

## Hall Investing Concepts and Principles (HICPs)

1. Be opportunistic, but risk averse. That is, be willing to make small mistakes, but never make a big mistake.
2. Recognize that comfort and returns are usually uncorrelated.
3. Missing a party is better than suffering a hangover; patience is a virtue.
4. It is not what you make, but what you keep - after tax – that matters.
5. Quantitative screens are not a panacea, but they have two advantages: they are rational and non-emotional.
6. Investing is not gambling. The market is not a casino, though luck can be a factor. Much is random in the world. Proper diversification is the cure.
7. One can be TOO diversified. The degree of diversification is a function of risk tolerance and confidence in selection.
8. Competitive position is the key determinant in the long-term success of a company.
9. Large companies tend to have scale, distribution, established products, brands, relationships, IP, trained employees, and, therefore, stronger competitive positions than small companies.
10. However, all large companies were once small.
11. The current digital economy offers a connected world whereby companies with compelling services can scale very quickly.

12. The direction and level of interest rates are the most consistently important determinants in the pricing of long-term assets.
- 13a. There are at least 57 reasons stocks are bought or sold. Intrinsic value is only one.
- 13b. Investors who do not consider valuation in their buy/sell decisions are not as successful as those who do. Valuation, however, must factor in future growth.
14. Professional fund managers can be just as emotional as individual investors, or even more so. Their jobs can be at stake if performance is poor.
15. The stock market is constantly a measure of the tension between greed and fear.
16. There is no time when there is not uncertainty.
17. Those seeking “income”, whether they realize it or not, are usually just seeking a reliable return. Whether the return is in the form of dividend income or price appreciation is a secondary consideration aside from tax factors.
18. A complete understanding of a company is helpful in successfully assessing a stock, but not necessarily a pre-requisite. SOME understanding is.
19. If the tortoise has just as good of a chance to win the race as the hare, and it is more pleasant to ride a tortoise than a turbulent hare unless one is looking for excitement. For excitement, go to a ball game or amusement park and leave the goal of investing to making money.
20. A recruit frequently starts in the asset management business as an analyst. He or she is sometimes promoted to portfolio manager. And then maybe to strategist. But the highest calling is psychologist.
21. Except for tax factors, what one paid for a stock is neither here nor there with respect to what price one should sell.
22. Stocks are long term assets. When they are priced on short term factors is an opportunity for a long-term investor.
23. Long-term investors should consider holdings that they would be comfortable holding for 5 or 10 years, or even longer.
24. Successful long-term investors can play “time horizon arbitrage” when expert opinion on a stock is positive long term but negative near term.
25. Dull companies can be exciting investments – at the right price.

26. Exciting companies can be poor investments – at the wrong price.
27. Management matters. Some industries are especially competitive, e.g. big box retailers, but the winners simply execute better, e.g. Costco, Home Depot and Target.
28. High returns earned on invested capital over years can be a sign of a strong competitive position.
29. Companies with low debt, unlike companies with high debt, have the advantage of an option to use debt yet to be exercised. Furthermore, the chances of a company with no debt (nor legal issues) going completely out of business are nil.
30. A steady and rising dividend over many years can be a sign that management is disciplined.
31. While established companies can be strong, if they start to lose their competitive positions, legacy issues - such as pension obligations and obsolete plants - can be a significant drag.
32. Large mergers or acquisitions can be good or bad but are always challenging.
33. Analysts and strategists who are pessimists seem more realistic and more intelligent than routine optimists. And pessimists usually ARE more accurate on details in near-term projections. However, over the long run, optimists tend to enjoy higher returns by staying invested.
34. While the news of the day is interesting, it is usually not relevant for long term investors.
35. Wall Street is expert in producing “product”. These funds and instruments are more productive in lining the pockets of Wall Street than those of its clients.
36. Beware of products “sold” rather than “bought”, e. g. most annuities.
37. An investor can have a diversified portfolio of just 20 stocks or a wildly concentrated portfolio of 200 stocks.
38. Outperforming a benchmark is always nice, but other goals may take priority. Investor satisfaction is measured in many ways.
39. The stock market’s job is to confound the most investors at any one point in time.
40. Derivatives are a double-edged sword – a very sharp one.

41. In investing, as in business, you must know when to press the pedal to the metal at the required time – not at the convenient time.
42. Sharp declines in a stock can offer an opportunity; but you do not need to catch a falling knife. Wait until weak hands have finished relinquishing their shares.
43. Stock price momentum is not constructive unless it is accompanied by momentum in the business fundamentals.
44. Governance, culture, integrity, and shareholder alignment are important qualitative factors to consider in stock selection. If management is too promotional, or is at all questionable in terms of integrity, move on.
45. Insiders have many reasons to sell; and usually, normal insider selling can be overlooked. If there are large insider purchases, however, take notice.
46. Invest in sync with long term trends already in place more than with those that are forecast.
47. Gather enough understanding to have a strong conviction but be open minded. "Be willing to crush your most cherished beliefs" - Charles Darwin. "It's not that learning is so hard, it's the unlearning." - Charlie Munger