Chapter 5:
Seven Traits of Superinvestors

How to be a Superinvestor:

"Investment success does not require glamour stocks or bull markets. Judgment and fortitude were our prerequisites. Judgment singles out opportunities, fortitude enables you to live with them while the rest of the world scrambles in another direction."

John Neff

People are keen to know how Koon attains such a spectacular performance, and how he makes so much money in the markets. They must be thinking that he got the level of mastery in investing because of his inborn talent. As far I know, the wealth Koon has amassed so far is mostly from the effort he puts in to learn and earn from his businesses and investments. Albert Einstein once said "*genius is one percent talent and ninety-nine percent hard work.*" Of course, it is good to have an aptitude for investment, but we still need to devote a lot effort to nurture the investing talent within ourselves before we can become a good investor. No one is born a superinvestor. It takes knowledge, skills, correct actions, patience, and experience, and lots of trainings to be a superinvestor. These are the main ingredients that we need to excel in investment. Even those well-known superinvestors took years, if not decades, to acquire, practice, and refine their knowledge, learn from their mistakes, form their investing philosophies, and learn to control their emotions before they achieved their current status and results.

For example, during market crash in 1961-1962, Carl Icahn lost all the money he earned since his Army days. But he later on said that, "*going broke was good, because I grew so much from it and realized that I had to learn more than anybody else about something*." By acquiring the right recipe, and working hard, he staged a series of striking rebounds after the crash, and he eventually became one of the most successful investors in the world. With a $16.6 billion net worth under his belt, he was ranked number 55 in Forbes 2017 Billionaires List.

Similarly, the Great Depression and stock market crash in 1929 nearly wiped John Maynard Keynes out financially. But he got back stronger in the game after the crisis, and after refining his philosophy by switching from top-down investing method (macro strategy, which is relying on the predictions of economic performance to choose stocks in the industries that generate the highest returns) to bottom-up value investing approach (which is selecting stocks based their intrinsic values, dividend yield rates, cash flow, future earnings, and business prospects). His innovative style, recognition of mass psychology, and animal spirits play in the market, and long-term investing method enabled the funds he managed, including the endowment fund of King's College, Cambridge, the fund of the National Mutual Fund Society, the fund of the Provincial Insurance Company, and the personal funds of his friend, family and himself, grew exceptionally well, and outperformed market indexes almost every year thereafter, except 1938 and 1942.

By now some of you must be thinking that one has to be very skilful at predicting the next market crash (or boom) to be a successful investor. Far from it – none of the superinvestors, at least not that I heard of, have the ability to predict short-term market movement. The competitive advantage they possess over ordinary people is their positive learning attitude, high mental strength, solid financial knowledge, and high self-awareness. Therefore, to be a superinvestor, we do not need to master the

skills of predicting the next market crash, or short-term market movement. What we need is to mimic the traits, habits and behaviours of superinvestors, and follow the advice given by Koon, based on his years of observation, and his personal experience, below. Once we have appreciated, embraced them, and have them ingrained in our DNA, nothing can stop us multiplying our wealth; only the sky is the limit.

"Rather than guessing where the market or the economy may be headed, here is a little rhyme to help you remember a better way to decide when to buy stocks:
When stocks can be found at cheap prices,
the time is ripe to buy.
When appropriate values cannot be found,
the market is too high."

Charles Brandes

5.1 Trait 1: Ability to Buy Stocks Whilst Others are Panicking and Sell Stocks Whilst Others are Euphoric. Be an Intelligent Contrarian Investor

"The market is a pendulum that forever swings between unsustainable optimism (which makes stocks too expensive) and unjustified pessimism (which makes them too cheap). The intelligent investor is a realist who sells to optimists and buys from pessimists."

Benjamin Graham

"The time to get greedy is when everybody's running for the hills with fear. That's usually a great time to get the greed going."

Bruce Berkowitz

There is a famous axiom in the investment world that the market is driven by two factors: greed and fear. When the economy improves, people become bullish about the market. The greed in people will boost their confidence level, stimulate their risk-seeking behaviour, encourage them to chase the winners, and result in poor decision making. As they assume that the stocks are on the fast track to profit growth, and are fixated to short term gains, they are more than willing to pay enormous premium for the growth, which results in the prices of the stocks being bid up to an overvalued level. Unfortunately, over the long run, the business performance of most growth stocks in Malaysia tends to revert to the mean, as their profit margins eroded when more and more unforeseen competitions arrive to share the piece of pie. Ignorant investors who bid up the stocks to astronomical levels at later-stage are then vulnerable to huge financial loss.

During bear attack, when stock prices take a nosedive, the innate fear of losing in human will be triggered. The self-defence mechanism then kicks in immediately. People will suddenly become risk averse. In addition, the exaggerated bad news cast over the media will result in stress and overloading of brain's capacity. When the emotions are combined with the herding mental shortcut (belief of following other people selling is safer than doing it differently), it leads to panic selling, as the depressed investors unwittingly allow their emotions to overcome rational thinking in the decision-making

process. This is the reason why the speed of share price falling is much faster than that of rising, and the portfolios of people who sell in panic during financial crisis are always severely damaged.

Superinvestors, on the other hand, understand that the market cycle and the mood of market participants resemble the movement of the pendulum swinging back and forth to the extremes of its arc. By staying the course and staying sane, they are able to see a wider market view clearly, and able to avoid those dire mental pitfalls. During market crash, when everyone is in a panic state, they remain unemotional, cool and calm. They know that no matter how gloomy the weather is, when the dark cloud overcasting the sky disappears, the earth will be brightly lit again. They know that the market can experience many boom and bust cycles, but it will not collapse. And no matter how severe the damage caused by the financial turmoil, given some time, good companies will eventually return to their glory day again. Therefore, superinvestors are able to seize the opportunity to buy aggressively with conviction when stock prices plunge. When the crowd is in a euphoric state, the superinvestors are happy to sell their stocks at higher prices, even if they could not sell them at the peaks, and they then spend the lonely time sitting on their cash to wait for another perfect time to swing their bat again. Instead of following the crowd, stories, fads or hypes, they follow their selection criteria, investment philosophies, focus on risk management, and stay level-headed.

That said, it does not mean that superinvestors will buy all kinds of undervalued stocks. In any depressed markets, good bargains can be found effortlessly. If they split their money evenly to buy all the undervalued stocks in the market, not much of fund can be allocated for the truly good stocks with high growth potential. Instead of buying all the undervalued stocks, superinvestors buy them selectively. They pick only one or just a handful of remarkable stocks that meet their selection criteria, and buy them as much as they possibly can. For example, they look for high-probability events, and they only buy those undervalued stocks that they understand the businesses well, companies with trustworthy management, and businesses with strong competitive advantage, and most importantly stocks with tremendous profit growth potential in large quantities. By being intelligent contrarian investors, they can be sure of their winning possibility even before the deals are executed.

5.2 Trait 2: A Great Investor is One Who is Obsessive about Playing the Game and Wanting to Win. These People Do Not Just Enjoy Investing; They Live It

"We wake up every morning and go to sleep each night thinking about stocks. When you are as focused and obsessed as we are, you develop certain tenets about investing."

Mario Gabelli

"Very few people had the tenacity I had. I'm a very competitive guy. Passionate or obsessive, whatever you want to call it. And it's in my nature that whatever I do, I try to be the best."

Carl Icahn

According to studies, most people do not enjoy investing even though they trade stocks. If you ask any of the people you meet in stock brokerage house what motivates them to buy or sell stocks, I am very sure the answer -- and the only answer -- you will get is "to make some money". Neither they have a set of rules to guide them in investing nor do they have any clearly-defined methodologies to buy or to sell stocks. They trade stocks with gambling-like emotion. They buy on news. Most of them do not know that before any good news is released; the price of a stock has gone up substantially. That is probably the worst time to buy stock. The worst thing is that some of them even refuse to cut loss when the stock falls and they realise that they have made mistakes. They hope that the price of their holding will rebound, so that they get to sell it at their breakeven price. By the time when they decide to sell the stock, as they have frustratingly held the underperforming stock for a long period of time, the stock price is probably at its lowest level. All in all, they are not making money from stock trading, but are funding their trading with their lifetime saving or with the money earned from their day jobs. How can we expect someone who keeps losing money in stock trading to enjoy playing the game?

Unlike ordinary investors, superinvestors are obsessive about playing the investing game, and wanting to win, or to be the best. In addition, these people do not just enjoy investing; they live it. They are so fascinated with the game that they can work extremely hard, and are willing to spend most of their time to studying the businesses of each company, so that they can find more good stocks to buy. If the joy of finding a girlfriend is in the pursuit, to them the joy of investing is finding another good share to buy. That is why they devote so much effort to analysing the businesses of each company.

To superinvestors, investing is also like operating a company. They have their own mission and vision for investing in the stock market. They have a mental picture of what their investments will become in three to five years. They have their own roadmaps, together with which they use their investing philosophy, method, strategy and intuition to guide them to the glory in their investing journey.

Superinvestors enjoy what they are doing. They know their circle of competence, and they know how to increase their odds of winning in the game. They are loss averse, and always do their best to reduce the risk, or to protect their capital. Therefore, they only invest in companies they can understand the businesses well, and companies with profit growth potential so that they get to enjoy the snowball effect of wealth accumulation. Further, they never stop learning about investing. They spend most of their time reading and acquiring knowledge. They keep refining their philosophies, skills, methods, and strategies. They perform post-mortem on all their trades, so that they can improve their results, and become better investors. Moreover, they constantly study their failures, be it in analysis, or in decision making process. Because of their passion and

commitment to investing success, their performance gets better year by year. That's why they are spectacularly wealthy.

Despite their wealth, they do not stop investing. Why? Because their main focus is not on money, but rather on their objectives and targets, to test their philosophies, and to leave a great legacy. They know that if they follow their golden rules, and the path they have chosen, the monetary reward is beyond their imagination when they reach their destination. To them, money is just a scorecard, and a form of reward for their brilliant ideas, and magnificent philosophies, and making tonnes of money is not their main goal. The amount of money they need to enjoy the freedom and independence is far lesser than what they possess. That is why Koon donates so much money to schools, and universities, and for needy people and society. Sir John Templeton once said "*Do something where you're performing a real service for people. It'll be a success. I like investment counselling. And I like helping others. It gives you pleasure you can't get spending thousands of dollars*." Therefore, earning tonnes of money is not their priority in investing. If money is their main motivator, they would have stopped investing after becoming millionaires, but they did not stop – and will never stop.

5.3 Trait 3: A Good Investor is One with Willingness to Learn from His or Her Past Mistakes and to Analyse Them

"To others, being wrong is a source of shame. To me, recognising my mistakes is a source of pride. Once we realise that imperfect understanding is the human condition, there's no shame in being wrong, only in failing to correct our mistakes."

George Soros

"While most others seem to believe that mistakes are bad things, I believe mistakes are good things because I believe that most learning comes via making mistakes and reflecting on them."

Ray Dalio

"Granted, we all make mistakes. The important thing about making errors in judgement is the ability to admit those errors. If you grow into adulthood unable to acknowledge your mistakes - in life, as well as investing - you will learn your lessons the hard way. Only when you recognise your mistakes will you be able to make corrections necessary to put yourself on the right path."

Jim Rogers

Investment mistakes refer to the decisions or judgements made by investors that result in poor returns in their investments. All these mistakes are stem from the presence of bias -- be it representative bias, familiarity bias, misattribution bias, disposition effect, cognitive error, or any other psychological biases. Making mistakes is the most important part of our investing journey. Mistakes do not kill us, but they make us stronger if we learn to avoid them.

Superinvestors are no different from ordinary investors; they also make a lot of mistakes in their investments, and are not afraid of making mistakes. Jean Paul Getty once said there is nothing shameful in making mistakes once, but repeating the same mistakes is a disgrace. Therefore, superinvestors constantly look out for their own biases and flaws in their investing philosophies, critically analyse their theses and decisions, ready to admit and correct their mistakes, appraise them, and avoid them in the future, so that they do not compound them. This is the reason why Bruce Berkowitz said "*We spend a lot of time on mistakes and asking why we make them. It's great for the investment process*." And at the Value Investing Congress of 2009, David Einhorn shared the practice with people that "*when something goes wrong, I like to think about the bad decisions and learn from them so that hopefully I don't repeat the same mistakes"*.

However, most people never learn from their past mistakes. This is apparent during bull markets. They tend to repeat the same mistakes again and again, and become arrogant after pocketing some profits from their recent bets. Their fear of loss has evaporated. Their egos have grown so big that hardly any sincere advice and invaluable opinions can get into their head until they experience another great setback. Their inflated confidence will lead to overestimation of ability, and underestimation of risks. As the winning streak continues, they have the propensity to put all dangers behind them, break their own investment rules, ditch their old philosophies again, and join the herd singing "this time is different". In fact, the self-serving bias is a hindrance to seeing the imminent danger, and the reality is the history still repeats itself. Most of them will not see the disaster coming until the moment they are about to fall off the cliff one by one like lemmings. It is undeniable that winning big is so easy and the temptation is so irresistible when stock price soars, but how many people managed to pull the hand brake timely at the edge of the cliff. Before 1997 -- Asian financial crisis, money invested in any stocks, including those hot stocks with businesses bleeding financially, could be easily turned into "gold". But how many people managed to walk away happily after the bubble burst?

Humility should therefore be embraced in the philosophy of every serious investor. Superinvestors always stay humble even when they make enormous profits, and remain upbeat when the markets perform badly. Unlike common investors, every superinvestor understands that he or she is fallible, and always looks out for flaws in his or her investment theses. If he or she discovers the mistakes, he or she would admit his or her mistakes, abandon the theses, and even sell the stocks he or she bought earlier on immediately at a loss, analyse the mistakes, then learn some painful lessons from the mistakes, and avoid repeating them in the future. For example, Koon has no qualms about admitting the mistake of his investment in Jaks, indentifying the root cause, and sharing the lesson he learned from the failure. That is the reason why Charlie Munger likes the maxim of Jacobi -- *man muss immer umkehren*, which means *invert, always invert* -- so much that he does not only use the concept in testing his theses, but he also uses it in analysing his mistakes in a few different ways, and then have the findings included in his checklist to guard himself against the same errors and proclivities.

Some of the superinvestors, on the other hand, like to keep a journal or a diary of their investing records for self-reflection. They understand that human memory is only suitable for remembering stories, but not good at recording facts. By keeping a journal of the information of stocks he or she purchases, his or her emotional state and mood before making decision, and how the decisions are arrived at for the investments, he or she can reflect on his or her past mistakes, so that he or she is not susceptible to the same mistakes. Moreover, he or she can regulate his or her mood, and control his or her emotions, so that he or she won't repeat the same mistakes again in the future.

"Forgive yourself for your errors. Don't become discouraged, and certainly don't try to recoup your losses by taking bigger risks. Instead, turn each mistake into a learning experience. Determine exactly what went wrong and how you can avoid the same mistake in the future."

John Templeton

5.4 Trait 4: An Inherent Sense of Risk Based on Common Sense. You Must Have the Common Sense to Realize the Risk of Buying Any Share Which Has Gone up A Lot and When All the Analysts are Recommending Buy. Always Take an Analyst Report with a Pinch of Salt

"Economics and markets cycle up and down. Whichever direction they're going at the moment, most people come to believe that they'll go that way forever. This thinking is a source of great danger since it poisons the markets, sends valuations to extremes, and ignites bubbles and panics that most investors find hard to resist."

Howard Marks

"It is our opinion that the consensus view finds comfort in groupthink and therefore pays little attention, if any, to the historical accuracy of the agencies publishing these estimates."

Arnold Van Den Berg

Very often people buy or sell shares solely based on their projections, charts or news. For example, speculators make their purchase decisions based on the assumption that the share prices will grow continuously without even using some common sense to examine the risk levels of the investments. This over-optimism problem always results in overpaying for a stock, and underestimating valuation risk.

Similarly, some analysts perform valuation only based on the balance sheet or using those financial models with complex formula, five-decimal-place numbers and all sorts of Greek symbols. Some chartists, on the other hand, make buy calls solely based on the charts with the underlying business performance and companies' future largely ignored. If we buy stocks in uptrend motion or stocks with a healthy balance sheet, but with no profit growth potential, or with oversupply problem, the money that we pour into the investment will not be working productively for our wealth, and the likelihood of losing money is fairly high.

Superinvestors understand the importance of preserving capital. In addition to using some key valuation metrics and charts, they also use some common sense, experience and intuition when valuing a company. This is to ensure that they do not lose money nor have any laggards sitting idly in their portfolios.

Whilst it is good to read some economic news and analyst reports to keep ourselves abreast of world development and to get some investment ideas, we should not accept the entire information, news, and analysts' projections without processing them. Be wary of the flaws in analysts' projections and views. Always take analysts' reports or news with a grain of salt, and be sceptical of the so called "experts", especially when they express optimism about the future of a company. we have seen many people who reacted quickly to news and analysts' reports ended up having their fingers burned. Making buying or selling decisions immediately after reading news and reports is not investing, it is called gambling. Gambling is a dangerous game, which is highly susceptible to psychological biases.

According to studies, newspapers with exciting headlines and stories have a better chance in capturing and retaining market share. Any reporters who have the ability to attract more readers will have better chances of getting promoted. Hence, all of them also have a tendency to produce exciting yet exaggerated news. Similarly, sell-side analysts are handsomely rewarded for writing good reports, and providing right buying recommendations, especially during economic boom. As a result, many of them are not only bullish about the market, but are also overly optimistic about the economy, and are overconfident at the peak. Most of their projections and estimations are overblown figures. If you allow your emotions to be manipulated by these mass media stories and analyst reports without using business sense to judge them, you are literally chasing hot stocks, and your investments will be in danger. You will one day wake up to discover that you are also one of the patsies left without a chair when the music stops.

5.5 Trait 5: Great Investors Have Confidence in Their Own Convictions and Stick with Them, Even When Facing Criticism

"To succeed as a contrarian you must recognize what the crowd believes, have concrete justification for why the majority is wrong, and have the patience and conviction to stick with what is, by definition, an unpopular bet."

Whitney Tilson

"Soros has taught me that when you have tremendous conviction on a trade, you have to go for the jugular. It takes courage to be a pig. It takes courage to ride a profit with huge leverage."

Stanley Druckenmiller

"Because I became worried about the Japanese stock market in the late 1980s due to its gigantic credit boom, we sold all of our Japanese stocks in mid-1988. Some investors questioned us for pulling out from the second largest stock

market in the world, but I said it's better to take some money off the table than to participate in market mania. Obviously, I was wrong and unhappy in the next 18 months because the market went up another 30 percent, but in 1990 when the market collapsed, we owned nothing in Japan and our decision was proved logical."

Jean-Marie Eveillard

In late 1990s, when the whole world embraced the speedy advancement in Information Technology, and when people believed that the revolution would also change the doctrine of conventional investment method, and that a new approach assessing investment based on growth model should be employed, a minority group of people adamant that they would shun high tech stocks, and would continuously look for undervalued stocks ditched by Mr. Market. This group of investors is no others except value investing followers. And most of them are superinvestors, who had millions, if not billions of dollar assets under their management. According to Bill Ruane, one of the superinvestors Warren Buffett mentioned in his essay called the Superinvestors of Graham-and-Doddsville, *"The recipe for delivering superior long-term performance requires equal parts of picking the right stocks and avoiding the wrong ones. We were not even tempted to join the recent speculative frenzy in the dot.com sector."* At the same time, near the peak of the dot com boom, Jean-Marie Eveillard said "*I would rather lose half my shareholders than lose half my shareholders' money,"* as he believed technology stocks were overvalued, and he foresaw the Dot Com bubble would burst soon.

Not only did the media criticise them for their old-fashioned investment style, many of their clients also puzzled why did not they buy a single share of those fabulous technology stocks. Their answers to the public were that they really concerned at the high valuation of those information technology stocks, and that they only invested in stocks they have an edge and with low risk. They insisted that only when having informational, analytical and psychological advantages over the crowd would they deploy their capital for the investment. Following the crowd to chase those glittering stocks was not the game in which they would participate. Their convictions were later proved right when the internet bubble burst, and their funds achieved double-digit returns in the same year. Their due diligence and convictions did not only protect them from the loss of capital, but it ensured that the odds were in their favours before they committed their capital. In his interview with Ronald Chan in 2012, Jean-Marie Eveillard mentioned that *"Our fund had total assets of around $6 billion in 1997, but by 2000 it was down to $2 billion. I was unhappy, but I constantly reminded myself that I was acting in the best long-term interests of our investors, so I had to do the right thing. When the mania was over, investors came back and praised our discipline. The fund [the First Eagle Global Fund] today has a size of close to $30 billion."*

The Dot Com mania mainly stems from the emotional, cognitive errors and psychological biases of human. Human's greed and fear is the root cause of bubble forming and bursting. Financial losses or economic recession is just a by-product of the crisis, not the root cause. The similar type of nightmare will always come back to haunt people again and again in different contexts. For

example, the subprime crisis in 2008, and Asian financial crisis in 1998 began with greed and ended with fear. If we stick to a sound approach, have faith in our convictions, only buy fundamentally good stock with growing profits and profit growth potential, maintain our belief, even in the face of peer pressure, stay sane, and are not easily swayed by market sentiments, or any other fishy stories, we are not only able to detect bubbles, but are also able to capitalise on human's psychological biases to make tonnes of money in the stock market in the future.

5.6 Trait 6: Ability to Think Clearly

"If you stay rational yourself, the stupidity of the world helps you."

Charlie Munger

"The power of psychological influences must never be underestimated. Greed, fear, suspension of disbelief, conformism, envy, ego and capitulation are all part of human nature, and their ability to compel action is profound, especially when they're at extremes and shared by the herd. They'll influence others, and the thoughtful investor will feel them as well. None of us should expect to be immune and insulated from them. Although we feel them, we must not succumb; rather we must recognize them for what they are and stand against them. Reason must overcome emotion."

Howard Marks

"You need to divorce your mind from the crowd. The herd mentality causes all these IQ's to become paralyzed. I don't think investors are now acting more intelligently, despite the intelligence. Smart doesn't always equal rational. To be a successful investor you must divorce yourself from the fears and greed of the people around you, although it is almost impossible."

Warren Buffett

Common stock is the best financial tool for rational investors to amass their fortune over the long haul, but the worst vehicle for irrational investors to even preserve their wealth. The discrepancy between the traits of these two types of investors (rational and irrational investors) is that the former always stick to their dispassionate analysis, whereas the latter allow their emotions to control their judgement. As a result, irrational investors cannot think clearly in their decision-making process. This behaviour is very evident during bear stampede that this group of investors always busy despondently dispose all their holdings whilst the clear headed superinvestors keep hunting for undervalued stocks in the same market.

One of the reasons why people cannot think clearly, and sell stocks panicky during market crash is that they do not know the actual worth of the businesses when they bought the stocks. According to studies, most of the investors do not like to read financial reports; many of them do not even bother to understand the companies' businesses. They buy the stocks solely based on hope that the stocks will decuple in a few weeks. During economic crisis, when everyone rushes to sell the stocks, and analysts also give strong sell recommendations; there is no

reason for them not to liquidate their positions hastily, as the hope has vanished into thin air.

Another factor why people are captive to the bias is that they use emotions in their decision-making process. In comparison to the systematic and logical approach, this method yields quicker results and is effortless. Instead of performing due diligence, such as analysing the underlying business performance, profit growth prospects, and value of the business, this system uses some mental short-cuts based on similarity and familiarity to judge what the market will do next. For example, when the system receives some negative news of a stock, it will link the news to price fall, and will trigger the fear of losing money. In such case, the most natural reaction the system will take is to sell the stock quickly without investigating further. The massive disposal of a stock will then lead to its price plunging. Likewise, the fear of loss also causes people to ignore bargain. Therefore, this group of investors tends to lose their lifetime savings in a very short cycle, and is unable to capture the rare opportunity when the stock price running out of control. This is the reason why Walter Schloss advised people *"try not to let your emotions affect your judgment. Fear and greed are probably the worst emotions to have in connection with the purchase and sale of stocks."*

As Koon recalled, in 1983 when the Hong Kong stock market crashed, as China Government gave notice to the British Government to take back the sovereignty of Hong Kong, the Hang Seng Index went down below 1,000. The fear that the "Chinese Communists" were going to rule Hong Kong led to the massive disposal of shares in the market as if there were no more tomorrow. He identified one of the undervalued stocks called HK Realty & Trust. Before the crash, it was selling at HK$ 13.60, and during the crash it was selling at HK$ 3.60 per share. Moreover, its audited accounts showed that its cash value per share was HK$ 10.00. During the crash, he bought the stock as much as he possibly could. As soon as China granted a 50-year extension of the lease, the market rebounded and HK Realty & Trust shot up above HK$ 15.00, so as most of the other counters. The market had a new lease of life, and every investor quickly jumped in to buy. As his holdings went higher, he could buy more shares on margin finance, and the rest is history. The opportunity for him to make a mint during the crash was mainly attributed to the greed and fear in people. Had the market been more rational responding to the news, and been able to overcome the psychological pitfall, it would have not been possible for Koon to earn so much to afford 46% of stake in Kaiser Stock & Shares Co Ltd.

5.7 Trait 7: Ability to Live Through Volatility without Changing Your Investment Thought Process

"To be a very successful investor you have to be able to avoid some natural human tendencies to follow the herd. The stock market is going down every day your natural tendency is to want to sell. And the stock market is actually going up every day your tendency is to want to buy. So in bubbles you probably should be a seller. In busts you should probably be a buyer. You have to have that kind

of a discipline, you have to have a stomach to withstand the volatility of the stock market."

Bill Ackman

"The value investor sees this volatility and says, "What a great opportunity." However, the masses generally say, "This stock is way too risky, I'll pass." We are full believers in the "buy low, sell high" investment philosophy, so to us this would be a great opportunity."

Arnold Van Den Berg

"Successful investors tend to be unemotional, allowing the greed and fear of others to play into their hands. By having confidence in their own analysis and judgement, they respond to market forces not with blind emotion but with calculated reason. Successful investors, for example, demonstrate caution in frothy markets and steadfast conviction in panicky ones. Indeed, the very way an investor views the market and its price fluctuations is a key factor in his or her ultimate investment success or failure."

Seth Klarman

Every investor wishes to receive a windfall gain from his or her stock investment. However, the fact is, not many people can win in stock investing. Why is it so?

One of the reasons why so many people lose money in the stock market is that they allow their investment thought and decision making processes to be influenced by their emotions. For instance, when a company reports a sudden drop in profit, they will be sceptical about the company's future, and immediately sell the stock without probing further what drives the cost up or causes its profit drop. The hasty decision without further thought is always the biggest regret of investors when the stock he sold shows increasing profits in the following quarter and next year.

Gamblers, on the other hand, would sell their original holdings to buy some hot stocks if they heard from their neighbours or brokers that the stocks would be doubled in three months, even though some of the original holdings they disposed are high yield stocks with bright profit growth prospect. Coincidentally Christopher Browne also shares the same finding with us. In his book titled The Little Book of Value Investing, Browne stated that *"Most people seek immediate gratification in almost everything they do including investing. When most investors buy a stock, they expect it to go up immediately. If it doesn't, they sell it and buy something else."* The myopia always leads to ignorance of the underlying business, and overemphasis of short-term gain. What they are interested in is making a quick profit. Most of them hope to become millionaires overnight. When the hot stocks lose momentum and head south, the late comers will be spooked by the selloff, and tend to sell immediately at a loss. Therefore, it is hardly surprising that some people have never even won a dime in their investments.

Superinvestors understand the importance of confidence, patience, and self-control, which are the keys to success in stock investment. They do not change

their investment thought easily. They do not follow the crowd buying any hot stocks. They know what the crowd doing is wrong. This statement is further supported by Robert Cialdini's finding that *"quite frequently the crowd is mistaken because they are not acting on the basis of any superior information, but are reacting, themselves, to the principle of social proof."* Superinvestors will not stray from their principles, and golden rules. What they normally to do are buying a handful of stocks with marvellous profit growth potential according to their plans after performing due diligence, and then they watch the stocks unfold their fantastical tales themselves patiently, and let their prices increase gradually. Their investment horizon is usually two years or even longer. And they understand that there will be some peaks and troughs along the way. That's why they adhere to the principle of 7Ps -- Proper Planning and Preparation Prevents Piss Poor Performance. Regardless of market volatility, they always stick to their investing rules, investment philosophies, and methods even when they are facing criticism.

Chapter Summary

- Trait 1: Ability to buy stocks while others are panicking and sell stocks while others are euphoric. Be an intelligent contrarian investor.
- Trait 2: A great investor is one who is obsessive about playing the game and wanting to win. These people do not just enjoy investing; they live it.
- Trait 3: A good investor is one with willingness to learn from his or her past mistakes and to analyse them.
- Trait 4: An inherent sense of risk based on common sense. You must have the common sense to realize the risk of buying any share which has gone up a lot and when all the analysts are recommending buy. Always take an analyst report with a pinch of salt.
- Trait 5: Great investors have confidence in their own convictions and stick with them, even when facing criticism.
- Trait 6: Ability to think clearly.
- Trait 7: Ability to live through volatility without changing your investment thought process.