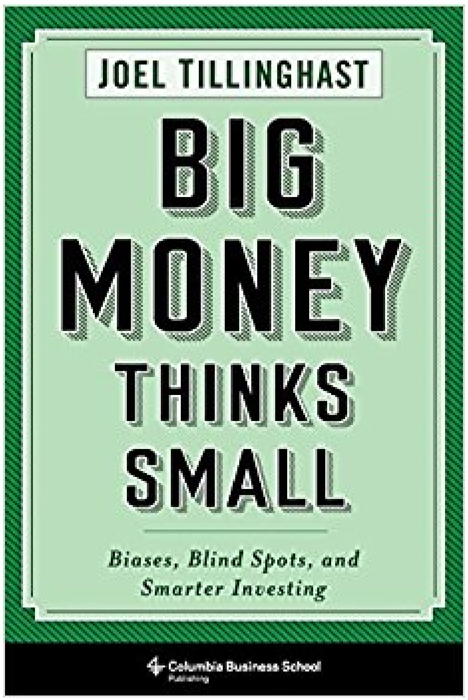
Big Money Thinks Small: Biases, Blind Spots, And Smarter Investing (Columbia Business School Publishing)



Synopsis

Investors are tempted daily by misleading or incomplete information. They may make a lucky bet, realize a sizable profit, and find themselves full of confidence. Their next high-stakes gamble might backfire, not only hitting them in the balance sheet but also taking a mental and emotional toll. Even veteran investors can be caught off guard: a news item may suddenly cause havoc for an industry theyÃ¢â ¬â„¢ve invested in; crowd mentality among fellow investors may skew the market; a CEO may turn out to be unprepared to effectively guide a company. How can one stay focused in such a volatile profession? If you canÃ¢â ¬â„¢t trust your past successes to plan and predict, how can you avoid risky situations in the future?In Big Money Thinks Small, veteran fund manager Joel Tillinghast shows investors how to avoid making these mistakes. He offers a set of simple but crucial steps to successful investing, including:Ã Â Know yourself, how you arrive at decisions, and how you might be susceptible to self-deception.Ã Â Make decisions based on your own expertise, and do not invest in what you donÃ¢â ¬â„¢t understand.Ã Â Select only trustworthy and capable colleagues and collaborators.Ã Â Learn how to identify and avoid investments with inherent flaws.Ã Â Always search for bargains, and never forget that the first responsibility of an investor is to identify mispriced stocks. Patience and methodical planning will pay far greater dividends than flashy investments. Tillinghast teaches readers how to learn from their mistakesÃ¢â ¬â ¢and his own, giving investors the tools to ask the right questions in any situation and to think objectively and generatively about portfolio management.

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Customer Reviews

Tillinghast has built an outstanding investment record over three decades by being smart and disciplined. Now, all of us can benefit from his hard-won wisdom and perceptive insights, which are found on literally every page of this fine book. (Seth A. Klarman, Portfolio Manager and CEO, The Baupost Group, LLC)For decades I have admired and learned from Joel TillinghastÃ¢â ¬â„¢s extraordinary investment prowess. Whether you are a professional or an individual investor, you will be a better investor after reading and absorbing the wisdom in this book. (Bill Miller, founder and CIO, Miller Value Partners)Tillinghast provides a very useful checklist of the required due diligence of investments, the tenets of value investing, the need to more carefully understand the culture and rule of law of foreign countries before investing in them, and how to stay within your circle of competence. (David Kass, University of Maryland)Written for investors at all levels, this practical, no-nonsense guide . . . empower[s] readers to generate their own informed decisions. (Publishers Weekly)

Joel Tillinghast is a Chartered Financial Analyst (CFA) charterholder and thirty-six-year veteran of the investments industry. He has been the manager of the FidelityÃ Â® Low-Priced Stock Fund since 1989.

Big Money Thinks Small ÃƒÂ¢Ã â ¬Ã Â¦ is so inclusive that it’s hard to know where to start in my description of it. Joel Tillinghast, the author, covers the benefits of value investing from investor psychology to cash flow analysis. Tillinghast starts out by defining what investing isnÃƒÂ¢Ã â ¬Ã â„¢t; it is not speculation or is not gambling. The difference is vast as Tillinghast explains.Tillinghast manages a small cap value fund, Fidelity Low-Priced Stock Fund (FLPSX). for Fidelity Investments. With his value investing philosophy, he has beaten the Russell 2000 benchmark every year since 1989, the fundÃƒÂ¢Ã â ¬Ã â„¢s inception year. Over the past 27 years, according to the author, a dollar invested in his fund grew to $32 while a dollar invested in the Russel 2000 grew to $12.Not willing to accept an authorÃƒÂ¢Ã â ¬Ã â„¢s boasts as fact, I looked up the fund on ScottradeÃƒÂ¢Ã â ¬Ã â„¢s website. A Morningstar analyst released a report on the fund, as of May 31, 2017, in which she says that ÃƒÂ¢Ã â ¬Ã Å“The fund has gained 13.6% annualized from Joel Tillinghast’s 1989 start through June 2016, one of the most impressive showings in the industry.ÃƒÂ¢Ã â ¬Ã Â• While IÃƒÂ¢Ã â ¬Ã â„¢m not advocating investing in his fund by posting this impressive statement, it does point to the soundness of TillinghastÃƒÂ¢Ã â ¬Ã â„¢s investment strategy and made me pay more attention to the lessons contained in this book.One of the most helpful financial statements for value investing according to this book is the cash-flow statement. This statement can be found in the companyÃƒÂ¢Ã â ¬Ã â„¢s 10K. Publicly traded companies must file a 10K statement with the SEC annually. In addition to the companyÃƒÂ¢Ã â ¬Ã â„¢s financial statements, a 10K also contains footnotes, management comments, and a listing of a companyÃƒÂ¢Ã â ¬Ã â„¢s key risk factors.To illustrate some of the points made regarding investment mistakes and losses avoided, the author described different companies and their related failures. These serve as examples of how a company can look successful outwardly when management justifies the use of non-GAAP accounting and off-balance sheet obligations. In some of these cases, an examination of cash flow would not have disclosed the problems; but, the companyÃƒÂ¢Ã â ¬Ã â„¢s apparent success would have been unexplainable, a red flag according to Tillinghast. In these cases, the author passed on the investments and advises the reader to do the same. Paraphrasing, ÃƒÂ¢Ã â ¬Ã Ëœthere are many other companies on the stock market that are more transparent and will prove to be safer investments in the long runÃƒÂ¢Ã â ¬Ã â„¢.I found one deficiency in the book. While the case for value investing is compelling due to its appealing logic, Tillinghast does not give the reader one of the most important tools needed to perform the discounted cash-flow (DCF) evaluation. He is vague on where the discount rate comes from. At one point, he throws a discount rate out of 8% but doesnÃƒÂ¢Ã â ¬Ã â„¢t explain how that was derived. More information on how a discount rate is determined it needed for the book to go from good to excellent. As I read, I began to wonder if the discount rate could be determined by dividing the cash flow of other companies in the industry by their selling prices? While such an approach may be valid for valuing a residence, it didnÃƒÂ¢Ã â ¬Ã â„¢t seem valid for investments as it assumes that the average buyer in the stock market is value. Another thought is that a discount rate may be determined mathematically. A discount rate could be derived by starting with a safe investment yield like the 10-year treasury yield, then adding a factor for expected appreciation, and another factor for the current dividend yield under the assumption that it will continue, plus the addition of a risk of loss factor; all these factors adding up to build a discount rate? Using this method in my own discounted cash-flow analysis of a company gave me a derived rate of 8Ãƒâ Ã Â % and a DCF valuation of $95 per share, $8 less than the stockÃƒÂ¢Ã â ¬Ã â„¢s current bid price. This analysis provided some assurance that I may be on the right track. But, I have no expertise in this matter and may be off base. I wish that Tillinghast had provided some guidance in this regard.The book that I was given for review was an early edition. My hope is that Tillinghast addresses discount rate derivation in the final publication.

I met Joel in early 2005 and had purchased shares in his fund a few years before that. Many of his holdings would overlap with ones that I researched and found on my own over the past twelve years. His outstanding record on the Fidelity Low-Priced Stock Fund will be hard to replicate by anyone. Even me over the next two decades. I eagerly awaited the release of his book since learning about it during his sabbatical leave in 2011. Six years later, it was well worth the wait. Joel is always spot on about getting better odds in your favor as an investor by analyzing more stable and predictable businesses. His passion, unique insights and track record continue to impress. As well as his ability to cover a universe so large and go from less than $1 billion in assets to $40 billion, yet still generate excess return with less downside risk.Overly levered companies, especially ones that made too large and irrational acquisitions, are more likely to cause permanent impairment of capital. It is critical to dig into the competitive landscape, peers trends, who is losing or gaining market share and the capital allocation track record of the management team. Joel authored a great book and well deserves the reputation as an early pioneer of small and neglected companies research. I ding him one star because I wanted to read more about downside analysis. Landmines that investors constantly step on could have been more thoroughly covered. A win by not losing mentality is warranted more in this book. I spend a third of my research time on downside risks to get a better grip on the risk/reward ratio with rough outcome probabilities. To think as much about what can go wrong and its likelihood, instead of getting too seduced by the upside or apparent business model niche.Nonetheless, I am grateful for this book and it makes my top ten books list. It is a little sad that he seemed forced to go up the market cap size spectrum so much as assets flowed in. From less than $1 billion to $7 billion median and $23 billion weighted average lately. The turning over rocks and unlocking inefficiencies remain more abundant under $7 billion. My favorite and most fertile hunting ground!

Investing philosophy and tips written by an investor with a great record. Loaded with solid advice. The book badly needs a good editor, however. It’s sort of a collection of loosely organized stand-alone sentences. Neither the thoughts nor the prose flow smoothly.

Joel makes a complicated task very manageable and understandable. Coming from one of the best investors of our time, his insight is important and timeless. His ability to distill themes into manageable lists is practical and make implementation much more manageable. Finally, his careful approach makes clear how important a margin of safety is in investing and that’s advice that all investors can benefit from.

Brilliant. Maybe an instant classic. A manager examines the facets of investment risk. His advice is common sense: think rationally and long term, know what you own, invest with capable and honest people, look for sustainable businesses, and buy stocks for less than their intrinsic value. Unusually and very helpfully, this book explores HOW you will know you’ve invested with a bad guy or in a business that isn’t sustainable. Key points are illustrated with well-chosen, often funny, stories. Tillinghast considers a variety of theories skeptically, and shows their weakness; he would clearly prefer to be generally right rather than precisely wrong. Overall this is a very readable book, but you do need to know the basics of accounting. Loved the epigrams.

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