

Dear Investors,

I am pleased to share our new note as part of our Knowledge Series initiative on **“Spirituality and Equity Investing”**. In the previous note, my colleague Neha Agarwal had spoken about studying businesses through an ESG framework.

Spirituality can be defined as a universal human experience touching every human being but in reality, it has a much broader concept. It can have multiple perspectives related to a sense/belief of connection to something bigger than oneself, leading to a search for the meaning of life. Although the meaning differs for everyone, the essential qualities of spiritual people are broadly similar like positive thinking, inner peace, humility, compassion, morals, happiness, etc. Hence spiritual practices should be the base of everything one does in life - whether it is speaking, thinking, advising or investing.

Warren Buffet’s quote epitomizes Equity Investing – “Investing in the market is simple but not easy.” All market participants follow simple and similar criteria for choosing a company such as a clean management, MOAT, ROCE, growth, cash flows, etc. However, **only 10% of active market participants beat the benchmark over a 10-year horizon**. This number falls even further if the time horizon is extended, even though everyone follows the same basic investing criteria over the last many decades.

However, **reaching the top 10% bracket is far easier than staying there for a long period of time**. Most active fund managers have short term fame due to an element of luck of being in the right place at the right time (ARK Innovation ETF recently, or traders like Jesse Livermore), but staying at the top over multiple cycles, has been the challenge. As the size of the fund increases, return generation becomes harder. Only a few investment managers like Warren Buffet, Charlie Munger, Peter Lynch were successful in beating the benchmark for a long period of time despite a large fund size.

The key to making the top 10% bracket involves factors like experience/learning curve, hard work, luck, and spiritual traits. Luck is tough to quantify and most fund managers are hardworking and have sufficient market experience spanning over 2 bull and bear cycles. Therefore, **a key area of differentiation in this fast paced, disruptive and volatile world of investments, can be a spiritual approach** (akin to behavioural finance or a more practical approach) which plays a vital role in investment decision making.

The spiritual traits of each individual can have a big role to play in their equity investing journey. This article highlights few spiritual rules which can be imbibed into equity investing for a rational contrarian behaviour in all circumstances, helping improve the investing performance.

Spiritual Goals and their implications on Equity Investing

1. **Spiritual Goal = Faith, Patience and Gratitude** – As life continuously throws up challenges, it is important to keep the mind calm and find solutions. When at the lowest point in life, one should take help, work harder and follow **Sai Baba's words of wisdom – Shraddha (faith) and Saburi (patience)** for better days that lie ahead. It is also important to **express Krutarth (Gratitude)** and realize that everybody in life goes through their own challenges but yet are blessed in their own way.

Equity Investing Implication = As an investment manager, there is always a challenge of outperforming the market continuously. With increasing participants, easy access to information and algorithm trading, it is getting tougher by the day. There is no easy way of doing well in the market, as investing on sentiments or tips never works in the long run. **There are years where strategies do not work in the short term and there is big underperformance. In such times, it is important to make one's spiritual centre stronger by following Shraddha, Saburi and Krutarth**, even though one's prayers may not be answered immediately in the way one may like them. One has to keep faith in the process, competing with one's own self and constantly improve, which is the next spiritual goal.

2. **Spiritual Goal = Kaizen** - is a Japanese concept which symbolizes small but vital improvements. **To reach one's goals, a system based on habit formation is key, as explained by James Clear in his book titled "Atomic Habits"**. The author records that it takes almost 10 years to learn, and 4 years to refine a skill, post which a J-curve in results can be expected (that's almost 1.5 decades!). This is a continuous process of planning and commitment. Time is the only universally depleting resource and hence it should be used effectively every day. Find your passion or edge and keep improving through a razor-sharp focus by competing with yourself and not bothering about how others measure your success. **Gautam Baid's book on "Joys of Compounding" talks about how small efforts compound over time in every aspect of life** such as social capital, intellectual capital, positive thoughts, health, quality of life, goodwill, knowledge, wealth and good habits.

Equity Investing Implication = Through years of experience, **every investor should create their own investment process and keep tweaking it to ensure small but vital improvements** (small improvements daily leads to massive improvement over a longer term). The focus should be on attaining wisdom and not on portfolio returns or making money or competing with others. Optimum way of attaining wisdom is to follow the process of read-think-act-learn-correct. Easier approaches like excessive diversification (many investors have 50-70 stocks in the portfolio), or chasing the flavour of the market, seldom outperform over the long term. **It is important to have a process in investing with a long-term approach**. There is nothing wrong to follow a process of momentum investing or trading as long as one does due diligence and it fits in one's style of investing. **In spite of following a process, mistakes are bound to happen**. However, one can learn from their mistakes as explained in the next spiritual goal.

3. ***Spiritual Goal = Mistakes are a blessing in disguise*** – Mistakes are viewed negatively and everybody repeatedly makes them. However, **mistakes are generally a consequence of action and should not be equated to failure, which eventually leads to inaction.** The reaction to the mistake is far more important than the mistake itself. Instead of fearing the consequences, one must reduce outside noise and take calculated decisions to reverse the mistake. **Generally, mistakes give you the best learnings in life when not repeated.** Always rationally question and reflect on the mistake. Avoid any negative thoughts at such times like desperation and envy or greed but instead learn valuable lessons. Sometimes hard work brings slow or no progress and may lead to repetitive mistakes but one should not give up. The mind should be open to learn and grow at all times.

Equity Investing Implication = Every bear market teaches new lessons and these should be monitored continuously by keeping a digital diary. Take responsibility for the mistakes and do not try to recoup losses. Generally, mistakes happen when multiple biases come together, leading to irrationality on a big scale. Try to prevent mistakes by simplifying things, judging probability and seeing the larger picture. The market is a complex system where the sum of parts is much bigger than whole. There are a lot of qualitative factors which cannot be modelled. **Behavior and biases are more important than math and precision.** Mistakes committed at an earlier stage are always better as it reduces risk at later stages. Welcome mistakes but react quickly, learn quickly and ensure never to repeat them. **Over time, the number of mistakes and the size of the mistake will reduce, resulting in better understanding of risk management and taking bolder, concentrated bets.** Though mistakes help us, success can be a deterrent in our life, as explained in the next spiritual goal.

4. ***Spiritual Goal = Destroy ego and acknowledge luck/karma*** – Contrary to popular opinion, success may not always be as rosy as it seems. When everything seems to be going your way, one should not get complacent in one's knowledge and abilities. **Acknowledge luck and be humble as the outcome maybe a reflection of one's karma. To be in an eternally blissful state and find "Self", destroy Ego (creator of trouble) as said by Shri Ramana Maharshi.** Accept that you cannot foresee future and be realistic at all times. Ignore popular opinion and think like a rational contrarian.

Equity Investing Implication = In a bull market, all investors think they are the best as every investor is beating the benchmark, leading to complacency or overconfidence. **Investors act impulsively by taking bigger and bolder bets but forgetting that ultimately everything regresses to the Mean as written by Daniel Kahneman in his book "Thinking Fast and Slow".** At such times, one should be humble and be a contrarian as no bull market is permanent. It is important to lose the least money in the ensuing bear market. For multibagger returns, a lot of factors like macros, company decisions etc. need to align in one's favor. Though there is a lot of effort in finding multibaggers early, there is also a significant luck component involved during the journey. Through the ups and downs of market cycles and life, one factor that must stay constant is happiness, which brings us to the next spiritual goal.

5. ***Spiritual Goal = Ikigai*** – is a Japanese way of finding happiness in your daily and professional life. **Happiness is a state of mind where there are no desires.** One can embrace the present and make the most of every minute due to inner peace inspite of adverse situations. **To be in such a default state and be positive is not something you inherit, but a skill you learn through a journey by following trial and error.** The journey depends on your life experiences and what and how you make of them. Happiness comes from accepting everything as one can never judge or know if an event is positive or negative in the long run.

Equity Investing Implication = Being in a permanently happy state of mind and living in the moment helps take more rational decisions. **Being in a happy state, suppresses emotions like fear and greed, which majorly affect investment decisions.** Similar to how life goes through ups and downs, the market also goes through bull and bear cycles but it is important to maintain one's inner peace and happiness at all times. **It is important to take advantage of market volatility rather than it affecting the decision making.** Finding happiness in one's professional life can help create their own niche which brings us to the last spiritual goal. I would also like to share the [link to a small note on 'Success & Happiness' written by our Founder & CIO, Samit Vartak in June 2021.](#)

6. ***Spiritual Goal = Productize yourself*** - With happiness comes a calm mind and a fit body which gives you the ability to ***Productize yourself*** as described by Naval Ravikanth in his book "The Almanack of Naval Ravikanth". It is a chance to figure out your uniqueness and be the best in the world at what you do. The book also elucidates that building judgement is one of the most important skills in any profession or walk of life. **Anyone who can be correct just 10% more than the average, can add massive value and hence focus on ways to improve one's judgement.** Along with being great at what you do, the goal of life should also be to make the world a better place through charity and philanthropy. **One should constantly strive to be a good human being who is honest, helpful, accountable and credible and who make others happy.**

Equity investing implication = In the field of investment management, judgement is absolutely vital. Being correct 10% more than others over long periods can lead to sustained outperformance. Similar to being accountable and credible, the **endeavor should be to invest in companies with the best management and best business. Search for bargains in only quality stocks.** Another defining factor is skin in the game as the market can be a very fickle place. Instead of focusing on personal trades and wealth, **one must work towards building client's wealth and invest in the same stocks that are purchased in the client's accounts, as only trust can build long term relationships. The biggest charity is to share knowledge and wisdom inherited from investing,** as Warren Buffett has done through his annual shareholder letters over the last few decades. At SageOne, we always strive to share our knowledge through periodic investor memos, knowledge series, articles/interviews. All of them are archived on [our website](#) for your perusal.

Conclusion

John F Templeton has said that “Happiness comes from spiritual wealth and not material wealth”. We have all been given the gift of life and what we make of it decides whether we are happy, so live life to the fullest. We can never get everything that we want in life. Money, health and time are the 3 most important things; at all different stages of life, we can enjoy only 2 out of these 3 (as a child we have health and time, as an adult we have health and money and when we are old, we have time and money). Ultimately our objective should be a combination of various spiritual goals to build a strong spiritual centre which is also the most practical way of living life. While most of the points of this note are widely known and spoken about, implementing them is the hardest. Take small steps every day and ensure constant improvement, learning from mistakes, reducing ego and acknowledging luck to remain happy at all times and make the best version of oneself. Happy investing, but more importantly, stay happy and make others happy!!!

We look forward to hearing your valuable feedback and suggestions on this initiative of ours and on our part, we shall continue to take up interesting topics to help educate you further and in turn learning from you via your feedback. We hope you enjoyed reading this note.

Warm Regards,

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