What You Need to Know While Investing for Financial Freedom

Basic First Principles, Importance of Mindset and Book Excerpts

Ranjit Kulkarni

Copyright

Dedication

To all individual investors who yearn for financial independence

Introduction

The objective of this book is to provide knowledge, insight and perspective to individual investors on investing for financial independence.

I am a writer, researcher and investor. This is a collection of my writings which could be broadly classified as something that every investor pursuing financial freedom must know – hence the title of this book.

This book contains Basic First Principles, Writings that emphasize the Importance of Mindset, and excerpts from Books on Investing you must read. It is not structured as a 'Step-By-Step Guide to Financial Freedom'. Rather it covers various techniques and considerations, provides balanced perspectives on tools and options for investing, demonstrates to the reader how mindset and temperament are critical in their investing journey, and includes excerpts from important investing books and gurus that the reader can learn from.

A lot of what needs to be told is not told to individual investors – definitely not in a formal manner. This is due to multiple reasons, the primary one being that no one has an interest in educating the common individual investor. Most have an incentive to sell so as to collect assets, earn brokerage from transactions or attract attention for advertisements. Some may have an intention to educate, but in the absence of a long-term revenue model based on investor education, most don't have a direct incentive to educate.

Therefore, it is generally left to the individual investor to discern the noise, discover, learn, make mistakes, pay for them and learn again in the process. Given the era of today's financial markets, various players in the industry and the business media, it is an arduous task which takes both tremendous discipline and wisdom, almost a stoic attitude. Very few investors survive this cycle of learning.

This book is an attempt to articulate some of the basic first principles that every individual investor must know in his journey to financial freedom but is never told formally or directly. These are, by no means, comprehensive, not all encompassing, and definitely do not hold any secrets to making money.

But this collection will serve as a good set of investing basics to equip you on the journey to financial independence. I hope that this collection educates you with basic methods and knowledge, so that you can create your plan, and take investing decisions based on a framework of understanding that is in your favour. I hope it leaves you with a bit more knowledge, perspective and wisdom than what you otherwise are told.

I hope you enjoy the reading as much as I enjoyed the writing.

Ranjit Kulkarni

Contents

What is Financial Freedom and what factors lead to it?

So, what is financial freedom and why is it important?

Most people are dependent on their active sources of income for most of their lives. Active income essentially means doing something to earn income to support various expenses in life. In most cases, that means exchanging your time and skills for money – which then determines your expenditure and savings.

Most people find themselves in this rut for most of their lives. And while their incomes might increase over time – either fast or slow based on individual circumstances – somehow they never find themselves in a position where they can leave their main source of livelihood/ active income.

Financial independence is essentially the quest towards removing that dependence on active sources of income, and hence, being able to support your expenses and lifestyle with income generated from financial assets.

What are the factors that hinder financial independence?

Firstly, Savings is the single most important factor in achieving financial independence. Financially, you are not what you earn but you are what you save out of what you earn.

Saving = Earning minus Spending

Most people measure themselves by their Earnings – and unfortunately forgetting that it is the saving that matters – for long term financial security.

Secondly, Inflation is the second biggest hindrance. Money loses value over time – the reason being inflation. The slow poison or indirect tax – whatever you may call it – inflation is the phenomenon of increasing prices leading to the creeping depreciation in the money earned and saved.

Even if they may be saving, most people have no clear sense of the impact that inflation has on their savings as our brains are simply incapable of quantifying long-term inflation impact unless we get there.

Thirdly, Education is the third biggest hindrance. While one may appreciate the value of savings and the need to fight inflation, most people don't have any idea on what to do to put their savings to work. Formal financial education is not included in any of our educational courses – even management and accountancy courses don't have them, forget about other professional or basic degree courses. I have been unable to find the reason for it – but our education system is focused on providing skills for earning, but not on imparting skills on how to financially manage the earning.

Finally, Time and our ability to gauge the impact of time is the last hindrance. The effect that the first three factors above have over long periods of time is astounding any which way you see it. So if you lack in savings, have no ability to fight inflation and have no financial education, and you let these three combine over 20 years, you will find yourself in a reasonably miserable financial condition – without quite realising it – perhaps till you get there.

And if you actually have the three factors working in your favour – adequate savings, the ability to beat inflation and the education on how to manage your earnings – and let these combine over 20 years, I can assure you that you will be surprised by the extent of positive results. It is an almost sure shot way of achieving financial independence.

Why Compounding is the Best Kept Secret of Investing Success

There is a stark similarity between what I reckon to be the driver of success in investing as well as superlative achievement – the single magic phenomenon of compounding.

Everyone knows that Einstein called compound interest the eighth wonder of the world.

There is also the story of the poor farmer who robbed the rich king in less than three months, when his request for a seemingly small gift of food grains starting with a single grain on day 1, and just doubling the number of grains every day was granted.

So the farmer requested that the king add 1 grain today to the first square, 2 grains tomorrow to the next square, 4 grains on the day after and so on, and thus continuing that process to so that he fills all the 64 squares of the chess board.

The rich king, irritated by the apparent frivolity of the gift, started the task only to realize by the time he had reached the 32nd square that the task was enormous.

Eventually the king gave up on the possibility of trying to fill on the 64 squares of the chess board, realizing he did not have so many grains.

That is an example of the power of compounding, and how our brain is incapable of imagining its impact.

Most people are taken by surprise when they are told that 99.5% of the current net worth of the world's richest man Warren Buffett has been earned after the age of 50.

For compound interest to work, one needs to give it enough runway, which means start early and start with whatever is possible. Starting saving and starting it early are both important.

Secondly, for compounding to work, one needs a good rate of return over long period of time. This is not possible, unless one is wired with the right discipline and temperament to go through inevitable ups and downs of the economy and markets and keep at it.

And finally, the real effects of saving, that start looking like investing genius - sometimes simply due to the mathematical magic of compounding – will start showing only when one keeps doing it for a long period of time.

So, the key takeaway is that there are three drivers:

Start Saving Early, Increase your rates of return, and Keep at it for long periods of time.

The sad reality is very few people have planned well enough to meet all the three drivers perfectly.

How to decide which type of investor you should be

“The Defensive Investor will place his chief emphasis on the avoidance of serious mistakes or losses. His second aim will be freedom from effort, annoyance and the need for making frequent decisions”- The Intelligent Investor

“The determining trait of the enterprising investor is his willingness to devote time and care to the selection of securities that are both sound and more attractive than the average.”- The Intelligent Investor

At the heart of any investment strategy with the goal of financial independence is a key decision that the investor needs to make right at the start. This decision could change based on life circumstances and priorities (and hopefully not based on swinging moods), but once made, it is important for investors to stick to that. And that decision is what type of investor should you be?

I mention this as a decision that the investor must make, because a lot of advice seems to try and answer the question - what type of investor are you? Rather than what type of investor should you be?

The former, I think, is a wrong question to ask - likely to end with the right answers but to the wrong question. Very often, in response to this wrong question, investors will end up with the right answers that provide characteristics like aggressive, moderate and risk-averse, derived on a questionnaire around mental make-up, age, income level, etc.

Whereas, if one shifts the onus on the decision to be made by the investor - on what type of investor should I be - the next question that comes up will be - how should I decide that?

Now that's a good question to ask.

The answer to that is provided by legendary value investor Benjamin Graham in his book "The Intelligent Investor".

That decision should be taken based on simple criteria: Am I willing to put in more effort for more returns? If that is the case, I would be an aggressive (or enterprising) investor. If that is not the case, I would be a defensive investor, and should be happy with reasonable but perhaps lower returns.

Very simple - like all other things in life. If you are willing to work for it, you deserve higher returns, else be happy with lower returns.

This may seem like a simple decision to make - but is not easy to stick to. A lot of investors end up trying to be both, and often with bad results.

As Graham says, there is nothing like a part-time enterprising investor, because one does not know what one doesn't know, till experience teaches it. But that is a discussion for another day.

The key is - to take this decision on what type of investor you should be and sticking to it. Your circumstances may change in which case you may make a conscious decision to change your type. But it should be like a switch - on or off.

This decision will have a bearing on the kind of portfolio that should be cultivated. Anything in between may provide excitement but may not provide investment results.

5 Steps to Simplifying Portfolio Strategy using Asset Allocation

"The virtues of a simple portfolio policy have been emphasized – the purchase of high grade bonds plus a diversified list of leading common stocks – which any investor can carry out with a little expert assistance."- The Intelligent Investor

A lot of individual investors are so interested in getting answers to questions like which stocks to buy, at what price and when to sell - that they do not realize that these are the least important questions to get answered when it comes to building long term wealth.

Perhaps the single most important decision that influences long term returns has got to do with allocation ratio of asset types. That is - how much of my income after expenses - i.e. savings - do I put in various types of assets across stocks, fixed income, real estate, gold and cash? This is broadly referred to as portfolio asset allocation in financial parlance - and is the single most decision that impacts long term returns.

So why does one need to invest in so many assets? Well the reason is simple – to get different rates of return at different points of time – so that, as a whole, you get a decent rate of return consistently.

How is that achieved - one may ask? Well, that has a simple logic due to the nature of the assets. Fixed income (or fixed deposits as most people know them) is essentially loans to someone – a bank, a company or anyone else – with a guarantee to return it with some interest. So it is more or less assured return with little return. Simply because of the logic that whoever is taking a loan from you has probably found some avenue to invest it somewhere to get a better return – else why would he take a loan?

That brings us to the second category of assets. Equity or share in a company – which is essentially giving capital to someone who has the enterprise to give you returns. Obviously there is possibility of capital loss, so the expectation of return is higher – else why would someone invest capital in a risky proposition?

In between these two categories is real estate. This is sort of an appreciating asset that also gives some return in the form of rent for usage. With lesser risk than equity but with higher return than fixed deposits – primarily because the cost of constructing a new one increases with inflation. Not an exact guarantee – but.

And then finally, there is gold, which is sort of a dead asset which neither guarantees any appreciation, nor provides any return, but acts as a currency due to its short supply. Due to historical reasons, it is a store of value – not necessarily a great one to beat inflation – but an asset nevertheless.

So those are the four primary categories of assets which – as a whole – promise appreciation in their value over time. Everything else reduces in value and is either a clear-cut expense or an expense in the guise of an asset – it will not appreciate. That includes cars, jewellery, art, electronics, clothes, food and everything else.

Hence, for an investor to achieve the compounding required for financial independence, it is essential to build a portfolio of these four core assets – fixed income, equity, real estate and gold – and find a way of beating inflation together.

"We are thus led to put forward for most of our readers what may appear to be an oversimplified 50-50 formula. Under this plan, the guiding rule is to maintain as nearly as practicable an equal division between bond and stock holdings."- The Intelligent Investor

For simplifying portfolio strategy, all the opinions and advice can be essentially reduced to a set of few simple steps:

1. Decide your asset allocation based on your life circumstances: The exact asset allocation does not matter if it is carefully thought out and something that can be adhered to. Graham in his famous book 'The Intelligent Investor' proposes a simplistic 50:50 allocation between stocks and bonds. For an individual who does not intend to do investments full time (i.e. has a job or business for his regular income) and has an ability to leave his investments untouched for 10 or more years, an allocation of up to 60% in equity, 10% in gold and the remaining 30% in fixed income might make sense. The exact answer is best decided by the investor himself based on circumstances. It may not give best returns but should be something that is practically followed over the long term.

2. Select your core and peripheral assets within the allocation: For most individual investors, index funds or select actively managed mutual funds are the best vehicles for equity participation.

3. Review once a year, and Rebalance when allocation ratios go out of whack: i.e. if equities have grown and now account for 70% of assets and your allocation was supposed to be 60% to equities, then shift 10% into others by selling; similarly if cash/fixed income or gold value has increased, shift proportionately into equity or vice versa.

4. Set up a system for this: Both contributions and rebalancing should be as per a system that is fixed, so that you do not have to take decisions frequently. It could be contributions by auto-debit and rebalancing on every birthday as an example. Having some system is better than no system, so that decisions need not be taken often.

5. Keep increasing absolute amounts or relative asset allocation, as your income levels increase or decrease, life circumstances change or ability to take risk alters.

This can be a framework for deducing a simple investment portfolio strategy for most individual investors. Once this is set up, the investor is likely to realize how unimportant the question of which stock to buy and when to sell really is.

Is direct stock investing worth it or should mutual funds do?

"The art of investment has one characteristic that is not generally appreciated. A creditable, if unspectacular, result can be achieved by the lay investor with a minimum of effort and capability; but to improve this easily attainable standard requires much application and more than a trace of wisdom." – The Intelligent Investor

Assuming that you want to "invest" in the stock market, and not "trade" or "speculate", getting average market returns is a no-brainer. One just needs to buy an open-ended index fund or an exchange traded index fund, and one is done. At the lowest cost, one is guaranteed returns that the market index will give - day on day, month on month, year on year.

Why, then, should anyone be even interested in investing in actively managed mutual funds? There can be only a few reasons for that.

First - they give returns better than the index after deducting costs.

Second - One wants an exposure to companies outside the index in a specific market cap or sector or style that one is bullish about. So, in that case, it may make sense to supplement one's index fund holdings by some actively managed funds that suit these requirements.

After that, why should one directly invest in stocks? Is it worth the time and effort?

"We are quite certain that the funds in the aggregate have served a useful purpose. On a comparative basis, we would hazard a guess that the average individual who put his money exclusively in investment fund shares in the past ten years has fared better than the average person who made his common-stock purchases directly." – The Intelligent Investor

There are ony few reasons when it may make sense.

First - One is a better investor and can beat markets consistently. Easier said than done, but if that is the case, there is no reason one needs to invest through the fund route. It is likely to take enough time and effort, but if indeed one can beat the index, why depend on mutual funds?

Second - One wants to invest in some businesses that are either small or in under-researched sectors that funds are not allowed to, or not able to invest in. There is a section of the market that institutions are not interested in. An individual investor, who understands those businesses and has conviction on a company, has an advantage by investing directly.

Third - this is perhaps due to the structural constraints of mutual funds. Due to the inherent requirement of funds to keep beating the index, some great businesses cannot be held by funds for long periods of time. For example, a mid-cap fund has identified a great mid-cap company, but once it becomes successful and actually becomes large cap, the fund has to sell it. Or, during a market crash, a fund must sell some companies to honor redemptions - so a buy and hold is not possible, even in case of great businesses.

In such scenarios, it may be worth it for individual investors to invest directly in stocks instead of the mutual fund route. But as index returns are easy to get, one must be sure that these additional investments will actually help better portfolio returns rather than dilute them.

Therefore, overall - allotting majority of your equity allocation to mutual funds (index or active based on performance) might be a prudent strategy for individual investors.

Investments through direct stock holding can be a small part of your equity allocation - only in situations where there are valid reasons for the same.

"To achieve satisfactory investment results is easier than most people realize; to achieve superior results is harder than it looks." – The Intelligent Investor

How to use Diversification to reduce 3 types of risks

"Miss Tomlinson ends her discussion of this ultrasimple investment formula with the striking sentence: 'No one has yet discovered any other formula for investment which can be used with so much confidence of ultimate success, regardless of what may happen to security prices, as Dollar Cost Averaging.'"- The Intelligent Investor

The core objective of diversification is to reduce risk - the idea being that peaks and troughs in a specific investment do not affect overall portfolio return objectives.

Continued...

Are Markets Efficient and does it matter?

"Aside from forecasting the movements of the general market, much effort and ability are directed on Wall Street toward selecting stocks or industrial groups that in matter of price will 'do better' than the rest over a fairly short period in the future. Logical as this endeavor may seem, we do not believe it is suited to the needs or temperament of the true investor – particularly since he would be competing with a large number of stock market traders and first-class financial analysts who are trying to do the same thing. As in all other activities that emphasize price movements first and underlying values second, the work of many intelligent minds constantly engaged in this field tends to be self-neutralizing and self-defeating over the years." – The Intelligent Investor

A lot of investing debate and styles of investing are supposed to emanate from this question. The roots of this debate are in an old financial theory called the Efficient Market Hypothesis - which says that all that is to know about a stock is reflected in its price at any point in time, so it is futile to analyze stocks as no one can do it. The very theory challenges human nature so much that it is no surprise that, depending on who you are and what your place is in the financial services industry, you are almost compelled to take a view on it - one way or the other.

But for an individual investor, is it really relevant? Does it matter whether markets are efficient or not, or is it just another debate to confuse him? Again - like so many other things in investing, this may be a great question for experts to debate on, but for an individual investor, a wrong question with many right answers. For an individual investor, letting go on this debate on whether markets are efficient is the best choice. "I don't know" and "It doesn't matter" are the best responses.

The answer to this question is said to determine whether you as an individual or a fund manager who manages your money can beat the market or not. Again - this is perhaps the wrong question. What if I decide that the markets are efficient and hence invest in Index funds, and then later (at the end of a year or two) realize that there are lots of funds beating the Index? On the other hand, what if I decide the market are not efficient and hence invest in an Actively Managed fund or decide to manage my money myself, and then later realize that it has not beaten the Index? In other words, the market turned out to be not efficient, but so did my fund manager and my investing techniques!

So actually the prudent answer for an individual investor to the question on whether the markets are efficient or whether I or my fund manager can beat the Index is "I don't know and it doesn't matter". Because the reality is, irrespective of whether they are efficient or not, it is practically impossible to predict in advance whether and/or which stock or which fund manager will beat an Index. Hence - "I don't know and it doesn't matter". Well - I don't know is fine, but an individual investor may ask why "it doesn't matter"? It doesn't matter because what matters more is to have an investment plan, asset allocation and re-balancing strategy in place. What forms part of those assets once you have a plan in place does not matter that much. So whether you choose an Index fund, or an individual stock or an actively managed fund within that asset allocation and re-balancing plan based on your answer to the question "Are markets efficient" may not matter much, at least if you are broadly close to market averages, and in so far as reaching your financial goals are concerned.

So - leave the debate of whether markets are efficient to the experts to fight over and resolve. Post that, let them decide whether to focus on large caps versus mid caps; or to use fundamental analysis or technical analysis. For you as an individual investor, what matters more is a proper investment plan to reach your goals that is in line with risk profile, has the right asset allocation and re-balancing strategy in place, and the discipline to stick to it. Post that, you are free to keep deciding what assets to put into that plan, based on performance every year or every couple of years. If the markets turn out be efficient, you are free to move the actively managed fund and individual stocks out of that plan, and hold an Index fund. If the markets are not efficient and you end up with a good fund manager (or if you yourself are able to beat the market), good for you, as the stocks and funds you hold may beat the Index. And finally, if you realize that markets are not efficient, but your investment style or fund manager turn out to be equally inefficient :-), you are free to move that money to an Index fund!

So let the debates on Market Efficiency continue, and let the experts argue and make a case for your money. You as an individual investor are in an enviable position, because when asked your view, you can continue saying - "I don't know and it doesn't matter."

What Rahul Dravid can teach us about Investing

"Once the investor is willing to forego brilliant prospects, i.e. better than average expected growth, he will find no difficulty in finding a wide selection of issues meeting value criteria." – The Intelligent Investor

I was privileged to watch one of the best recent displays of classical Test Match batting by Rahul Dravid in 2011. That day (as so many times in the past too) at Sabina Park in the West Indies, Dravid secured a painstaking century on a minefield of a pitch to get India into a position of victory. He has done so earlier on similar pitches against lethal bowling and in worse situations.

What is amazing is he never directly focused on getting the runs. Runs seemed to be incidental outputs. His singular focus was to handle each ball as it came, survive and score when possible - which in turn led to the century and eventually set up India's victory. Dravid has been following that approach for 15 years, ball after ball, match after match, year after year - and it is no surprise that he is India's second highest run getter in Tests.

Well – neither this note nor this book is about his achievements or why he remains my favorite Test batsman. This is about the approach he brings to batting. There is so much to learn for individual investors from the way Dravid bats. If only every investor thinks of himself as Dravid, and everything around him as the markets - the pitch, the bowls coming down, the excitement, the team situation; one will realize the value of his approach and its application in the area of investing.

Dravid's approach to batting is akin to Graham's puritan approach to investing. The first rule is never lose your wicket i.e. never lose money. The second rule is, always follow the first rule.

"In the old legend the wise men finally boiled down the history of mortal affairs into the single phrase, "This too will pass." Confronted with a like challenge to distill the secret of sound investment into three words, we venture the motto, "Margin of Safety"." – The Intelligent Investor

His expertise and experience in handling pitches like Sabina Park is tremendous, but he is still a student. He still does not know what exactly it has in store - i.e. which ball will seam and which will bounce, and does not try to pre-judge. Very much akin to the vagaries of the market which are futile to predict.

His mind is almost trained with a plan for every over that sounds like - leave, leave, defend, leave, score, defend. His patience wears off the bowlers, so that they start bowling to where he wants them to. They try out-swingers which he leaves even if slightly off line, bouncers which he ducks without any ado, in-swingers and short pitched balls which he gets behind and defends solidly.

And finally he gets a wayward delivery on his legs which he flicks, or one that is wide outside the off stump which he drives. The entire process and journey by which he collects his runs and builds his innings is amazing, and more or less guaranteed to provide success if anyone could follow it well. Wickets keep falling and other batsmen score faster with boundaries from the other end, but when Dravid is at the crease, he is still thinking - leave, defend as his natural choices by default, and only if the ball is in his zone, he scores.

And those opportunities surely come more often than not. When everyone around him is struggling - including the bowlers unable to comprehend what the ball will do next on this pitch, fielders bored with nothing seemingly happening, and non-strikers flashing their bats in a bid to do something - Dravid is patiently batting - in his zone.

Isn't the experience that normal individual investors have in the market similar to what batsmen face at pitches like Sabina Park most of the time? Sometimes you do get belters in big bull markets where you just get bat to ball, and it flies to the boundary. Investors that invest the way Dravid bats may temporarily look like fools on such belters. But most of the time, the markets are pitches like Sabina Park. You never know which way it will go. Defend or Leave is perhaps the best option for most individual investors on most deliveries thrown at them.

"However, the risk of paying too high a price for good quality stocks – while a real one – is not the chief hazard confronting the average buyer of securities. Observation over many years has taught us that the chief losses to investors come from the purchase of low-quality securities at times of favorable business conditions." – The Intelligent Investor

Patience is then the biggest virtue, especially when you have a long innings to play. And when the market wears out and throws you a sitter, you grab it and accumulate your runs. Like Dravid does this ball after ball, match after match, year after year on the cricket pitch, if an investor follows the same approach in the markets through multiple economic cycles, good form or bad, a couple of things are sure.

It is very unlikely that you will get out on a bad ball i.e. you are unlikely to suffer huge losses due to making bad investments. Most investors never recover or get back to markets after that. And finally, it is very likely that you will end up with a tally like Dravid's by the time you are done.

Book: The Intelligent Investor

"The Intelligent Investor" by Benjamin Graham was called the best investment book ever written by Warren Buffett. After close to 60 years after it was first written, one continues to be amazed by its depth and clarity and its relevance even today.

It is almost like financial philosophy, akin to the 'Bhagavad Gita' of investing and finance for the individual investor - whenever you pick it, you learn a new piece of investment wisdom. If an individual investor must read only one book on investing, 'The Intelligent Investor' is the one.

It is difficult to pick up the best parts from such a book - it covers everything from definition of investment to specific criteria for stock selection.

Here are some of the key takeaways from the book *Investment versus Speculation:*

Investing means any operation that on thorough analysis promises safety of principal and an adequate return.

1. *Bonds versus Stocks in Asset Allocation:*

Graham presents a simplistic 50:50 formula of allocation between fixed income bonds and stocks that works for most investors - giving a leeway of 25% on either side. I.e. at no time should the allocation of either stocks or bonds fall below 25%.

The guiding rule is to keep re-adjusting this allocation when one component increases above a certain defined limit, like 60%, by selling the additional 10% of the increased component and buying the other. This does not guarantee the highest returns - but is a mechanical program that is most likely to work - simply because it advises selling and buying when it is counter intuitive, and "chiefly because it gives the investor something to do".

2. *Defensive versus Enterprising Investors:*

Graham makes a distinction between types of investors not based on risk taking abilities or age but rather on the amount of intelligent effort that is put into an investment operation.

The Defensive investor will place emphasis on avoidance of serious mistakes and losses, and seeks freedom from effort, annoyance and the need to make frequent decisions.

The Enterprising investor will be able and willing to put in time and effort in the selection and tracking of securities that may appear to be better valued than the general market from time to time - which may help him achieve better returns than the market over long periods of time.

Majority of investors would fall into the Defensive category. To achieve satisfactory results available to the defensive investor is easier than most people realize, to achieve superior results sought by the enterprising investor is harder than it looks.

3. *The famous Mr Market:*

This is perhaps the most valuable part of the book - on how to approach the widely fluctuating markets that an investor will face number of times in his investing life.

Treat the market as an obliging, emotional partner in your businesses - i.e. the securities of which you own. Every day, he tells you what he thinks of the value of the share of business that you own, and offers to buy your share at a price or sell you his share at a price. Sometimes his fears overtake him so offers you rock bottom prices, while sometimes he is excited about the future thus offering you great prices.

The best part is he does not mind being neglected - he will come back again tomorrow if you neglect him. Your best interests are then served if you only transact with him if and when you agree with his prices - the rest of the time, it is best for you to neglect him and focus on the operations of your business.

In the book, Graham goes on to provide clear stock selection criteria for defensive and enterprising investors - with great examples to help stock evaluation practically.

But more than those, the clear framework based on the above - definition of investment, asset allocation, the decision on type of investor, and the attitude towards market fluctuations - are most valuable for an individual investor to go about his investment operations.

Graham's advice and wisdom are unlikely to make anyone rich in a hurry - perhaps only when one gets old. But the principles are timeless and practical,

Epilogue

I do hope that this collection of writings has achieved at least a little of its initial objective of providing knowledge, insight and perspective on investing and financial independence.

And most importantly, the way it will really be of value to you, the reader, is not just in reading some of the first principles and hopefully internalizing them, but actually putting them into practice.

That is easier said than done.

Therefore, if there is a single thing you take away from this book, it is to create and implement your plan, get into the long term investor mindset and stick to it till you reach financial freedom. That will, perhaps, be the best return you will get from this book.

Feedback is more than welcome. You may reach me at ranjit@ranjitkulkarni.com or leave a message on my site https://www.ranjitkulkarni.com

Thank You and Happy Investing!

Ranjit Kulkarni