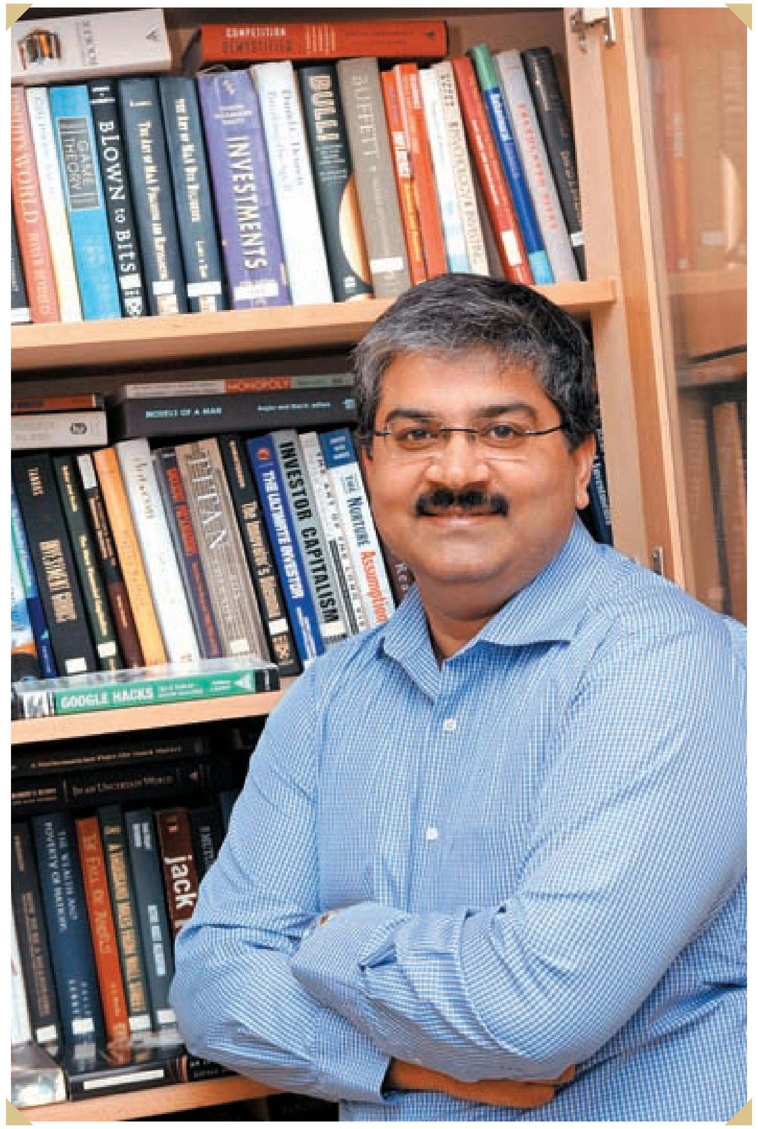
Runaway genius



VISHAL KOUL

Sanjay Bakshi

Age: 44

Organisation: Professor in Behavioral Finance and Business Valuation, Management Development Institute, Gurgaon.

Number of years in the market: 22

The first stock that I ever looked at: Godavari Fertilizers (went bankrupt after I bought it)

The only reason I come to work everyday: to become wiser than the previous day.

If not in the stock markets I would have been: a teacher, which I am even now.

The book that inspired me the most: The letters of Warren Buffett

One must read market classic: Extraordinary Popular Delusions and the Madness of Crowds by Charles Mackay.

Number of times I have watched the movie "Wall Street": ten

What I do to unwind: Drive.

My kind of food: All kinds. Variety is the spice of life.

My kind of music: Trance, Western Classical.

They say that those who can't do, teach. Well, this professor from Delhi's Management *Development Institute couldn't prove you more wrong. Unlike the crusty, old-fashioned professors most of us have experienced in college, this investor-cum-teacher likes to practise what he preaches. And experience has taught him that successful investing is rarely all about figures and ratios. The insatiable fan of behavioural finance believes that life has a curious habit of surprising you big time and sometimes, all you need is the ability to grab opportunity when you see it. "In investments, as in life, one thing leads to another and one has to have a mind open to various possibilities, to obtain ideas from unusual sources, and to allow serendipity to guide you," he says. His inspiration for money-making opportunities have come from some rather unique sources, including a 'market inefficiency' at Burger King and a cruise holiday, which encouraged him to look at shipping stocks. Clearly, the boy who 'ran away from school' and flipped burgers and waited on tables has come a long way.*

My classmates remember me as the "boy who ran away from school." I had an unremarkable academic record at the Delhi Public School and got into big trouble with school authorities several times. Now, my students at MDI consistently elect me as the best professor there.

I completed my Bachelors in Commerce from Kirori Mal College at the University of Delhi where I also met a girl called Sushmita who was struggling with accounting. I offered to help but then one thing led to another and I ended up proposing marriage to her. She said yes. Incidentally, she beat me in the accounting exam.

After college I became an articled clerk at Price Waterhouse, where under the able leadership of Mrs Satyavati Berera and my seniors, I learnt the basics of accounting and the preparation of financial statements. I also got first hand experience in spotting financial shenanigans.

In 1990, I married my childhood sweetheart and I then went to the London School of Economics to study for M.Sc in Economics. My wife accompanied me. It was there when I first discovered an important principle of value investing: getting something for nothing.

To meet our living expenses, I and my wife made burgers and cleaned tables and toilets in Burger King at Oxford Street. One day, which cleaning a table in the restaurant, I found that a customer had left behind a Burger King voucher. Three such vouchers would entitle the holder to a burger. Opportunity was knocking and I was listening. I started keeping an eye open for unredeemed vouchers left behind in the restaurant. Sure enough in a few hours, I had several vouchers which I and my wife subsequently converted into free and delicious burgers. I had spotted a market inefficiency!

In 1991, while my professors at the LSE taught me that markets were efficient, I read in a newspaper that an obscure investor who lives in Omaha has a wonderful track record and that he writes wonderful letters. Opportunity was knocking again. I immediately wrote to Mr. Warren Buffett asking him to send me his letters (there was no www.berkshirehathaway.com at the time). Within a few days I received the letters and they contained the most valuable education I obtained in finance, investments, business economics, rational thinking, and moral behavior. I now require all my students to read those letters. The lessons in them are invaluable. Moreover like some of the most valuable things in life, they are free. I now make it compulsory for my students to read these letters. My advice to readers: Do not underestimate the value of something simply because you are not paying anything for it.

Those letters gave me a new purpose in my life. I decided to become a value investor. In life, often one thing often leads to another. The serendipitous discovery of Mr. Buffett and his letters led me to his teacher, the father of the value investing discipline, Benjamin Graham. I bought his book, The Intelligent Investor, and when I read the transcript of Mr. Buffett's famous talk, "The Superinvestors of Graham-and-Doddsville" in the appendix, I discovered another important principle of value investing: risk and return are negatively correlated. If you want to increase return, you must reduce risk of permanent loss of capital. This is not what hard-core academic finance preaches. I think its terribly important for an investor to distinguish between volatility and risk. Volatile markets appear risky to most people but they often produce very low risk, high return situations.

The Graham and Dodd's statistical bargain approach appealed to me. I decided to come to India and start an investment partnership. I convinced a few friends and family members to contribute equity capital. Within 3 years, I shrunk it by 40%. Losing money for friends and family does something to you. It makes you very risk averse. It forces you to focus on risk adjusted returns where risk is measured not in terms of volatility but in terms of probability of permanent loss of capital. It focuses you first on the return OF your money, and only then on the return ON your money.

In 1997, I bumped into a junior colleague and friend from Price Waterhouse at a kids' school function. He is an accomplished value investor and is profiled elsewhere in this Outlook Profit issue. One thing led to another and soon I found myself working with Abhishek Dalmia. We had lots of fun discovering undervalued stocks and investing in them. One of them was Gesco Corporation just after it was spun off from Great Eastern Shipping.

In the summer of 2000, I had just returned from a cruising holiday with Abhishek and some other friends. On my return, I found a bunch of annual reports on my table including that of Gesco Corporation. I picked this report because it had something to do with shipping and I wanted to see it because I had just come back from a ship. Sounds silly, but that's how I get many of my ideas: Serendipity. In investments, as in life, one thing leads to another and one has to have a mind open to various possibilities, to obtain ideas from unusual sources, and to allow serendipity to guide you.

My learning

Risk and return are negatively correlated. If you want to increase return, you must reduce risk of permanent loss of capital

I think its terribly important for an investor to distinguish between volatility and risk. Volatile markets appear risky to most people but they often produce very low risk, high return situations

It taught me that value investing works even better when there is a catalyst and way better when YOU are the catalyst

If you buy something really cheap, you don't have to have a lot of things to go right for you to make money in it

After all most discoveries in science have been, and will continue to be accidental. In science, most of what people look for, they do not find. Most of what they find, they were not looking for.

Chemotherapy was discovered as a side-effect of mustard gas in warfare. Viagra was originally devised to treat heart disease and high blood pressure. Penicillin was just some mold inhibiting the growth of another lab culture; lasers at first had no application but were thought to be useful as a form of radar.

The Internet was first conceived as a military network. Christopher Columbus was looking for a new way to India and ended up landing in The Americas. The Canon engineer who discovered the principle behind inkjet printers did so by accidentally putting a soldering iron on his pen and finding that ink was ejected from the pen a few moments later. A French scientist invented safety glass by accidentally knocking a glass flask to the floor and observing that the broken pieces were held together by a liquid plastic that had evaporated and formed a thin film inside the flask. I can go on and on about the role of serendipity in scientific discovery but I think you got the point.

Well, the same principle works in investing. You often find something when you are not looking for it. For example, recently, we found a stock to invest in while looking at the google earth. We were looking at the industrial site of another company and this one was right next to it. One thing lead to another and soon we found ourselves buying the stock.

Coming back to Gesco Corporation, when I saw the company's balance sheet, its first annual report and its stock price I found that it was a cash bargain meaning that the whole company was selling for less than the amount of cash. But when I found that the promoters had only a 11% stake in the company, my eyes popped out. Opportunity was knocking again and I was listening. It was a Sunday. There was no time to lose. I went to Abhishek's house and woke him. Within hours we decided to make a bid. That started the battle for Gesco Corporation. Which was cool. Really cool. It taught me that value investing works even better when there is a catalyst and way better when YOU are the catalyst.

In 2001, I gave up all my clients and started managing my own money. I had also started teaching at MDI. Somehow the Graham model of teaching and practicing value investing really appealed to me. It so happened that one day one student submitted a project report on a stock. It was on Trent. Mrs Simone Tata had just sold the Lakme brand to Levers and instead of distributing the money to shareholders she decided to go into the retail business. Markets hated her for that and the stock was now selling for less than cash. The Tatas had a 26% stake.

I bumped into anther friend from Price Waterhouse who had just quit his investment banking job. I showed him this idea and much influenced by my recent success in the Gesco deal, we decided to pitch the "hostile takeover of Trent" to a bunch of rich guys all over India. Every door we knocked on, was slammed in our faces. Nevertheless, the stock became a ten bagger. I learnt another lesson in value investing: If you buy something really cheap, you don't have to have a lot of things to go right for you to make money in it.

In 2004, I became extremely interested the new field of behavioral finance which showed how smart people consistently make foolish mistakes of judgement. I became so enamored by this subject that I declined to accompany my family to a vacation in the United States and instead spent next few weeks of isolation in the library of India International Center, and various Baristas and Cafe Coffee Days of Delhi to create what became my flagship course at MDI: Behavioral Finance & Business Valuation. BFBV turned out to be a superhit.

I also met Saroni, a student in my class who challenged many of my notions. One thing led to another, and we started a company. Now I have four colleagues, three of whom are my ex-students. Its a nice feedback loop. Good ideas in practice are discussed in class in real time. This ignites the minds of many students which create more good ideas.

Some of my students have become accomplished value investors and manage some of my money. Ankur, my senior most colleague, is now finding an interest in teaching just like I did. I love being surrounded by my students and ex-students who keep in touch with me years after they studied from me. These days by becoming friends with my students on Facebook, I discover many things that I would never discover if I surrounded myself with 44-year old practitioners of investing. Variety is the spice of life.

It's a great feeling to practice what you preach and to preach what you practice. And to be able to inspire others to do the same. ☐