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The book has received wide critical acclaim from readers globally and it was the #1 new release on Amazon USA in Investment Portfolio Management and Investing Analysis & Strategy categories.

Gautam's views and opinions have been published on various forums in print, digital, and social media. In 2018, he was profiled in Morningstar’s Learn From The Masters series. Learn more at www.TheJoysOfCompounding.com and Connect with Gautam on Twitter @Gautam__Baid.

Dear Gautam, thanks for agreeing to do this Q&A session. We are delighted. Everyone else, please enjoy.

PART 1 - ADVICE ON FINDING FURTHER INSPIRATION, NOT THE LEAST IN INDIA

IBB: You have read so much, in so many forms & ways. And at the same time, you have written a masterpiece. Quite an achievement, and you are still so young! Please keep it up. Could you please recommend some online sources that you think are worth following, to track new ideas or get overall inspiration? Twitter, blogs, fund quarterly reports etc.

GB: Thank you for your kind words of appreciation Bo. The pursuit of lifelong learning greatly enriched my life in many aspects, and I have endeavored to share its virtues with our dear community.
I enjoy learning from the blog articles published by Morgan Housel, Safal Niveshak, Fundoo Professor, Janav Wordpress, Base Hit Investing, and Microcap Club among others. Also, I believe that Twitter is the best learning and networking university in the internet age. It is a great medium to attract like-minded people into your fold by sharing content that you find personally meaningful. At the same time, it is important not to spread yourself too thin by following every Twitter account that interests you. You need to set a very high bar and follow only those accounts which add very high value to you. As regards the fund quarterly reports, I do not have a pre-decided list. I simply select the ones I come across that grab my interest and start reading them. To me it feels like an intellectual treasure hunt, you never know what hidden gems or new insights you will stumble upon when you begin reading a new book, a new blog post, a new research report, a new white paper, or a new investment newsletter and start flipping through the pages.

**IBB:** Is it possible to highlight 3 books, and maybe even chapters in those books, that have formed you as an investor. And it doesn’t have to be a financial book.

**GB:**

Poor Charlie’s Almanack - A life-changing book for investors and non-investors alike

Seeking wisdom by Peter Bevelin - The finest book I have ever read on multidisciplinary thinking

All I Want To Know Is Where I’m Going To Die So I’ll Never Go There by Peter Bevelin - The best book ever written on the theme of inversion

And I would print out the Buffett Partnership letters, and the Berkshire Hathaway letters and owner’s manual separately.

It is difficult to point out specific chapters from these supertexts which have benefited me the most in my journey. Every single page in them contains a great deal of wisdom.

**IBB:** You have a lot of examples from the Indian stock market, which probably non-Indians are not so familiar with. Long term performance has been very good, in real terms it seems to be in same magnitude as USA & Sweden which over time tend to be among the best of markets, be it much more volatile. (Elroy Dimson has data since 1952, annual real return in USD 5.8%) Looking ahead would you agree with that there is a major tailwind for the Indian stock market, for example due to the very long potential runway of high GDP growth & political reforms that will ease to do business?

**GB:** There is a saying that goes "No force on earth can stop an idea whose time has come." And India's time has arrived. It took India almost sixty years to reach its first trillion dollars in GDP but only seven years to reach the second trillion. And the next consecutive trillions are expected to be reached in faster succession. Even if market cap to GDP remains around parity in the long run, one can envision the kind of wealth creation that lies in store for investors in great Indian businesses. Trillions of dollars. And this, in turn, will have a positive multiplier effect on the prosperity of the nation.
IBB: Indian stock market vs the US? Any difference in how to find good stocks? And how the market behaves?

GB: If you had asked me this question a decade ago, I would have probably stated that the price discovery, liquidity, and depth in the US market is superior. However, with the advent of vastly improved technology, those differences seem to have narrowed considerably. The principles of sound investing remain the same across all the markets in the world. But each market is peculiar in its own way and has its set of specific industries and companies which lead it. For instance, private financials and consumer stocks are usually the most favored industries among investors in India, while high-growth tech stocks catch the fancy of many investors in the US markets. Over the long run, individual markets track their economic fundamentals, but in the short run, the US markets are the primary driver of sentiment in global markets.

IBB: Any good sources/sites etc. you can recommend for foreigners to invest in the Indian market and to know more about interesting ideas in India? We did an interview recently with Rahul Saraogi, and he clearly suggested not to try to invest in single names… but still… might be some of us that still have an interest to try.

GB: ValuePickr, Alpha Ideas, and Alpha Invesco blogs are some great resources to develop expertise about investing in the Indian market and study promising ideas.

PART 2 - THE BOOK OF JOY

IBB: Now that we have warmed you up a bit, let’s get into some detailed question about your wonderful new book, “The Joys Of Compounding”. First congrats to the name of the book, it immediately grabbed my attention and I ordered it promptly. Secondly, very impressive to find so much content and to make it such pleasure to read. I recognized a lot of it, but there were gems everywhere, not the least Warrens talk in 2007 in Florida on how leverage causes smart guys to go broke (LTCM), which I never had come across before. (Roger Lowensteins book on the subject is a mandatory read for every investor, I think). The chapter I will reread often are 18, 27 and 31-32. They get better every time. I suggest that everyone that will read your book or have read it, read those chapter and have this Q&A at hand, which will further deepen your knowledge. And mine.

Chapter 18. The Market is efficient most of the time, but not all the time.

An important chapter for the overall message, so it’s one we all should reread. But I would like to ask about the confusion investors getting confused between risk and uncertainty which can lead to bug mispricing’s. You mention that is boils down to price, I totally agree and later in the book, on the subject you mention(p416), Richard Zeckhausers essay as well. Your example of Piramal is great, and very clear, but would you consider investing in a cyclical company with negative momentum, and no sign of turnaround in demand/supply for years at some price, or stay clear? Is there a price, if so, when and why?
GB: It's a good question and let me answer it with a live example from the Indian markets. The Indian auto industry is currently experiencing its most severe slowdown in many years and there is a well-run 2-wheeler financier with a ROE of 18% and a price to book valuation which is now approaching 1x as against its peak valuation of 3x early last year. At 1x book, we would be factoring in zero future growth for this business even though 2-wheeler financing penetration in India today is barely 35% and clearly has a long runway for growth. It should be noted that 2 wheelers typically are the first to recover during an auto industry recovery, ahead of passenger cars and commercial vehicles. Additionally, with the increasing adoption of food-delivery apps in India (e.g. Zomato, Swiggy), the long-term fundamentals of the 2-wheeler industry in India appear to be structurally attractive. For developing a sound understanding of investing in cyclical and commodity stocks, one should study Edward Chancellor's book, Capital Returns.

IBB: On a different subject, but on the same page, about missing out on serial acquirers. You have any examples in the US or India, that you find interesting? Any story you can share?

GB: In general, M&As have a higher chance of creating value when they are a core element of strategy and management has a track record of disciplined and value-accretive M&A. Firms in this category are rare. Think Berkshire Hathaway, Fairfax Financial, Markel Corporation, Constellation Software, and Piramal Enterprises.

Above all, the truly exemplary capital allocators act as a trustee for shareholders and demonstrate rationality and complete emotional detachment when making decisions. In an interview with the Hindustan Times in June 2012, Ajay Piramal said:

“I have an obligation to my shareholders, to create maximum value for whatever they have invested and that’s what my job is and that’s what I am here to deliver. I don’t carry an egoistic or emotional attachment to the businesses. We did a calculation to justify the value that Abbott paid- I would have had to grow the business for 15 years at 20% CAGR with an operating margin in excess of 35%. Now that’s not possible and therefore, the choice was should I leave aside my ego that it is my business and I created it, or should I do what is in the best interest of shareholders. If you look at it like that, that’s what a leader ought to do, in my view. Job of a leader is to act like a trustee.”
Chapter 27 Investing in commodities and cyclicals is all about the capital cycle.

A very interesting chapter in many aspects. The significance of empathy in investing. Do you look at daily/weekly charts of singles names, industries, ETF:s to get some input? Or look at a list of 52 week high/lows? Any good source of this kind of information.

GB: If a group of stocks from a single industry are all rapidly going up together at the same time for a few successive days in a row, then that is a very strong signal that the fortunes of that industry may be turning around and should be investigated further. It is even more significant if this happens amid overly negative sentiment for the sector in question. This is one of the best ways to identify inflection points in a sectoral trend during the early days of an industry's fortunes turning around. Most of the time we will observe that the stocks that are going up together so rapidly do not have any current earnings to support their valuations, but we generally get to realize only in hindsight that the market was an extremely smart discounting machine. It is why Gerald Loeb said, "The market is better at predicting the news than the news is at predicting the market." Always respect the wisdom of the collective. If a particular stock displays a price volume breakout to fifty-two-week/multiyear/all-time highs on very large volumes, then that stock is a strong candidate to start researching on.

I obtain my desired information on the above group of stocks in the Indian markets from moneycontrol website (https://www.moneycontrol.com/stocksmarketsindia/).

IBB: "Techno-Funda" investors. I have never come across that name, but after reading William O'Neils book, "How to make money in stocks", in the early 90ies I see that as a more modern version. When I googled it, seems to be big in India? To what extent do you act on T.F investors key principles of strong growth and industry fundamentals? Any site you can recommend on the subject? Personally, I think it's important to look at this, as an antidote, if you for example are in too much love with cigar butts, which I used to be.

GB: Techno-Funda investors tend to believe in two key principles, in addition to strong earnings growth and industry fundamentals, when analyzing potential buys: first, stocks that show relative strength, that is, that go sideways or consolidate during significant market pullbacks, tend to become the leaders of the next rally; and second, the first stocks that break out to new fifty-two-week highs after a major market correction, or during the correction itself, tend to outperform significantly during the subsequent market recovery. I do follow these principles to identify promising ideas, especially during a bear market like the one we are experiencing in India. This is because new trends always emerge during a bear market that's the period during which most investors are either waiting for their original purchase price to come back or are busy committing fresh sins by averaging the winning leader stocks bought during the previous bull market.

Some very good books on the subject of techno-funda investing are The Next Apple by Ivaylo Ivanov, How To Make Money In Stocks by William J. O'Neil, Trade Like A Stock Market Wizard by Mark Minervini and Insider Buy Superstocks by Jesse Stine.
IBB: Try with commodity investing. One of the best parts of the book, from a "sugar low" to a "graphite high" so to say. Here you show how to learn, and the process behind it. Have you found a way to track interesting commodity's, or do you do it case by case? For example, right now Gold has started to break out from a 5-year consolidation, does that matter? Time to look for interesting gold equities. Silver has lagged. Any interest?

GB: I get my requisite information for tracking the fundamental developments in various commodities from S&P Global Platts website (https://www.spglobal.com/platts/en/market-insights/latest-news#Metals). I do not track silver very closely. Gold looks promising at the current juncture, especially in the backdrop of the Chinese Government buying gold instead of dollars to diversify the composition of their reserves. In addition, the technical setup of gold looks very positive. Your point about gold breaking out from a 5-year consolidation range has important implications. Let me share an excerpt from my book to illustrate why:

"Time frame is important. All else being equal, a stock that has broken out of a multiyear trading range is more promising than one that has broken out of a one-year trading range. In the case of the former, many individuals who bought the stock years ago may have sold a long time previously, out of frustration, and there would be fewer people waiting to get back to break-even and to sell the stock at higher levels. It is important to note that prices don’t break out of a long-term range unless investors' expectations have changed. Someone is willing to pay a price that no one else has paid for a long time, and this is usually a sign that something major has changed in the underlying fundamentals of the company."

"The underlying psychology of market participants doesn’t really differ much across asset classes, and the above behavioral phenomenon applies to commodities as well."

IBB: Cyclicals, early beginnings. You write that you have started to expand into infrastructure as well as construction. Is that mostly due to the expected tailwind from the huge government projects that you mention in the book? Is that the way you think of cyclicals, find a big tailwind (also discussed in chapter 31, p419, and then get the best exposure to it? (your list on p350-354, is brilliant & spot on, from my experience as well). When I have looked at cyclicals in the past, say sectors like steel, pulp, semis, staffing etc., I have tried to use various types of trough multiples to estimate the downside risk, have you any experience on these types of situations? Or is your idea not to "bottom fish" and rather play the long game, with the help of a tailwind?

Both the approaches work. The temperament and personal preferences of the individual investor determine which of these approaches is ultimately adopted. In my view, mediocre businesses like infrastructure necessarily require a tailwind in order to thrive. One should keep in mind that these are never meant to be long-term holdings. One should buy them during depressed times for the industry when they are trading at historical trough valuations. If you are unsure about this aspect, then look to the market for guidance - many times, even after a big miss on earnings and a sharp cut in analyst estimates, a cyclical stock actually goes up after bad earnings. It is a typical sign of a company or industry bottoming out when the stocks no longer go down after companies report bad news.
Chapter 32. The Education of a value investor.

Key chapter. Easy to read & borrow ideas, but everyone needs to develop ones own convictions. To do that, there is a shortcut, keep a journal (chapter 26 and update your beliefs chapter 22) learn about yourself. But it’s easier said than done. Is it possible for you to share an example how you have improved your process? What’s the danger of reading too much vs learnings about yourself, by investing and keeping a journal etc, to find a strategy that fits you, rather than someone else’s?

GB: I spent ten dollars on purchasing a journal in late 2014, and I consider it to be one of the best value investments I have ever made. Since that day, I have been keeping track of my investing decisions and subsequent developments in a journal. This has helped me a lot in learning about my thinking process at the time of making my past decisions. I receive a lot of valuable feedback and use it to correct my biases. I also have maintained a personal archive of the media commentary and investor behavior during various episodes of market panic from early 2015 till date, and I find it highly beneficial to refer to it whenever the market undergoes its periodic steep corrections. Human behavior in the markets has never really changed much over time. For instance, currently there is a lot of gloom and doom prevalent among many investors in India owing to the bear market that has been in vogue since January 2018. Recency bias is all pervasive. People tend to extrapolate recent trends into infinity as they assume them to be the "new normal." Until it isn’t, in a cyclical world.

Reading and vicarious learning is very important and beneficial, but there is no substitute for real-world experience in the markets and putting your hard-earned money on the line. The real learnings for life take place only when skin in the game is involved. One should always be mindful of the fact that an investor's investment philosophy is highly personal, and it cannot be borrowed from someone else. It is something that is gradually built over time through direct and vicarious experience.

IBB: So many different forms of biases, which do you think are the worst for investors? What tricks do you have to mitigate them? Do you have any emotional states, you are in "tilt", you have some cues that trigger yourself? For example, you write about cool down periods.

GB: One of the most harmful biases for investors is the bias from consistency and commitment tendency, i.e. being consistent with our prior commitments and ideas, even in the face of disconfirming evidence. It includes confirmation bias- looking for evidence that confirms our beliefs and ignoring or distorting disconfirming evidence to reduce the stress from cognitive dissonance. When we have made an investment, we tend to seek out evidence confirming that it was the right decision and to ignore information that shows that it was wrong. As Buffett has said, "What the human being is best at doing is interpreting all new information so that their prior conclusions remain intact."
The more public a decision is, the less likely it is that we will change it. Rigid convictions are more dangerous enemies of truth than lies. In order to minimize this bias, I have consciously stopped discussing stock recommendations or my personal holdings on social media since early last year and now I discuss my fundamental ideas only with a few close friends in my personal circle. At the same time, one should be mindful of the fact that you can’t really learn anything new if you’re always surrounded by people who agree with you. As investors, we often have our personal group of intellectual peers with whom we discuss our ideas. But we should be careful that our sounding board does not turn into an "echo chamber," for that would be harmful for our decision-making process. Amay Hattangadi and Swanand Kelkar wrote about this issue in a December 2016 report for Morgan Stanley titled "Connecting the Dots": "We tend to be surrounded by people who are like us and share our world view. Social media accentuates this by tailoring our news and opinion feeds to match our pre-set views. To avoid falling into this homogeneity trap, one needs to seek out and dispassionately engage with people whose views differ from your own and that's true not just for current affairs but your favorite stocks as well."

**IBB:** When we are wrong, how to deal with it, especially when stock is down, and we are at loss? Compare with initial fundamental thesis? Sell regardless of price, normally stock is down same amount as the size of new problems, i.e the new adjusted estimates suggest that we have the same upside as before...I would like to add some discussion on the use of stops, could be on PRICE (some % of the holding) or TIME. I know some value guys look at time, say if dead money for 2-3 years, they give up and move on. Price is more for traders, but I have been inspired by Lee Freemans book. Any discussion on this subject would be highly interesting, since you have practiced stop losses, but in the book you only mention the mistakes using it. What's your thoughts around this?

**GB:** A money manager must have the resilience to suffer through periodic bouts of underperformance. During 1999, Tom Russo was invested in high-quality businesses like Nestlé, Heineken, and Unilever, among others. They were terribly out of favor relative to the speculative forces that were driving the market at the time. Russo's fund was down 2% for the year and the Dow was up 27%. During the early part of the following year, he was down 15% and the market was up by 30%. Russo was able to stay the course because he had the capacity to suffer. The same can be said of his investors at the time.

Equity investing is like growing a Chinese bamboo tree. One should have passion for the journey as well as patience and deep conviction after planting the seeds. The Chinese bamboo tree takes more than five years to start growing, but once it starts, it grows rapidly to eighty feet in less than six weeks. Peter Lynch's investing experiences share a symbolic resemblance to the inspiring bamboo tree story: "The stocks that have been most rewarding to me have made their greatest gains in the third or fourth year I owned them." Stocks can stay cheap for longer than we expect and then can become repriced much more quickly than we expect. We should judge our businesses based on their operating results, not on the downside volatility of their stock prices. The stock market is focused on the latter, but investing success is based on the former. If the management team executes, the stock eventually follows. In fact, not getting immediate returns on our existing high-quality growth stocks builds antifragility. Patience plays a critical role during such times.
The only time you should take a proactive sell action upon encountering downside volatility in a stock is when you realize that you are inside a "value trap." Value traps are abundant and all-pervasive. In the stock market, prices usually move first, and the reported fundamentals follow. A plummeting stock price (in an otherwise steady market) often turns out to be an accurate harbinger of deteriorating fundamentals for a company. Think about it before you jump in to buy. What "appears" cheap or relatively inexpensive can continue becoming cheaper if industry headwinds intensify. When you see one of your deep value stocks suddenly break down on high volumes with no "visible" explanation, take notice. You are likely inside a value trap. Value traps are businesses which "look" cheap but are very expensive in reality. This could happen for a variety of reasons: a cyclical business operating at near peak margins; potential "app risk" leading to technological obsolescence; bad capital allocation; and/or corporate governance issues, including misreporting of earnings.

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