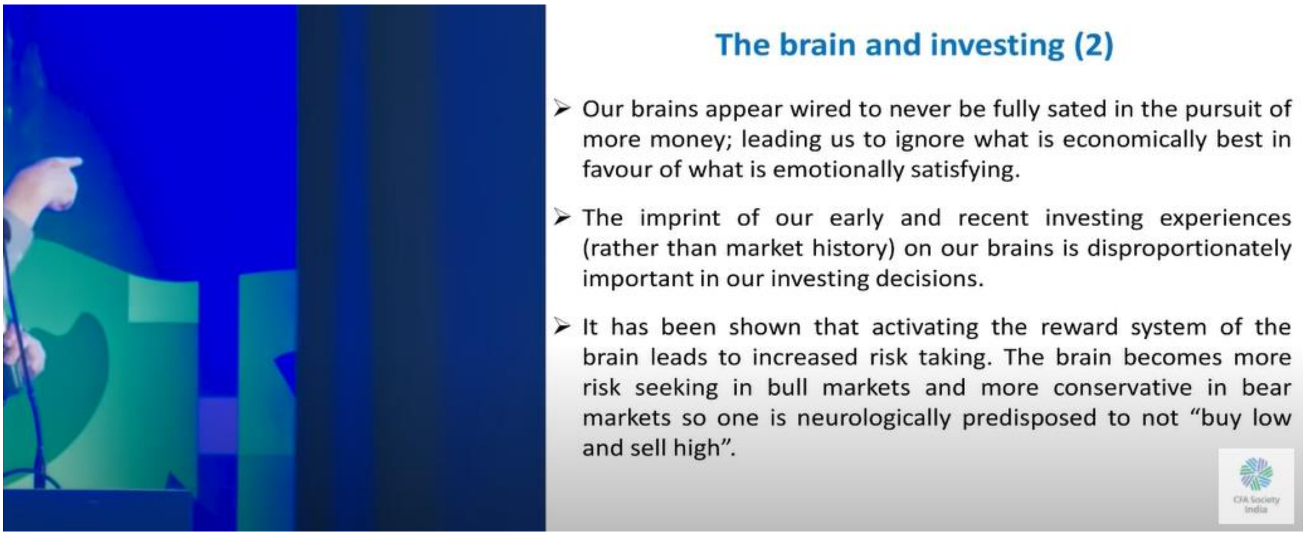
- Humans drive markets; they try to collaborate and indulge in social coherence (Example of 1 human + 1 Zombie on an island Vs 100 humans + 100 Zombie in the same situation)
- In stock markets you need to do the exact opposite. Don't be of the view that what people around you are doing is the right thing to do
- Rational contrarian: Once you put in the effort, you want to believe only in yourself.
- Common myths in the stock market: Markets are efficient 80 - 90% of the time. When it breaks down, it gives immense opportunities. You can make a fortune that lasts 7 generations and not 1 generation. You need to be prepared to face it. 2008 was one such opportunity. I don't think, I will be around to see the next 2008 in our life. A repeat of 2008 is the only serious chance of getting rich. You need 2008 to fulfil your aspirations.
- Myth: Large caps are less risky than Mid caps... You are not buying a cap, you are buying a business. What the business does is what matters.

The Brain and Investing



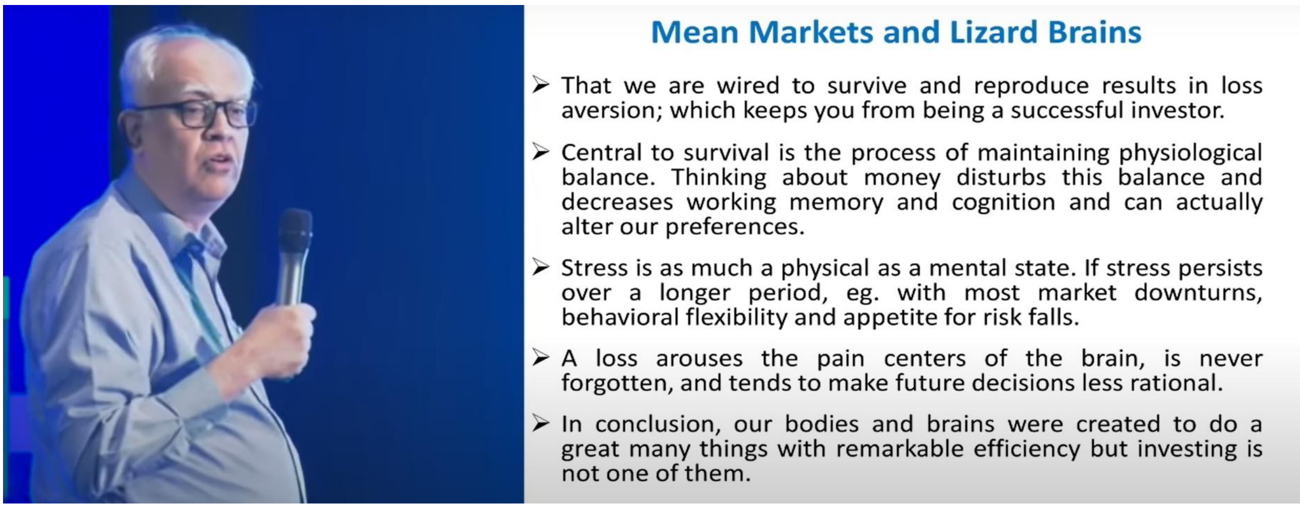
- We are wired to do certain things very which, which is not what investing requires us to do.
- When walking around you hear a sound or hiss / You sense danger and react very rapidly and take protective action to survive
- Human beings are hard-wired to survive and reproduce
- One biggest problem in the analysis of the stock market is the survivorship bias.
- Years before Hindustan Motors and Premier Auto used to make cars / One of them is the Ambassador and the other one is called fiat.

- Imagine only 2 companies produce for a billion people. They were very complacent and both have been wiped out.
- Your brain consumes 25% of energy leading to an energy crisis / This makes us lazy and so we try to take shortcuts in decision making
- Since the human brain consumes more energy it continuously operates on System 1 to take immediate action based on limited evidence
- Whereas more deliberate, deep-rooted thought process, based on data, collection of evidence leading to an outcome takes more energy
- In investing, put in some more effort.

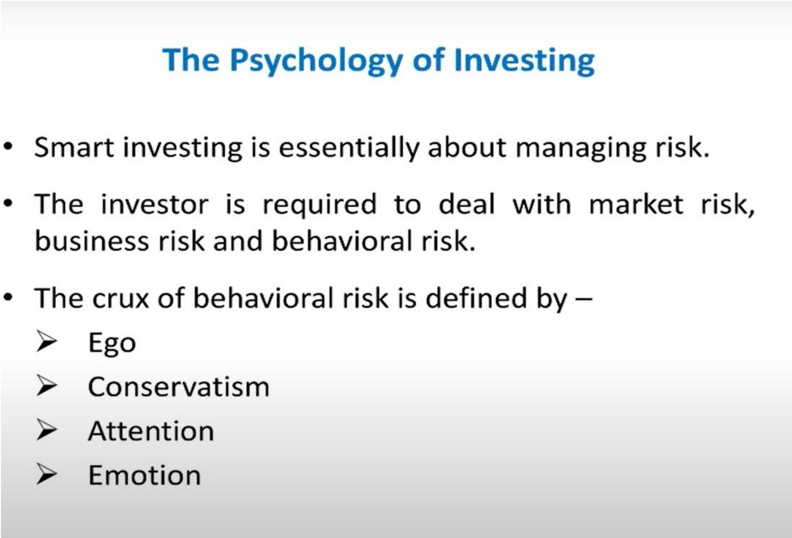


How much money is enough for a lifetime and that will make you happy. The reality is that most of us are never satisfied with how much we have. We initially fix our need as X, but the minute we have X, we then look for X+1… we want more. This is what creates conflict in the brain. Here what is economically rational is fighting with what is emotionally rational.

Once we know there is a reward, our brain gets activated and dopamine, cortisol etc gets released. Then the decision making is skewed more to take the risk. This decision is greater when the markets are bullish and reduced during a bear market.



Lack of application and effort by a human being blessed with a great brain is the greatest sin of all. God has given you a brain and you refuse to use it.



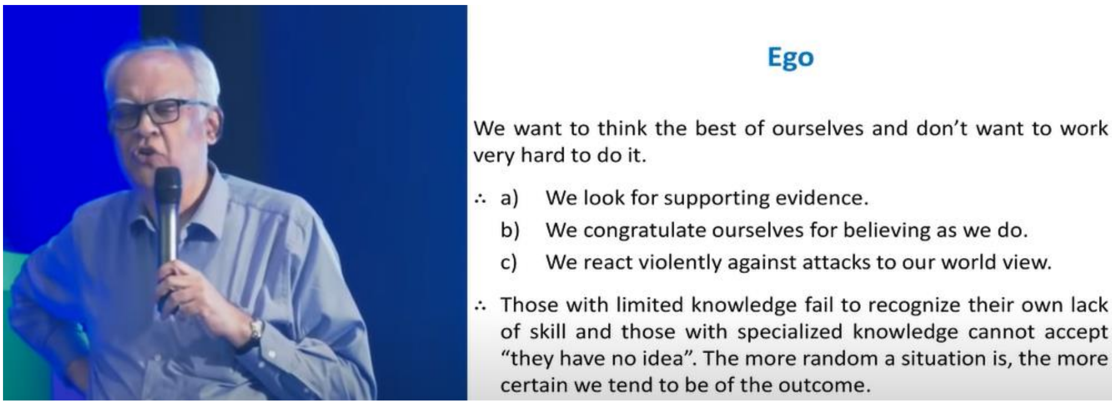
When people put you under stress, you behave irrationally. You got to eliminate situations with induced stress and which will cause stress to become a successful investor. HALT Model – Hungry, Angry, Lonely and Tired. The lesser decision you make as an investor, the better your record is likely to be. People who have taken hits i.e. Seen a Bear market are loss averse.

Quotes the Israel study on Judges, inmates getting parole, depends on their hunger / Before lunchtime.

In India a typical conversation about stock investing leads to a question "Where is my next multi-bagger?" – This is ridiculous. Sensible investing is not about finding multi-baggers, it distorts your process, thinking and attention to evidence. This is true and you need to accept this reality. Sensible investing is thinking about how to manage risk.

Stock investing carries 3 risks: market risk, stock-specific risk and behavioural risk. The third risk is about you and the environment in which you operate. This is something which you can do a lot of things. If you can remove this element from the equation, the risk of investing reduces. The crux of behavioural risk:

- Ego



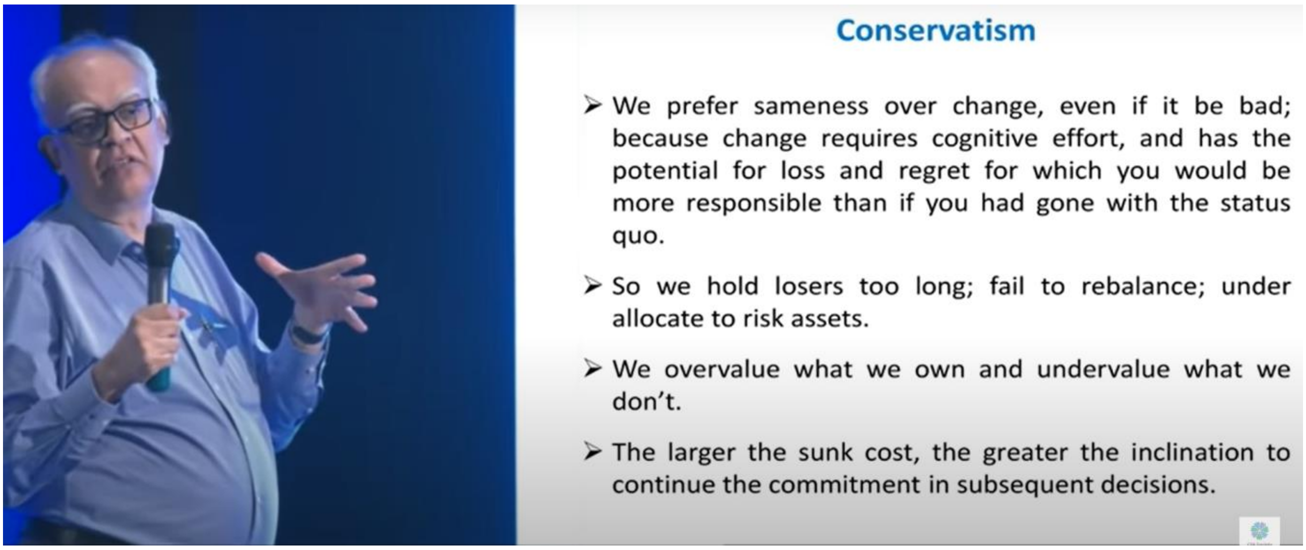
- Conservatism – You do not accept things which tell you to change.
- Attention – Mind focuses on recent things.
- Emotion – Greed and fear are the basic, but there are a variety of emotions

One reason for the biggest number of investing errors in history is overconfidence. It comes from the belief that you know better than others. We cannot accept we are wrong and hence always look for evidence to support our point of view. The brokers and analysts were dangerous people and I did not know when it started. When I got some idea for investing, I used to call some analysts to discuss who also thought like Sanjoy. But in reality, you are supposed to do the reverse of this.

You want to be Warren Buffet, but you don't have his temperament or intellect. Get rid of this habit. Learn who you are and be comfortable with that idea.

One idea from Charlie Munger is whenever you have an idea, look for things that prove you wrong. Disconfirm / Invert. Focus on analysts who have a reverse view to yours. You are doing a huge favour for yourself. Whenever there is a homogeneity of opinion you are vulnerable.

We are passionate about something when someone comes and says that we are wrong. We become even stronger than our existing beliefs. When someone attacks your worldview, think rationally about why he is attacking your worldview by collecting more evidence and data to modify your worldview. For this, we need to make our brain work which we are not comfortable with.

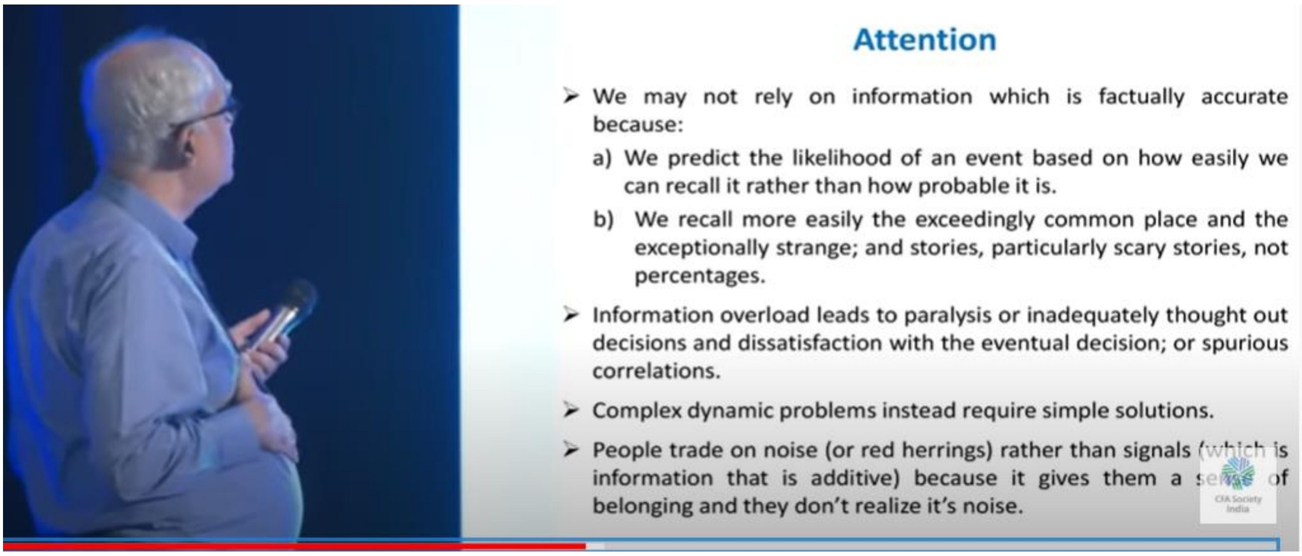


The desire not to regret forces us not to take action – Loss aversion. We don't dare to see the mirror and say "You took this action and you lost money". It is much more comfortable doing nothing. Doing nothing is a willful act of omission.

How many decisions do we make in a day? 35,000 decisions! But we do not realize it. You want to converse your energy to make decisions that are important to you. That is why we prefer sameness, to decide on basis of what we have already done.

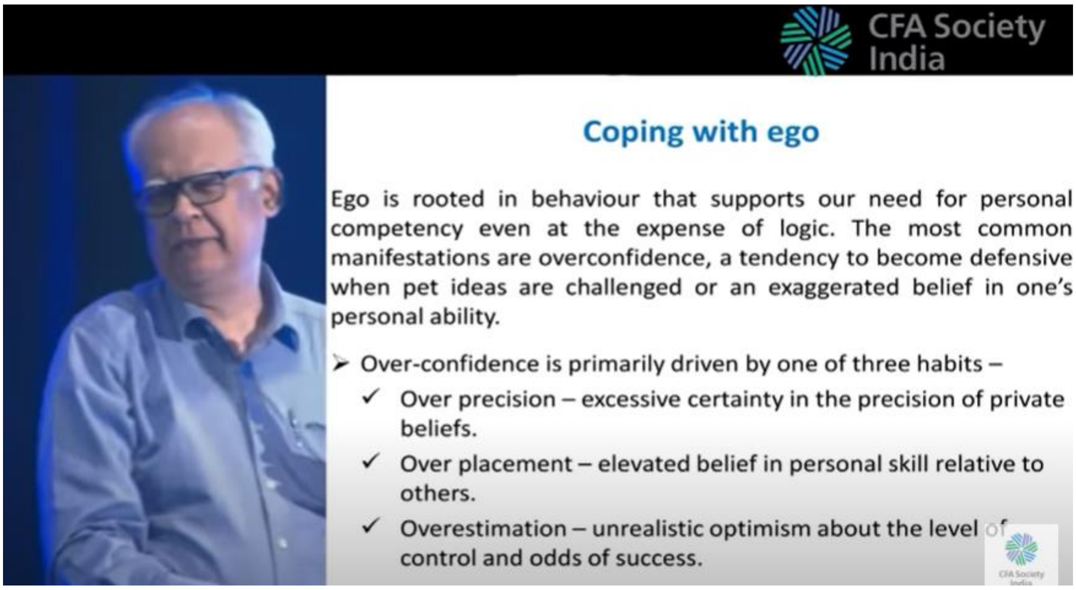
Sunk cost fallacy: Something has been done already. You buy a ticket for a cricket match WC finals paying 100K. Then there is a rainstorm in your place, but still, you take any flight to take off. But if the same ticket was given as a compliment by someone the approach changes. You feel it is dangerous to go outside. The reason for this behaviour is sunk cost.

Endowment effect: We love something that we own. You are smarter than others, that is why you are owning hence it must be worth more. We remember well the price of a stock that we own and not others own. That is why selling is a most difficult part of investing. You need to be smarter in selling than buying. We put nearly 85% of our effort into the next multi-bagger.

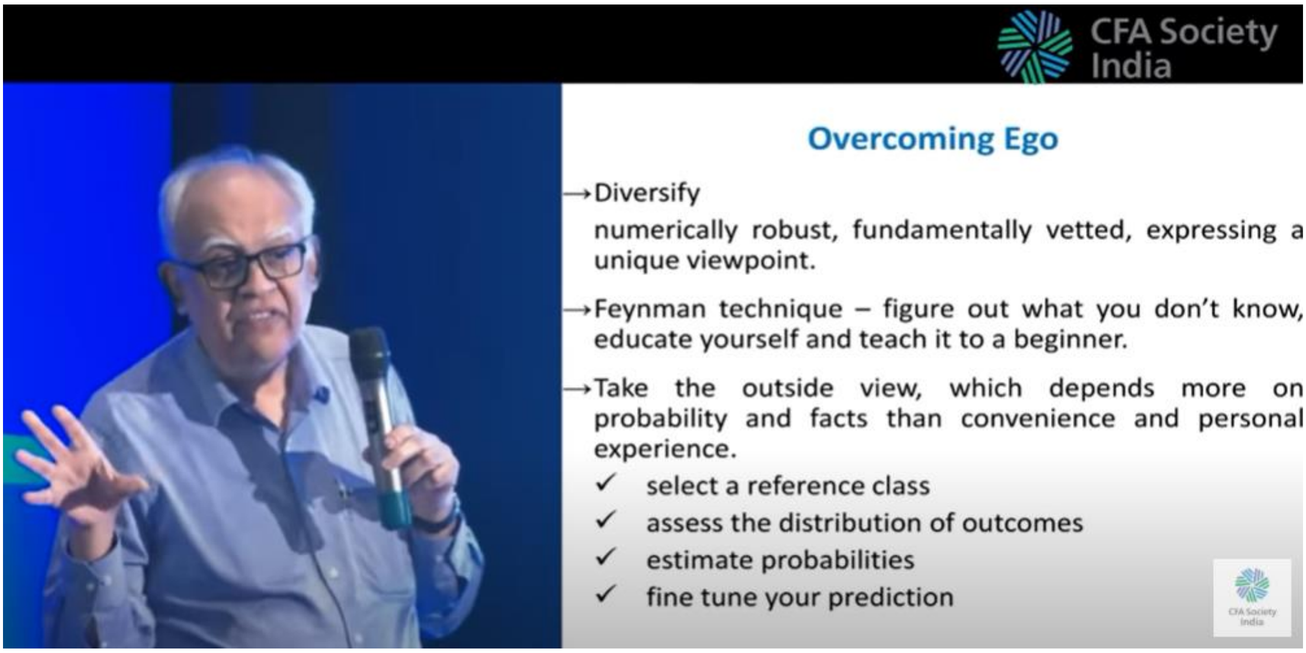


IPOs are stacked against the average investors. It is the dumbest thing to do. Even institutional investors must be exceptionally dumb to buy the IPOs. Fund managers buy for listing gains/pop-up to boost their portfolio returns. Fund managers having the highest number of IPOs in their portfolio is a dangerous guys.

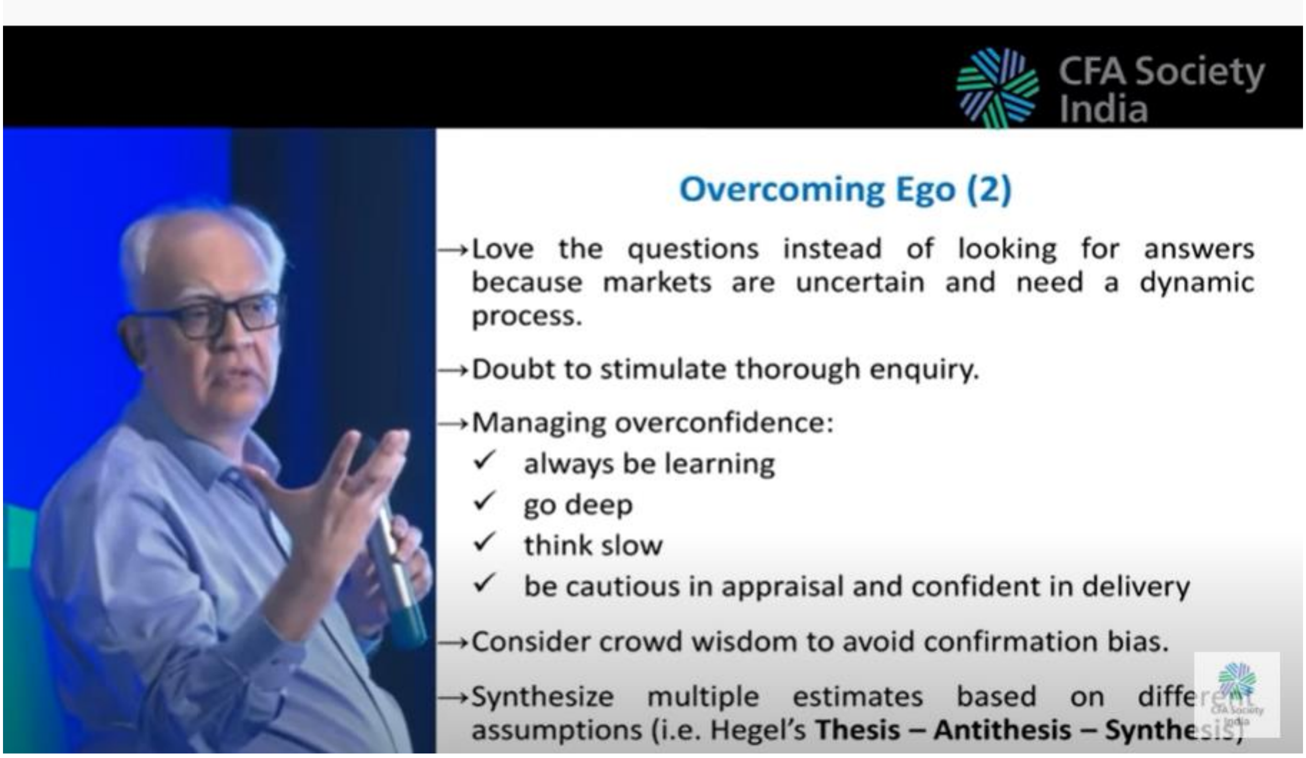
Emotions are very dangerous, when things happen to us which is powerful, we are driven by how much it affects us in terms of how we feel. If something good happens we continue to do it. When something bad happens we feel that it is hurting and do not want to do anymore. Emotion is dangerous as your view of risk is based on your state of mind at that time. That is the reason why we all see our portfolio daily in excel sheets or money control. At the end of the day, you sigh "I have outperformed". You are doing incredible harm, as you are perpetuating something completely random. You should be looking at your portfolio only once in 6 months because it ignites the emotion in you and hence a high chance of you doing something stupid.



People believe the forecast and spend the time, and effort and make decisions based on that. Never try to forecast, it is a public tax-free entertainment which adds 0 value. A forecaster pretends to know the future. No one knows the future. All kinds of forecast next year is bull shit. Analyst forecasts are not correct most of the time, but the beauty of analysts is that they revise the forecast periodically.



By diversifying you are protecting yourself. But the big debate here is how many stocks to diversify. Most of them say somewhere between 15 and 25. You can articulate conviction by having 6 to 7% of your portfolio in stock. Be careful not to blow off. An average Indian fund manager has 54 stocks in his portfolio.

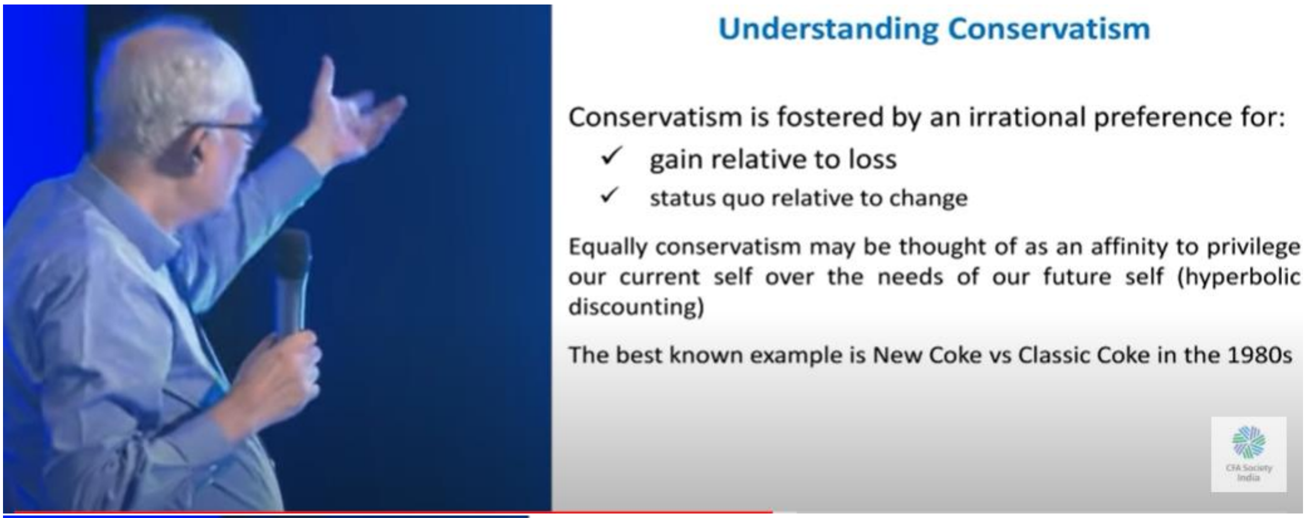


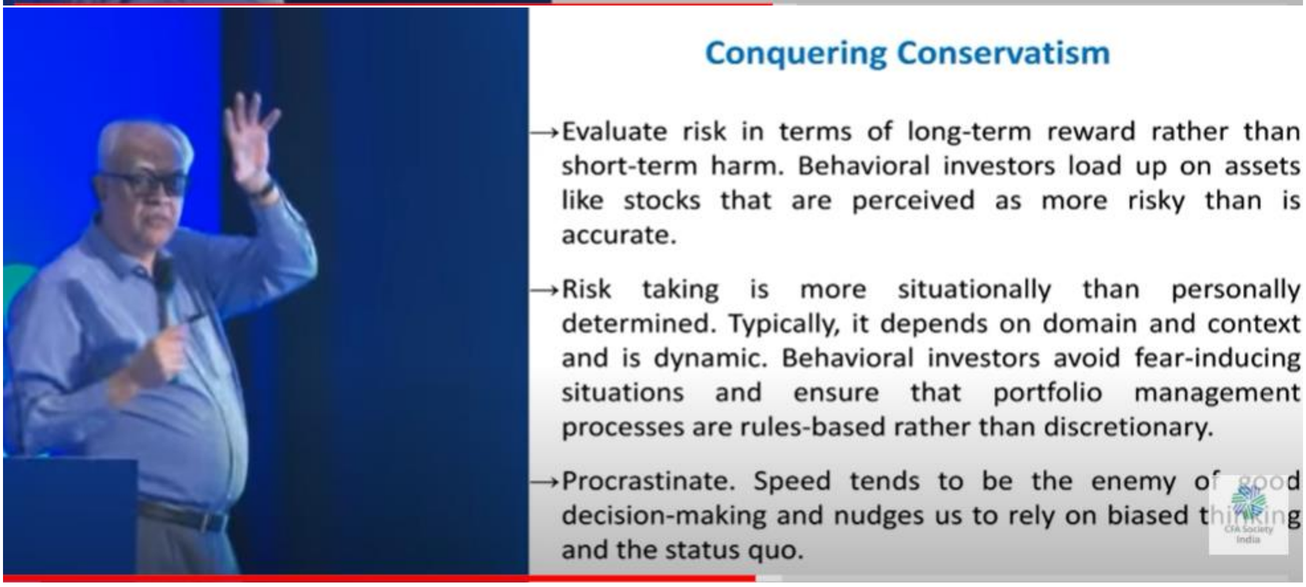
Best investors have great humility and are willing to accept their mistakes. This allows you to learn. Once you begin that process, go deep. When a mistake happens think in multiple layers. True learning takes place only when you explore anything in depth.

Think slow, do not be in a hurry to jump to conclusions. Procrastination is the mantra for good decision making. Take a long time to decide, but once you made a decision, do not be an Indian fund manager and buy only 2.5%. Because you are betting against yourself. If you are smart, show it.

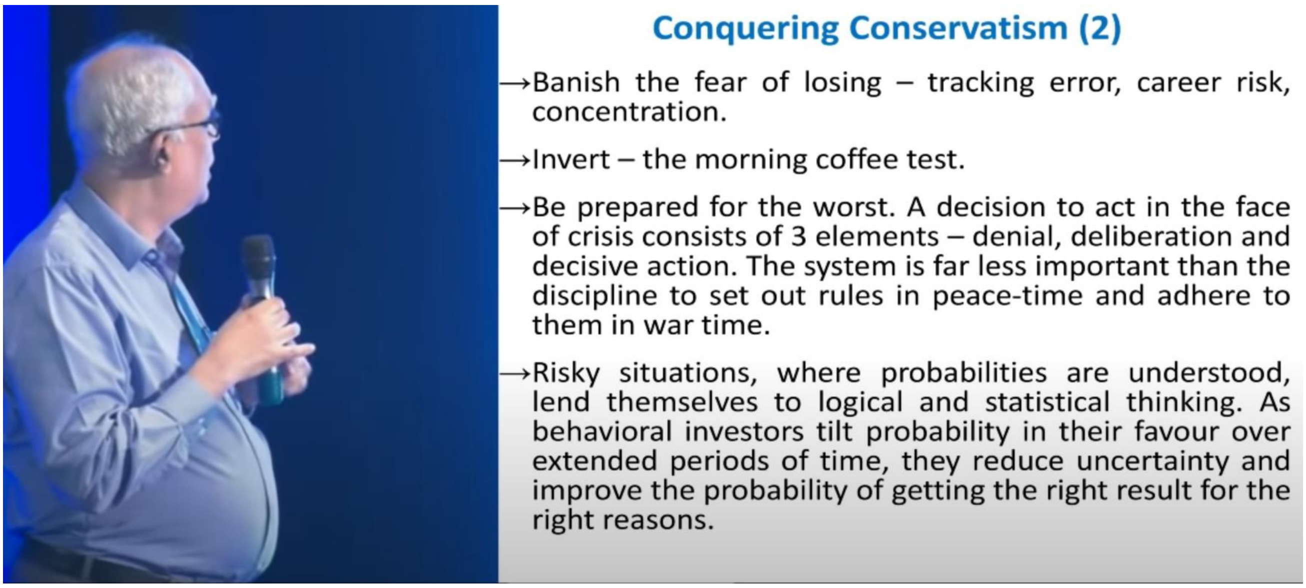
Collective wisdom is very powerful. The minute you get to the stage of telling "I don't know", you have dealt with a huge problem.

Come out with a thesis and Antithesis, get someone to argue against you. Isolate the best from both arguments i.e. Thesis and Antithesis and then act.





Everyone says that stocks are more dangerous than bonds. But it is bonds which is more dangerous as inflation destroys the bonds.

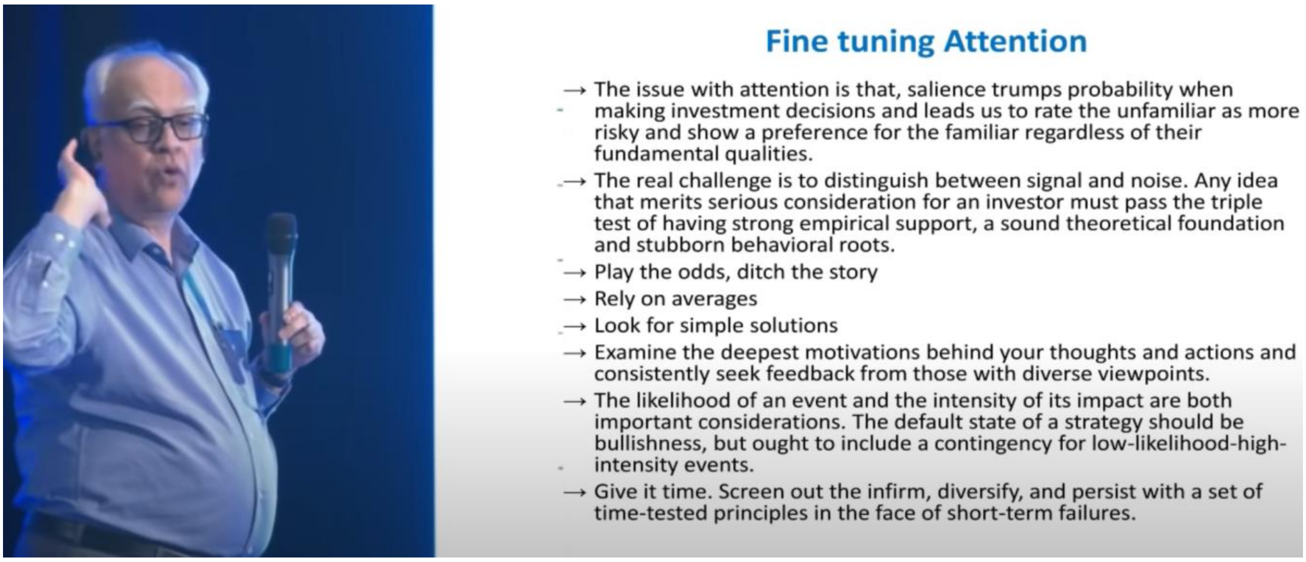


No fund manager has ever been sacked for serial underperformance. How many times you are right and the magnitude of being right. When you are wrong, sell it fast so that the losses are small.

In the context of the stocks that you own, ask if a stock worth the price. Have some rules. In my case, I have a rule. If a stock is done 20% and has 100 nos of the stocks, I buy 5 more. It is the blind rule, only later do I ask why it is 20% down.

Use probabilistic thinking to make judgements and not intuitive thoughts. Do not take action based on the fear that a down market induces.

There is a difference between risk and uncertainties. In the case of risk, you can define the probable outcomes and also the probability of these outcomes. In uncertainty, you cannot do such things. The stock market hates is uncertainty. You have to deal differently with risk and uncertainty.



Any investment idea must pass three test

1. It must have data supporting the validity of the idea
2. Sound theoretical foundation supporting the data
3. It must be difficult for that event to change as it is rooted in human behaviour.

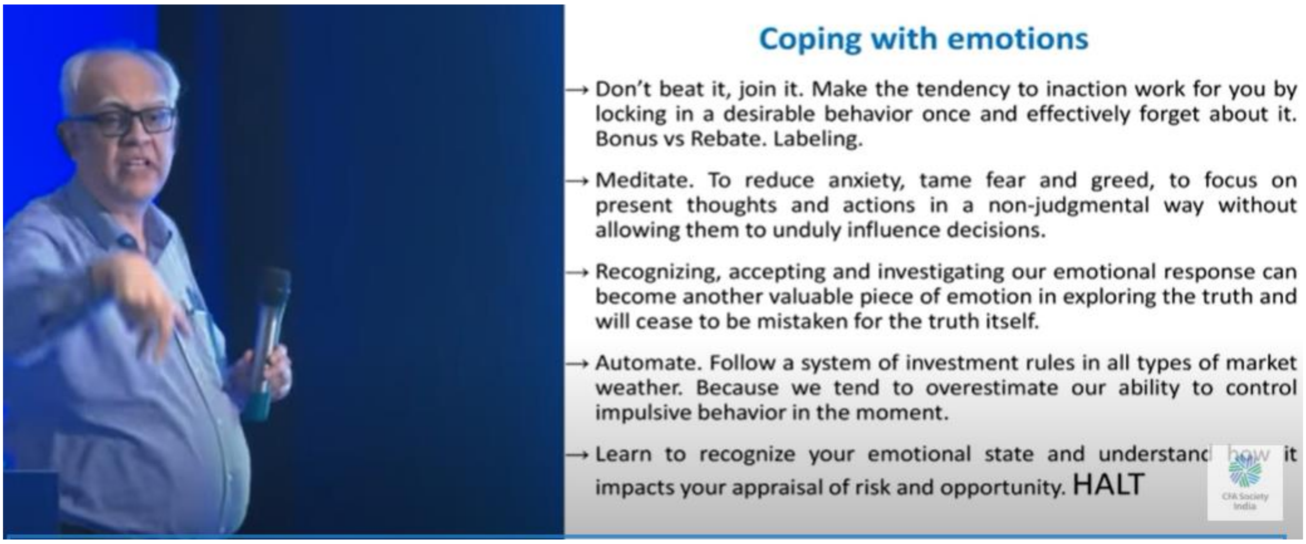
Value investing is tough, as none are ok with the idea of having long periods of underperformance. We hate underperformance and hence it is difficult to be a value investor. You cannot outperform the market all the time.

Simple solutions are not easy. You have limited solutions to a problem in a situation, but it is not easy to implement as we cannot do something that hurts in the short term. In 1999 Warren Buffet did not invest in IT stocks, even though it was very good at that time. He survived and did incredibly well after that.

When you are emotional you need to use the RAIN methodology

- Recognize: What are the emotions going through our head i.e. Fear or anger or panic
- Acceptance: You accept the emotion, right now I am fearing or panicking
- Investigate: Then think why the hell I am like that?

- Negotiate without yourself, do not act, what can I learn from this, in future how can I prevent myself from being here

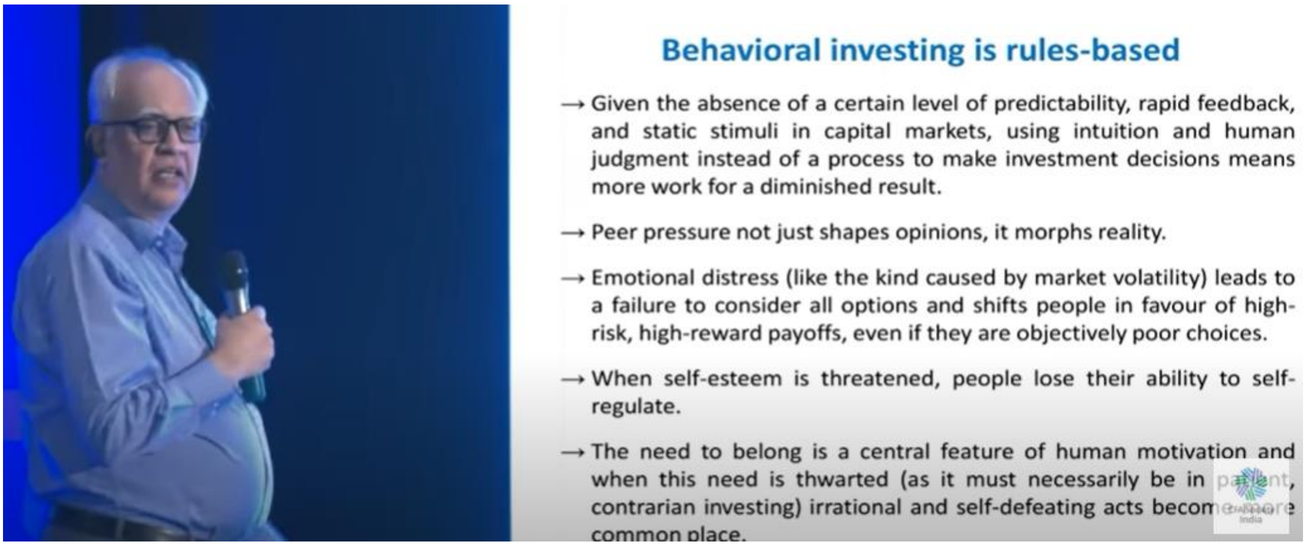


Framing is a huge part of coping with human emotion. You need to bring an emotional stick.

What are we trying to achieve by all this? We are trying to still your mind. When you are in fear or greed, you got to slow down the whole thought and decision-making process. How do slow down? By going into a mode where your mind becomes devoid of other thoughts that are helping you to get panic. There are multiple formulas like meditation or yoga.

Automate: Create a set of rules and follow that.

Is there any other way than the other two? Yes Rule Based Investing (RBI)

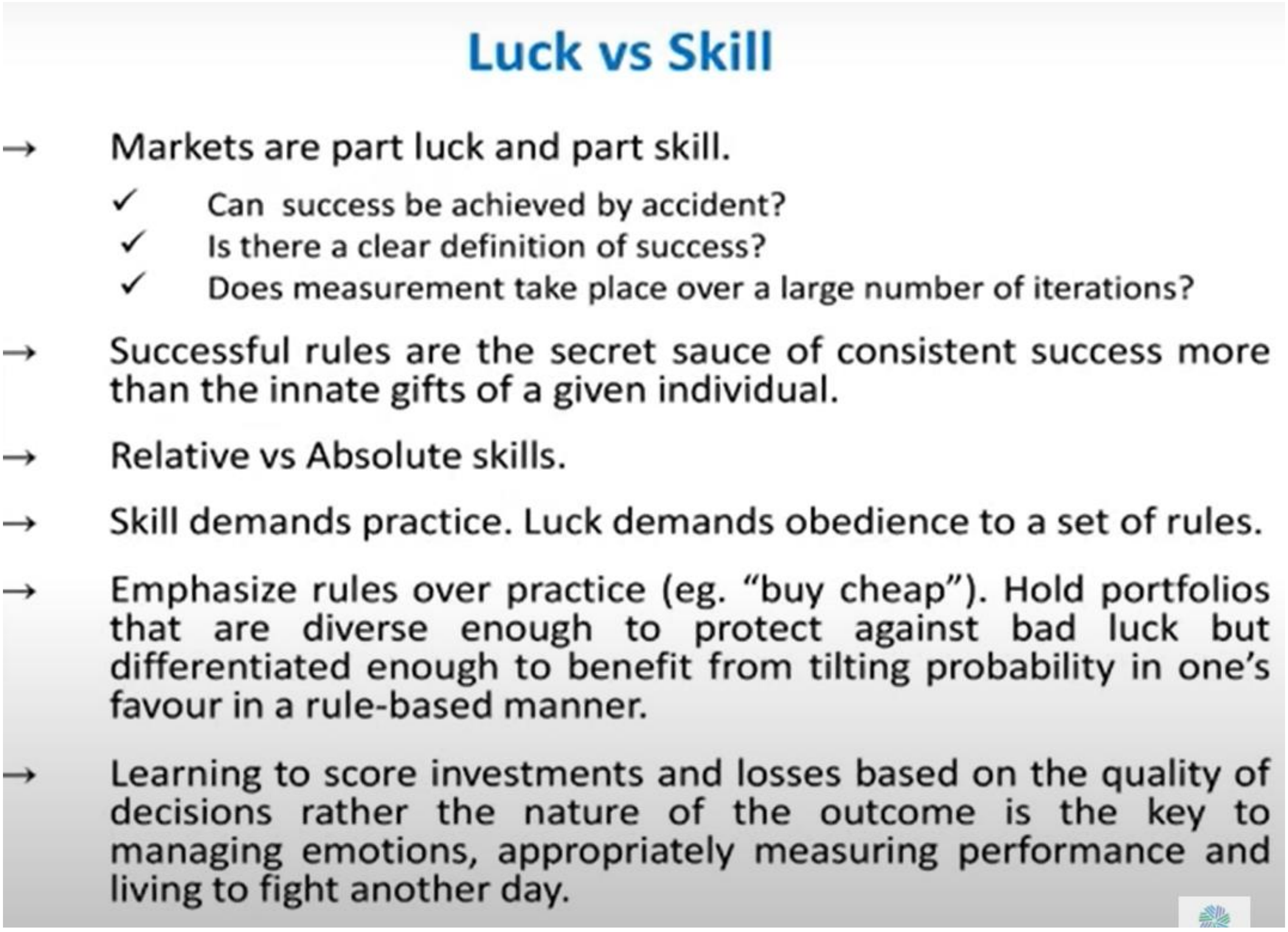


RBI helps in the face of Peer pressure.

Herding. Imagine there is a group of 10 smart guys. You want to be part of that group. Smart investing just requires you to do the opposite. To be patient and a contrariant.

Risk First Investing

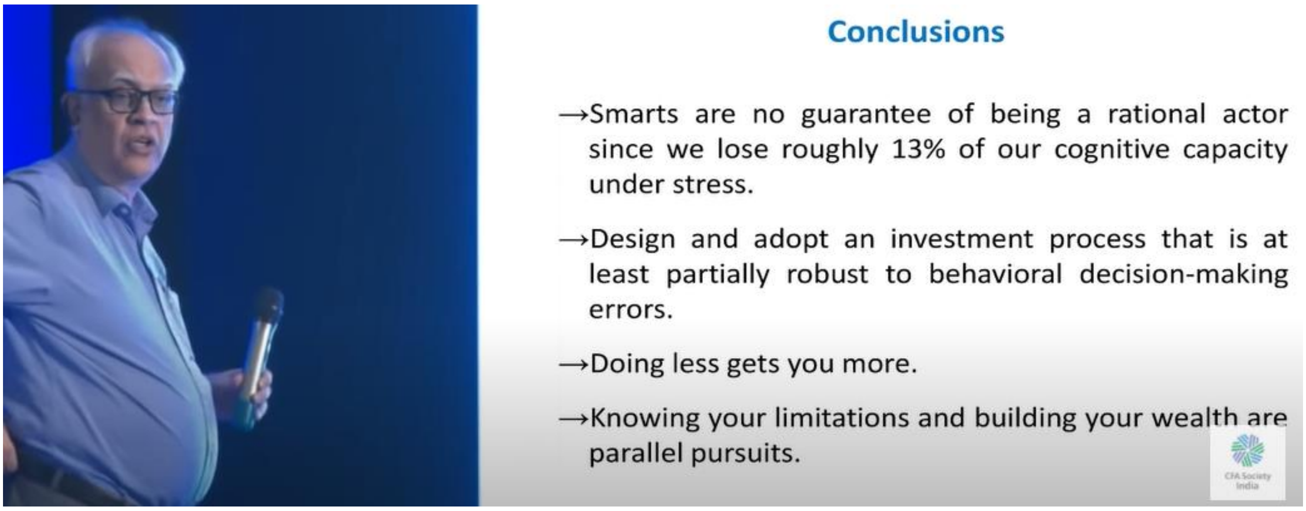
- → It is the task of the behavioral investor to "exploit error and avoid terror".
- → Bubbles will occur in all conditions. The process typically follows a pattern:
  - ✓ Price gains occur for fundamental reasons.
  - ✓ Increasing prices attract attention.
  - ✓ Narratives emerge to explain price gains; particularly in the absence of historical data, in the euphoria of periods of loose regulation and easy credit, in a high-speed world of a glut of investment opportunities.
  - ✓ The positive narrative begets a cascade of increased price and volume.
  - ✓ Narrative is broken, causing a return to fundamentals.
- → Being a behavioral investor means being aware of bubbles, panics, and crashes without becoming paralyzed by that knowledge. This requires a system for becoming conservative that is rules-based, infrequent and accounts for both our short-term tendency to be in thrall of stories and the longer-term tendency of the market to revert to fundamentals.
- → For all of the evidence that market timing is foolish, there is equally compelling evidence that a buy and hold approach can yield unsatisfactory results for even the most patient investor.
- → Exceptions to the "don't time the market" rule are infrequent, painful to implement and will run directly contrary to what feels right.
- → Systems to thwart catastrophic losses: Momentum-based models such as a moving average approach.
- → Rule-based behavioral approaches seek first and foremost to tilt probability in favour of the investor, which means that the default behavior for market participants should be patience, calm and inactivity. It can follow a systematic process for infrequently taking risk off the table when the market is poised to do its worst.
- → Likewise, any rules aimed at timing market participation should lead to infrequent action and look for every excuse to stay invested.



Luck, you achieve something by accident. This happens every single day in the stock market. With no clear definition of success, how to go about it?

Have rules which are consistent to cope with various circumstances.

The last point in the above image is important for institutional investors, especially for CIOs. Do not evaluate the quality of decisions based on the quality of outcomes. Because people would have thought well and done things right, but still can have a bad outcome.



Be who you are not. Do not try to be the next Warren Buffet. The first test is humility.

When you are sure that you have got the winning formula, you are in trouble.

If you don’t know who you are, Wall Street is an expensive place to find out – Adam Smith.

Q & A Session

Q: Sometimes markets keep going up and sometimes the other way. How to be rational in these situations? Prices tend to numb you due to the recency effect.

Buy only what you understand deeply about the business you are about to own. Price is not the basis for decision making. The business you are going to own and the people who are going to run it is the basis for your decision. When there is a significant disconnect between market prices and what you see is worth, then based on your deep knowledge (of Business and the people) start buying it slowly. If you are allocation is 10 Lakhs for the stock, then start with 2 Lakhs to see what happens. If you are me, then the price would fall another 5%. It always happens… The minute I buy, it goes down. For every fall, buy for 2 lakhs. Have a set of rules for both buying and selling. The rules should be rational, disciplined and consistent.

Q: Would you prefer to sell on the way up or down?

Always on the way up. Prices are not driven by rationality but rather by sentiments and noise. It is much easier to sell in a rising market than in a falling market. Selling in a falling market is tough on the mind and broker.

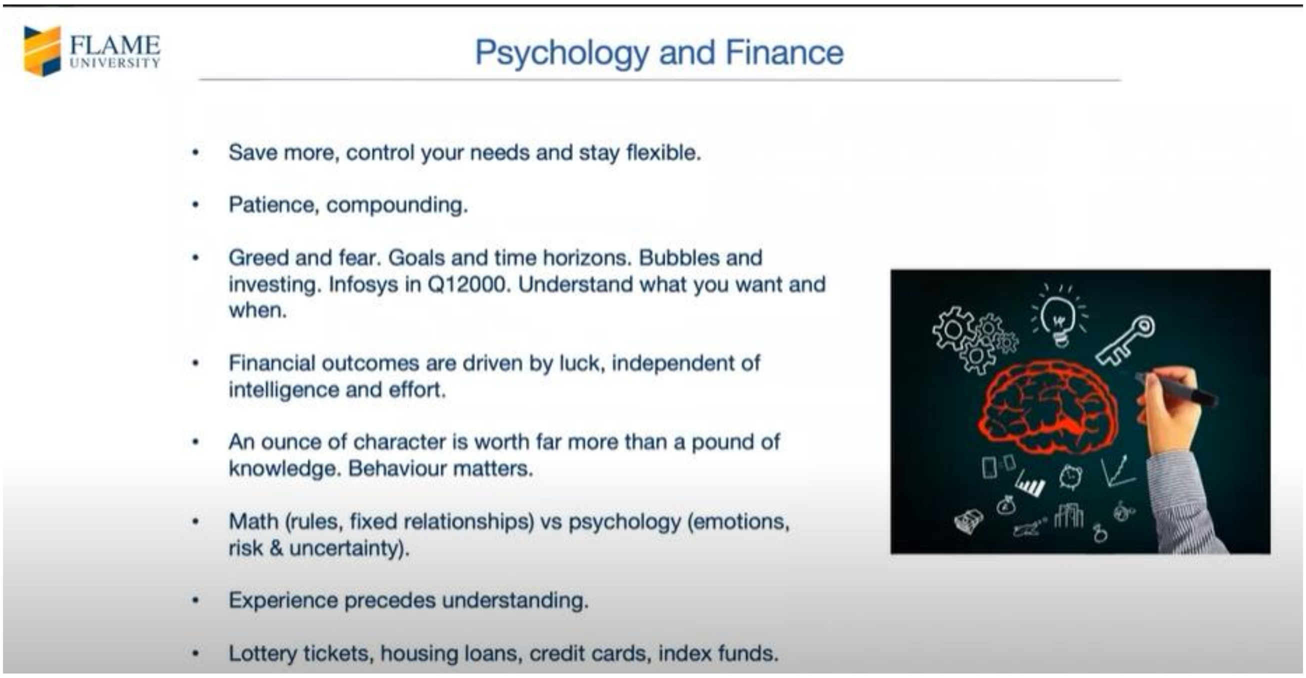
2021: Financial Literacy 15 | Psychology and Finance

https://www.youtube.com/watch?v=6Hzq-ZrnI1U

For success in investing, more than knowledge of accounting or any specific skills in investing, psychology is more important. We all are humans and demonstrate the human side to decision making about money. Unlike subjects like Physics or math, there are no fixed rules or LHS = RHS. In Physics you can explain the movement of planets. But when it comes to money and our behaviour, there are no such rules. In absence of these hard rules, what counts in finance and making financial decisions is your behaviour. It is how you conduct yourself and approach financial decisions.

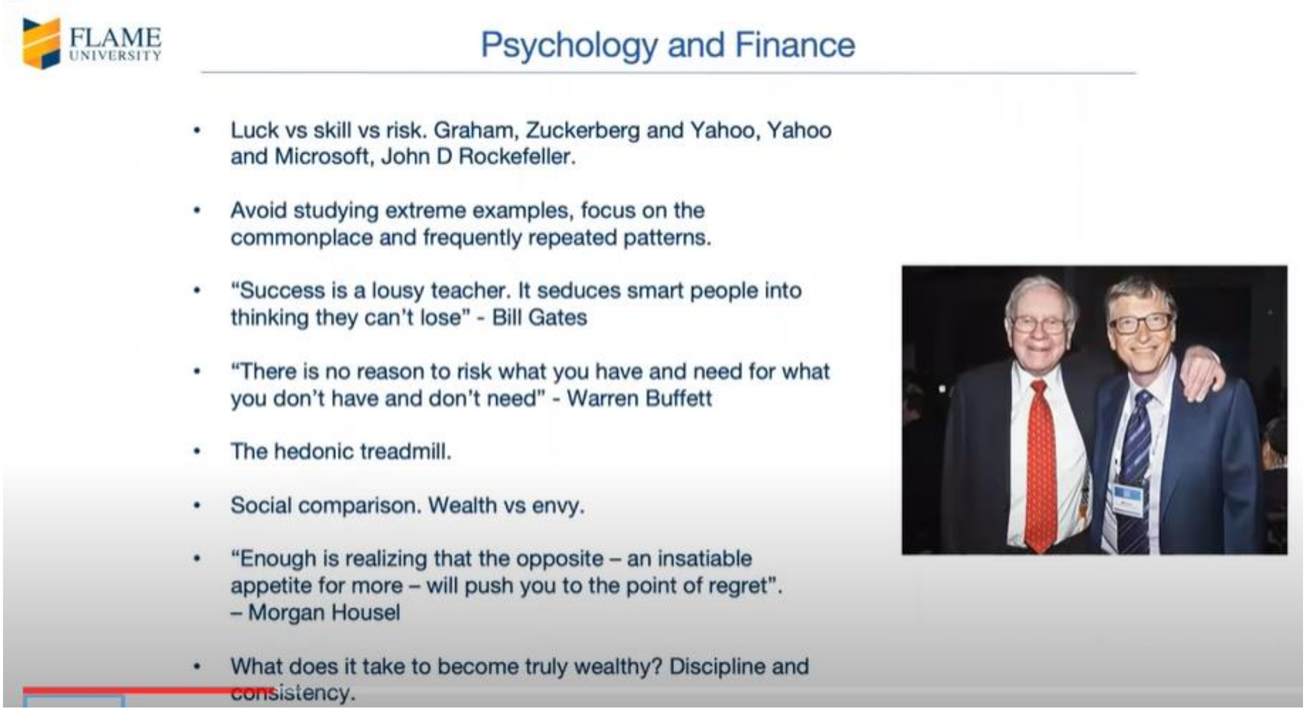
In 1999, there was a dot-com boom where people became insane and lost all sense of rationality. I was also part of it and did incredibly stupid things. In 2008 we had a great financial crisis around the world. At that time, there was more loss than money made from the financial markets.

What matters?



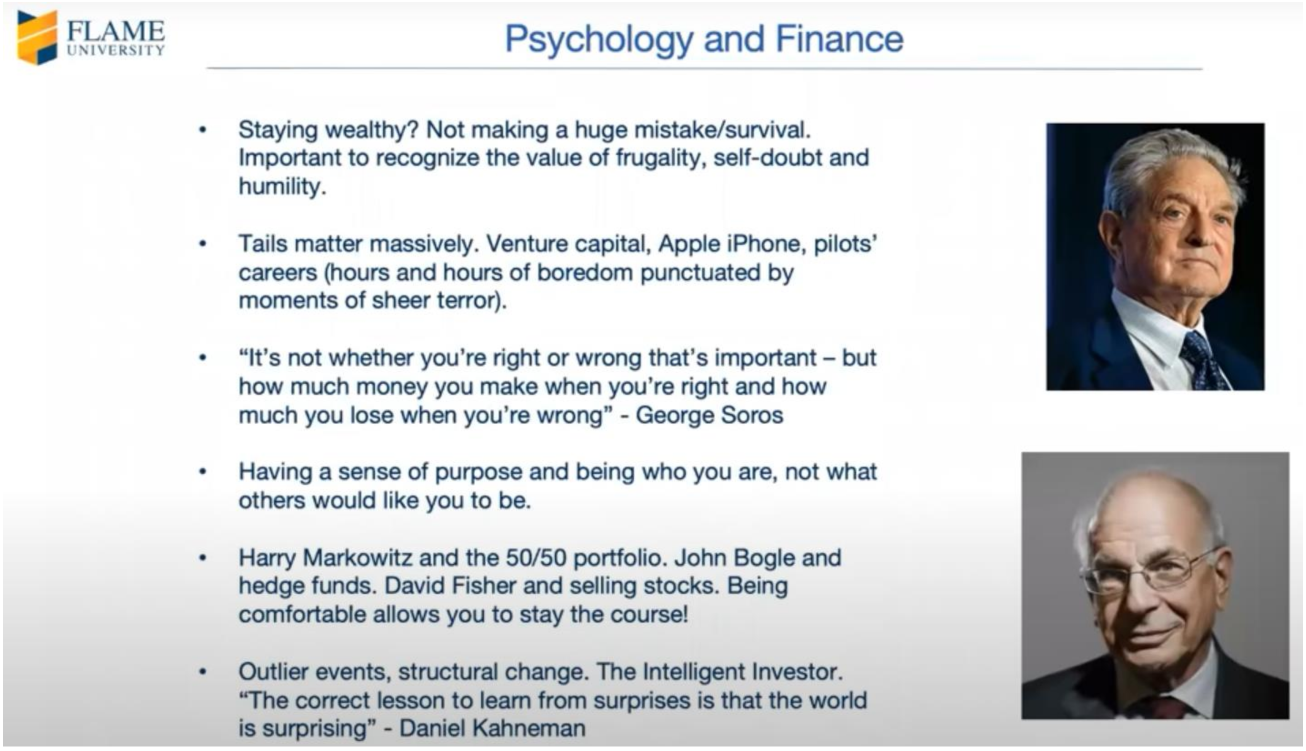
- Money whether we like it or not plays an important role in our life in different ways.
- In the 1960s, there was no credit card or index funds.
- Sanjoy wanted to buy a house, when building a family but did not take a loan, despite working in HDFC at that time
- Since 2009, there is a 12-year bull market without interruption, except very briefly by the pandemic
- Outcomes in financial markets are not purely determined by your skills, but also by risk and luck.
- Both are two sides of the same coin, but many of us do not see it that way
- Luck is shaped by factors, that you cannot control
- You have to put effort and hard work, but luck and risk are distributed across financial outcomes
- Sanjoy Bhattacharya was impressed by what he saw on the Infosys campus in Bangalore
    - Never seen a workplace, where people were happy and well looked after – Only to realize later that it was an illusion.
    - The CEO summarized IT services as “American Revenues at Indian cost”
- It was a nice idea, so I put 25% of my family wealth into buying Infosys in early 1995 and held it for the next 22 years.
- Many people mistakenly attribute this to skill
- When I did it, it was not an illustration of skill
- When Infosys lost most of its value from 2000 to 2003, I chose to do nothing, while a lot of people were very nervous
- The only reason I did not sell, was that I have a simple lifestyle and did not need the money
- I could run my family without having to worry about the value of my investments
- When dealing with money you must allow the power of compounding to work
- Raamdeo Agrawal hires people only who know how compounding works

- How many instantly know the result of 1 Lakh compounding at 18% for 40 years? The result is 10.24 Crores, it is simple $2^{10} = 1024$
- Most important when it comes to money is how much you save and how early you start.
- These two are phenomenally important to have a successful relationship with money.



Let us take the example of Buffett

- He started at the age of 20 in 1950
- In 1956 started the Buffett partnership and ran till 1969
- From 1950 to 2019, Buffett had done something unheard of, which a very few people on the planet can achieve and not be replicated
- He compounded all these years at the 22%, which is a huge number and the reason why he is worth 95 Billion dollars
- He did not get the highest returns every year over these 69 years in the US market
- Infact over the last 10 years he is below the median in terms of return
- He brought to the table, discipline, process and approach to taking a decision which ensured that he did not blow up and was very consistent
- At the age of 60 he was worth 3 BUSD and today after 30 years he is 90 / Effectively 97% of his wealth came after his age of 60



- Jim Simons compounded money at 65%, from 1988 to 2017, for close to 29 years.
- He compounded 3 times that of Buffett and his wealth is roughly 1/4th of that of Buffett
- Why the difference: Buffett did this for 69 years, while Jim Simons did for 29 years
- That is the power of compounding (The number of years is the most crucial factor)
- I don't think that Jim Simons could have compounded at 65% for 69 years, if he had done it, the numbers would have been unthinkable.

Lesson: Start early, stay disciplined, consistent and allow the power of compounding work.

Compounding works because you differ your current needs. I push out something in future, that I do not need to have now. The distinction between rich and wealthy. Rich is current income. If you have a lot of current income then you are rich. The fact you are rich does not mean anything, that you will stay that way or you will become wealthy. By being wealthy, you choose consciously what you do, rather than what you could do and what other people are doing. Wealthy is creating flexibility for the future allowing compounding to work. A lot of wealth of wealthy people is unseen. We want to be wealthy for the right reasons. What is the benefit of being wealthy? The ability to do what you want, when you want, with whom you want and for how long you want. Buffett put this: "By being wealthy, I can deal only what people, I like to".

There is no point in accumulating a huge sum of money, as you cannot spend it. The most important thing is to have a sense of purpose. It is not about making money, but the ability that you create for doing what you believe is important. Bill Gates is the best example. Quit the company to create the "Gates Foundation" and support a disease-free world in the developing world. His purpose is to leave the world a better place to live than he found it in terms of healthcare. This purpose must be clearly defined in life at an early stage. Many things will help you to get wealthy, but staying wealthy is very tough. Remember two things about remaining wealthy

1. Survival – Not blowing up, the single biggest element of staying element
2. Do not abandon the value of a frugal lifestyle after getting wealthy. Buffett is the ultimate example of this. He is staying in a house since 1953. A guy worth 90 Billion dollars lives in a house worth 2 million dollars!

You must be humble despite your wealth. When you do a mistake accept and learn from it. Do not make the same mistake again.

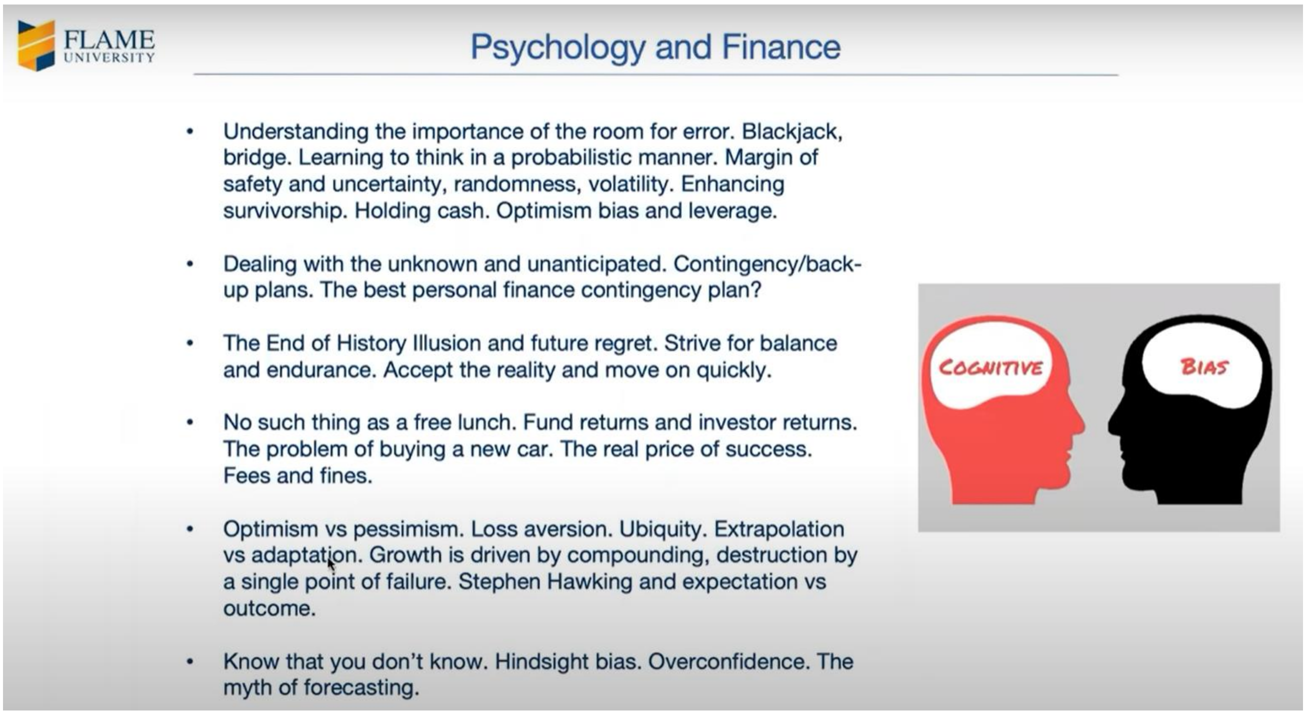
We see other people and try to take our portion i.e. Buy a fancy home or foreign vacation. What is this? This is about you being what someone else is. That is something that will lead to real serious trouble. How much ever successful, you are not satisfied, as you trying to catch up with someone who is ahead of you. So you can never be happy. You are always moving the goal post. You are aspiring to the person who is next ahead of you. There is no end to this. It continues forever. Wealth is not defined by numbers, but by your happiness and the freedom to do things that you think are important to you and the defined purpose. This is the idea of 'enough'. I love eating but still will eat only to the point where I do not fall sick, vomit, upset stomach or cause discomfort. Else you end up regretting that you ate too much. You should be able to define the point of "Enough".

You need to take risks to succeed in life. Amazon for example has a history of failures. Amazon Prime and AWS were the big success for this company.

Tail events are very rare – About a normal curve. The two extremes of the tail of the normal curve represent a very small fraction of outcomes, which are very rare but have a massive impact. In investing such extreme events were 1999 – 2000, 2008 and the recent one being Mar, Apr 2020. This Apr 2020, gave a once I a lifetime opportunity to people who remained calm and sensibly think about the future.

To capitalize on such tail events you should have money. I hear a view, that one must be fully invested all the time. This is one of the biggest fallacies in investing. If you are fully invested how will you capitalize when a tail even knocks the door? Venture Capitalists are typical examples. They invest in 10 companies, where 3 blow off, 3 do not make money, 2 do something, 1 makes money and 1 multiplies 100 times.

Quotes the example of a US pilot who landed in a river without both engines and saved 200 odd passengers. He continued to remain calm and work in a way that maximized his odds of success. When it comes to investing, think about the range of possible outcomes rather than binary events.



Key Graham Idea – Margin of Safety, the purpose of which is to render forecast unnecessary. A lot of us are in the illusion that we can control or predict the world and keep on forecasting. We make errors in forecasting. How do we minimize the consequence of the error coming through?

Bridge game helps you to learn how to think. Learn to play this game, it will help you to think probabilistically. It teaches how to cope with volatility and unexpected outcomes with randomness.

If you hold cash, you have the huge ability to deal with downsize volatility. If you don't, then life is tough.

Be optimistic. In your journey, there could be a series of negative outcomes. Be an optimist and also recognize that there is going to be a fair amount of misery along the way. One way to protect yourself from misery is to avoid leverage/debt. Financial leverage is something that makes even the smartest people blow up very easily. It sounds great in a book who had leverage and was a successful options trader and fabulously wealthy in a short period. This will not work out in real life.

You need to plan for the unanticipated. If such an event takes place, then you can cope with the consequence of it. This is where savings in the bank help. You can work with credible backup plans. When you are leveraged, you virtually have no chance of coming out of it.

What is the idea of free lunches: You get something good without needing to pay the price of it. Take the MF industry. Look at the returns of the fund over 10 – 15 years and also the returns that investors have earned from the fund. It is always lower. This is typical because investors buy at the high and sell at the low. If a fund earned 17%, most investors could have been lucky if they made 9%. When there is a huge downside, you cannot cope with the fact that you are losing money. We do not make rational decisions. Our moves are aimed at protecting ourselves from further damage. Making losses is twice as painful as making gains. So we tend to have loss aversion. It is for this reason, that we make such decisions and sacrifice returns.

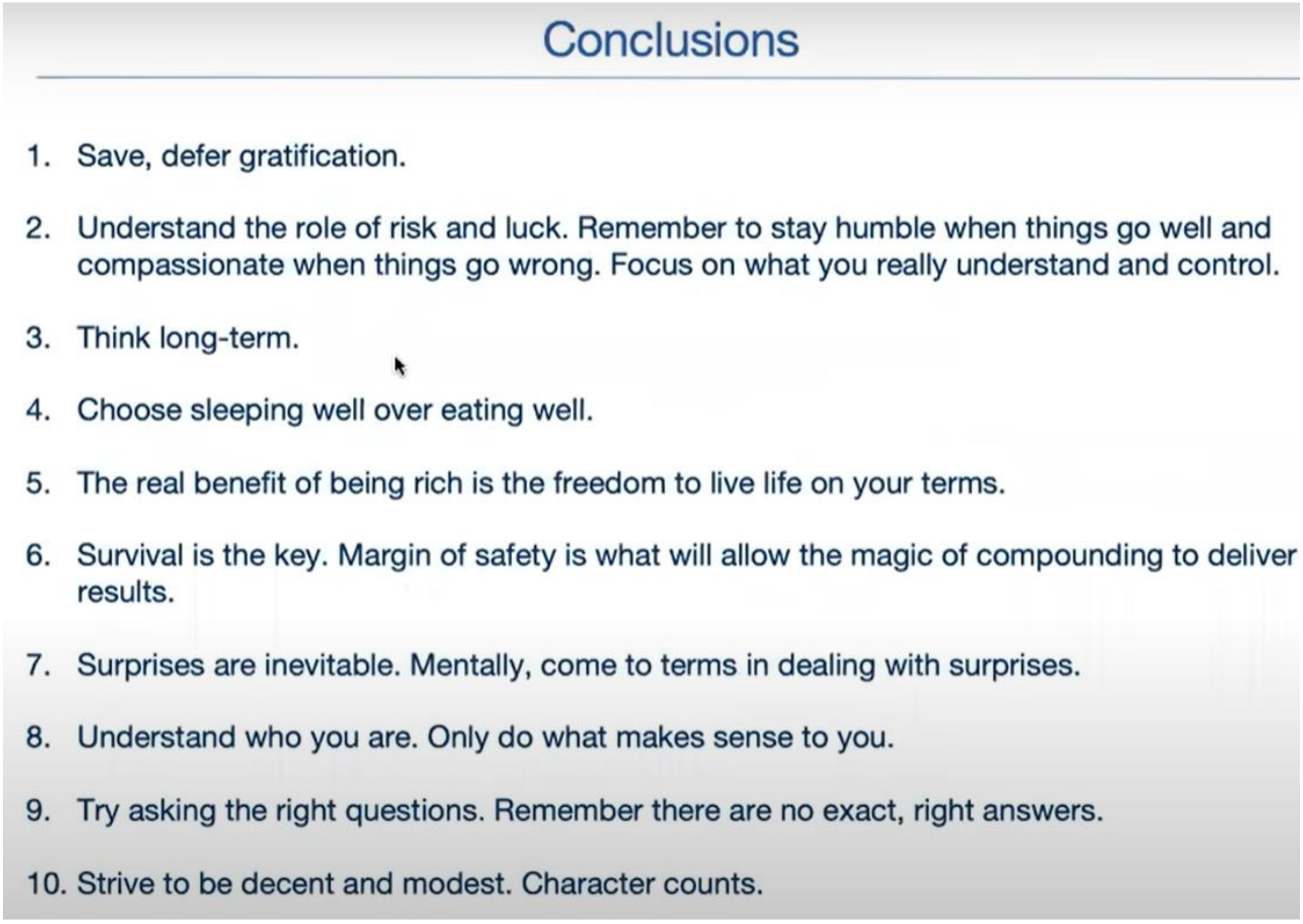
Many times we time the market or forecast a recession or the great time to get in or to rotate from one sector to another. If you want an 18% return, you have to pay a fee for this return. The fee is the price of volatility and uncertainty.

Pessimism is all around. We extend the present situation to the future. That is the reason why markets are down 3 – 5%. It is not the value of the business listed in the market is reduced by 3 – 5%. It is simply because people are extrapolating into the future, what happened in the immediate recent past. Growth comes from compounding and destruction is driven by one single point of failure.

Relationship between happiness and money: Happiness is when results are better than expectations. Like Balance sheet equation: Assets = Liabilities, Happiness = Results – Expectations. Stephens Hawkins's life expectations were 0 after his sickness. So whatever he gets is a bonus and hence he is happy.

One more important thing is knowing the limits of what you know. There are many things we do now know and it is important to recognize those boundaries. If you decide without lack of understanding invariably there will be bad outcomes.

Overconfidence is one reason for most of the dumb things we do with regards to money.



Save as soon as you can and as early as you can and try to postpone your needs and wants. In a different language, it is controlling your ego. You buy things that are not necessary, but still you buy because you want others to see that you have those things.

When things are going well, it is not your skill. We fall into the trap to think that we are smart. Equally when things go wrong, do not fall with negative thoughts. Do not criticise people just because you had a bad outcome. Similarly do not worship people who got lucky.

Long term enables compounding to work.

When you are thrown a surprise by life, remain rational and ask yourself, “What should I do now”? rather than react to it.

Remember to play the game you want to play / A day trader would be happy to get 200 from a trade, which is immaterial to you on a long term focus. Do not play someone else game, it is fatal. You have a huge handicap and you cannot win the game.

Do not be carried away by people who give exact forecasts and precision. Remember none of us remembers what the future holds. You can only think sensibly and probabilistically about the future. When you have a lot of money and wealth, other people do not see how much money you have, but how you behave. Your behaviour and character matters.

Q & A:

Q1: In your career, what are the three biggest mistakes that you have seen investors make?

I have made many mistakes.

1. Being overconfident, but not doing enough homework in terms of seeking facts and a detailed understanding of the business. Shares an example of he buying a leather jacket mfr. The company, where he lost 97% of his capital
2. Not thinking long term: The first stock that I brought was Asian paints at INR 54 in 1983. Earlier there was a rule if you buy a house with long term capital gains, you need not pay tax. In 1991, it was worth tons of Lakhs. I sold and brought a three-bedroom house. If I had held the Asian Paints till now, it would be worth crores. You have to think long term to make a high-quality decision
3. Role of luck: In 1997 invested in SSI, which was training students on Java. In those days anything connected with IT used to take off and this stock multiplied 200 times in 3 years. This stock went to the list of stocks of Ketan Parikh. I sold half the holdings. It doubled in a month after that. I felt very much left out. Once the ADR got done, things went wrong and prices came down very heavily. In the long run, you cannot succeed in investing, by buying poor quality companies with promoters of poor integrity and greed. I had been incredibly lucky in both buying and selling for all the wrong reasons. Subsequently, SSI went to INR 50 from 6700.

Q2: How can one predict a tail event in advance with actual numbers

Ans: You can never do that. Prediction is overrated. Think about a whole bunch of different possible outcomes. Do not focus on specific extreme outcomes. That is not a formula for success. Rakesh Jhunjhunwala did not predict Harshad Mehta’s downfall. He recognized that many companies were ridiculously overvalued i.e. ACC at 10,000 was simply unsustainable.

Q3: If spending wealth is flashy, then what is the point of wealth accrual. Did WB get his wealth based on skill or luck?

The second question is fairly straightforward, which WB himself had talked about. In his lifetime he has made about 500 investments. The outcomes of 10 -15 investments account for more than 85% of his current worth. It is not to say that WB is skilful, but still, out of 500 investments 10 – 15 gave spectacular results.

The first question is a wonderful one. I am not telling that you should not spend money. But what I meant is that accumulating money with no other purpose can be very depressing. It is more about the impact of your money on other people i.e. Your family, and the people around you. Only money with no purpose has a negative consequence. Having a purpose alters your behaviour. The best thing to do with money is to leave a better place than you found it. The purpose of the founders of flame university, give quality education to younger generations.

Q4: What is the scope of a career in Behavioural Finance?

It depends on what your career objectives are. How you make decisions and the consequences of that and how to get smarter. There is Richard Thaler, who is in Behavioral Finance. The title of the book is Misbehaviour. This field is still in its infancy. Will it be lucrative? My answer would be 'No'. There are many better options.

Q5: What is the ideal savings rate?

Higher the better when you are younger. But when you are young, you want to enjoy and have fun in life. But remember that everything you do in life is a trade-off. The sooner and more you save when you are young, the power of compounding is magical.