

# Investment Maxims



- *See randomness as a concept based on incomplete information or understanding. Or, you don't know the sex of a pregnant woman's baby, but she or her doctor does.*
- *Distrust precise predictions and think in term of probabilities and prediction errors. Or, it's better to be roughly right than to be precisely wrong.*
- *Think about magnitude and not only about frequency. Or, it's not about being right or wrong. It's about how much money you make when you're right and how much you lose when you're wrong.*
- *Use experience, but don't forget exposure in case a black swan hits. Risk is measured and managed by people, not mathematical models. Or, as Mark Twain put it: history doesn't repeat itself, but it sure does rhyme.*
- *Focus on process and behaviour, not on outcome. Don't be fooled by the randomness of outcomes! Or, show discipline and use common sense.*
- *Don't forget that after rain comes sunshine. Look for stuff that has been hit by a negative black swan. Or, buy when there is blood in the streets.*
- *Keep it simple. If you hear barking, it's probably a dog. Or, focus on what you understand and look for the long term signal and not the short term noise.*
- *Stand in awe of the power of compound interest. No force exerts more influence on your wealth than time. Moreover, time is the enemy of a good business and the enemy of the poor. In the end, no asset can outrun its owns fundamentals in the long run.*
- *Ignore the crowd. Lemmings have a lot of friends, but they all jump of the cliff together. Or, madness is the exception in individuals, but the rule in crowds.*

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- *Don't stay close to the shore if you want to find the biggest waves. Or, try to get in front of the trends. Only if you are far enough to be at risk, do you have a chance of large rewards.*
- *Don't mistake the map for the territory. Sometimes ugly is beautiful. Or, don't focus on the pure and well-defined over less elegant, messier things. Consider the messy, the bizarre, the unusual.*
- *Kill your darlings, rip them apart, annihilate them. Be your own devil's advocate. Or, invert, always invert.*
- *Remember that life and returns aren't smooth and linear. Or, we live in extremistan, not in mediocristan.*
- *Don't lose by using a margin of safety. The margin of safety is always dependent on the price paid. Or you only control the buy price, never the sell price.*
- *Be patient. It's a marathon, not a sprint. Or, you need not only the courage of your convictions but also the intelligent patience to sit tight.*
- *(free) Cash (flow) is king. So long live the king. Or, cash is no trash: it's the only thing that you can spend.*
- *Don't over-leverage, because debt always has to be paid back. You can't borrow your way to prosperity. Or, don't build a mountain of debt, because it might topple over and crush you.*
- *Lucky or smart? It's about being smart enough to know when you're lucky! Be modest and never take things for granted.*
- *It's okay to say "I was wrong!", but it's even better to say "I don't know!".*