40 'invaluable' investing lessons from Tony Deden

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Who is Anthony 'Tony' Deden?

Tony Deden is **the Chairman of Edelweiss Holdings**, a Bermuda-based investment holding company that he first launched as a fund in 2002. After building a remarkable track record, Tony converted Edelweiss into a holding company with **over $300 million in assets and holdings** that range from branded dairy products to a fragrance company and a salmon farm. Tony prizes safety of capital above all else and has structured Edelweiss to survive any type of economic situation.

Tony came into the profession of wealth management by accident when in 1985, he was asked to manage the monetary affairs of a family and then one family became two then three and since then he has never looked back. He had never worked in the finance industry prior to that and he learnt everything on the job as he wanted to serve his clients the right way.

Media averse Tony is **well known for his old-school investment methodology based on integrity with a supreme focus on the preservation of wealth of his clients.** He prefers to spend his time reading and thinking, tries to avoid the spotlight and resides in the Swiss Alps away from the chaotic world of finance. This theme of preferring to stay in seclusion is quite prevalent amongst the super investors as even Warren Buffet prefers to operate out of Omaha instead of Wall Street.

His conscious awareness that its **'permanent irreplaceable capital'** of his clients that he is handling sets him and his thought process apart from 99% of fund managers today who have become infamous for making imprudent investments with no accountability as they seem to have an undefined, an unlimited amount of capital at their disposal.

If a manager can simply replace the word 'wealth' with 'savings' when he thinks about his client's money, he would begin to act and invest differently. Learn to manage money as if it were your own savings.

He believes that for someone who has already earned the fruit of past labour and has significant wealth at hand, **the tools with which you protect his wealth are different from the tools that are needed to create it. So, the tools, framework, objectives, methods, language are all different.**

Here is the knowledge & thought process of this 'investing maestro' distilled into 40 pearls of wisdom;

1. At the outset lets get one thing clear, if you can't read a balance sheet, you have no business in the stock market or any other market. You will end up deciding on a **'hunch' a 'gut feeling' or a neighbour's hot stock tip**. You will listen to the crowd from Wall Street that is just as lost or self-serving. You can't fly an aeroplane on a hunch and neither can you invest money.

2. The capital being given to the money managers is a **'lifetime's worth of savings'** of a family and **must be respected, as its hard to make money and even more difficult to keep it.** Its hard enough to protect the capital from external factors like inflation, taxation etc. that one mustn't compound the error by internal factors such as imprudence while choosing investments.

3. The **real risk** with investing is **the idea of losing one's capital permanently with no ability to ever recover it** rather than people's definition of risk which is actually means uncertainty. Look out for what could go wrong rather than what can go right. It's **better to err on the side of inaction than taking thoughtless action in haste.**

4. There is **no point in having different portfolios for different clients based on their unique special needs and risk perception** because what they really consider risk might not be a risk at all. Instead, **it's better to have all the portfolios aligned to a core principle of capital protection** because, in the end,

it's not the money that you make that makes you rich rather it's the money you get to keep that makes you and keeps you wealthy.

5. When you start viewing your investments as a collection of assets in the form of securities, having a purpose, each of the components having a sub-purpose of its own rather than looking at them as a mere portfolio, **that's when you separate yourself from the herd and the opinions of others stops to matter**. This collection of assets must endure and withstand the pressures exerted upon them by time and turbulence.

The goal should be to take irreplaceable capital and deploy it to irreplaceable assets.

6. When you are younger and new to investing, you want to believe the authorities, rating agencies, government statistics etc but **as you grow older you realise that they all lie and everything is phoney.** This realisation alone will make you look at places where no one is looking and help in developing the courage to acquire the things that everyone has brushed aside.

7. Instead of trying to impress your customer, try to protect what he has spent years accumulating.

8. In the times of '**seeming**' prosperity, always examine the causes to figure out if **it's real or simply an illusion** of prosperity. A rising level of consumer spending and elevated lifestyle of the society is simply an illusion **if the majority of it is funded by credit.**

9. As a money manager, one must not participate in an environment in which one has to do things because they were expected rather than doing what's right. Unfortunately, that's not how the industry functions these days.

When you start thinking about enriching yourself from the assets of those who participate in your scheme, then you are no longer a custodian rather it becomes a business.

10. Instead of being on a constant lookout for growth, investors should **deliberate upon the idea of endurance and durability of a company.** Try to figure out what are the ingredients that have contributed to their survival as a company over so many years. **Rather than studying why companies fail, start looking for traits that make companies survive the test of time.**

11. The first principle to follow while investing is the **'idea of exclusion'**. When you consciously start doing that, you will realise that you are left with **a handful of companies that are worth your time let alone owning a piece**.

12. There is a **substantial difference between people who are investors and people who are owners of businesses**. No owner of a business wakes up every morning asking himself what he's worth then why should an investor if he actually believes he is a part owner. And if he believes he is a part owner then his **first goal is to make sure the company survives, has a great product, a happy workforce, stable suppliers and a delighted customer.** Now to think like that an investor needs to have time preference which is different from other people.

Investors who think like owners don't indulge in the pseudo-intellectual activity of analysing companies based on how the price of the stock will move the next year or the next.

It's the liquidity you enjoy as an investor that entices you to act more like a price speculator rather than an owner of a business.

13. The **idea of having a fragile balance sheet for the sake of a higher growth doesn't lend itself to the idea of ownership**, an owner must be really concerned with his balance sheet. **The balance sheet should be more important to him than the income statement**. A company's ability to endure and to survive is based on the strength of his balance sheet and the **'nature'** of the assets on it.

14. As a wealth manager, you are the captain of a ship and you have passengers on board who wish to go to a destination you all had decided upon before setting sail. **They will judge you eventually by having gotten there rather than how long it took as you had to avoid certain weather**. Then again, if you had set sail with preservation of capital as the core principle, more often then not you would have a group of satisfied passengers on reaching the promised land.

15. Like-mindedness is not just necessary with clients but also with the owner of a business in whose company you are going to invest. The owner should make decisions in the long term interest of the company rather than next quarter or next year.

Like-mindedness, whether it is in marriage, in a business, or in any enterprise is a principle and important factor in doing the right thing in the right way.

16. So what should be the **right attitude towards investing**?

Look to own a participation in a business that is run by owners whose motivation is the same as yours, who are responsible to their family and to their community, and to the capital as much as you would have been if you owned the enterprise. So, instead of owning 100%, you own 2% or 3% of the company. You should be able to sleep well at night.

17. Here is why the **concept of EBITDA is flawed**;

- the only reason why EBITDA is around is on account of **the ability to finance acquisitions through credit**. If it was not for credit creation, there wouldn't be an EBITDA.

- Real owners do not think of the value of their business as a multiple of the earnings they generate before everything which is EBITDA.

- The **word EBITDA owes its very existence and relevance to dishonest money**.

18. What about **PE multiple**?

- **Earnings are important**, a **company must be profitable** and **equally important is the cash** generated by the company. **Profitability can't just be an accounting entry**.

- The price to earnings ratio is meaningful but it's not really essential in terms of value as profitability over a short term or from one period to another is often times a function of certain temporal events. So **an investor mustn't pay too much attention to that**.

- **Rather more important is the recapitalization of those earnings and the compounding to those earnings to book value per share** which is a far more important indicator of a company's ability to compound and that's where the wealth lies.

Wealth is in the compounding of earnings

Basically, **a company should be able to re-invest in itself** to generate more future earnings which is what compounding of earnings means.

19. What about **the idea of earnings estimate, forecasts and forward guidance**?

- That's all nonsense. **No CEO has a clue as to what is going to happen in future let alone give any precise numbers**.

- Secondly, even if a CEO has some idea, the only reason he would share it with you is if he has stock options. The **only purpose of asking or giving forward guidance is the stock price.** This leads to the price of stock becoming a product and the whole thing turns into a game.

The focus then shifts from making a better product to finding innovative ways to make more money.

- Ideally, **a business should make money as a result of doing something well**. That is **the foundational principle**, you make money because you add value to somebody's life for which he is willing to pay you. What these financial tools like ESOPs end up doing is to take the focus away from the business.

- **These days more often than not, a listed company's principal business is their stock**. What they do is an unnecessary complication to the idea of the stock going up. **If it was owners running such businesses there would be no disputes over compensation. An owner of a business doesn't take options. He owns common stock, he owns the company.**

The idea of corporate responsibility is thrown around all the time these days but the truth is owners don't need to be reminded to be responsible.

20. Know what can go wrong;

- **Try to learn about businesses rather than stocks**. When you **read about varied industries and the businesses operating in them**, you will have a better understanding of what can go wrong. Over time, even a marginally good business will do well if nothing goes wrong.

- **To base an investment decision barely on available financial information is a superficial way of investing**. But if you are buying simply for the purpose of selling then you don't need to understand what can go wrong as you are seeing everything in terms of price.

It's your duty to know, what can potentially go wrong in the businesses you own.

- Knowing what can go wrong is more important than what can go right. **You can never really know what anything is worth until you understand what can go wrong.**

- We value companies differently because we weigh various components differently. **There is no such thing as valuation metrics based on some standardized formula** unless you see it in conjunction with other issues.

- In a world where there is a **distortion of the economy and the cost of money is nearly zero**, it's **important to have your own subjective way of measuring and accessing value.**

- Always include **an element of risk in your valuations** based on the risks that are particular to a business, particular geography and so on.

21. Scarcity, Permanence and Independence are the **three components that make investments endure the test of time.**

- Scarcity is the most important law of economics. It is an important ingredient in any action that deploys capital in future. **Anything that is scarce accrues in value over time**, **be it savings, resources (tangible and intangible) or the human character traits that help in building great businesses that last**. The oligopoly of a business in an industry is an example of scarcity.

- Scarcity can be **seen not only in quantifiable and material considerations but also in a company's culture and ability to endure, survive and adapt. Or it could be its competitive advantage or the aggregate technical skill in some particular field of endeavour that is difficult to duplicate**.

- Scarcity element **reigns supreme when it comes to people running the company**;

There are far more original multi-million-dollar Picasso artworks out there than there are company CEOs in whose enterprises you would be willing to deploy your savings.

- Permanence is **the idea of creating a framework that makes you invest in a company and people whose practices and behaviour is designed to endure rather than just grow.** A company can grow but become fragile at the same time and die.

- Dependence **makes a system fragile.** If its a company then **dependence on suppliers, a single customer, government subsidy etc can reduce a company's ability to endure in the long run.** A company independent of external factors is more likely to adapt and endure in tough times than the one which is a lot of dependence on the system.

22. Liquidity can be a curse;

- When you invest in something that isn't quoted on exchanges, you are excited about the idea of being a part of a real business. You make the extra effort to study the intricacies of the business and try to figure out what can go wrong. But **when it comes to investing in listed companies, you tend to throw money based on tips as they can always be sold the next day.**

The liquidity gives you an excuse to not want to know or understand anything about a business.

23. **Build a habit of re-visiting your decisions, good or bad**, and ask yourself;

- **What is it that I should have seen that I didn't?**
- **What was possible to see which was overlooked?**
- **What did I see and how did I focus on those that others didn't.**

The idea behind this exercise is to be able to separate an element of luck and happenstance from skill.

- **The unseen and unmeasurable are more important than the other kind**. Things that kill you are often things that you cannot measure or cannot see.
- Understanding just the notion of risk isn't enough, **you need to know the nature of risk and the possible places from which risks to an investment can emerge.**

24. There are companies where **the owners have a mindset to protect, preserve and enhance what they have been handed over by the previous generation and pass on the baton to the future generation when the time is right**. These are the kind of owners you would want to partner with.

- The **time horizon of such owners is not in years but in generations**. When you partner with owners with such ideology, rest assured that the company will continue to do well for decades to come and your capital is secured.

25. **More frequently you look at the price of something, more frequently you start to second guess why you own it**. So frequent checking of the portfolio can be dangerous to long term compounding and having so much liquidity in the system doesn't help either.

26. One of the greatest ability that one must have as an investment manager is **the ability to judge people in order to associate with like-minded clients and also the owners of the companies you've invested in.**

- This **can only be achieved by practice and observing things**. **A single sentence uttered by a CEO or CFO can completely change your decision on whether or not you should be investing in that company.**

- **When you hear them say something that is not aligned to your philosophy of business then you mustn't rationalise staying invested only on the basis of good financial performance, you simply get out.**

- A great question to ask yourself in such situations is that **if you owned this entire business would you hire the current managers to run your company.** If the answer is no, then why would you even want to hold a 1000 shares?

- One way to develop this judgement is **by meeting the management** but sometimes you don't even need to meet them. If you can see that over the last 20-50 years they have **made the right decisions at the right time and they have been consistently doing this all their lives** then you don't need to meet them to invest with them.

27. Any good investment operation, particularly when it deals with irreplaceable capital, **must have embedded in it a source of continuity, substance and reserve** that can be deployed when a favourable investment opportunity presents itself.

- This reserve can be in the form of treasury bills, commercial papers, short term bonds or time deposits. The problem with these so-called **'paper assets'** is that **they are actually debt. So you do not want your liquidity to be somebody else's liability.**

- **Physical Gold solves that problem**. Gold gives scarcity, permanence and independence from the financial system. It is something that;

- you can hold see, touch and hold in a vault.

- can be sold to anybody, anywhere in the world at a moment's notice.

- no one actually owes you anything when you hold gold. It's not a claim on anything.

- has a sense of peace to it as it possesses a financial strength that even some financial institutions cant boast about.

28. Don't own something you don't understand. If it is going up, it makes no difference.

- **Commodity-based businesses** have **a low barrier to entry**. The acceptance of their product is subject to whims of the public, the buyers.

- Similarly, the **companies that provide any sort of transport** like aerial, trains or trucks have **no operating leverage. They are subject to inputs and costs that are beyond their control, subject to government regulation**. So they **lack substance**.

29. While deciding where the probable investible company should be in the structure/hierarchy of production;

- It doesn't matter where the company stands in the structure of production rather **it should have natural barriers to entry based on various factors that make it difficult to compete with.**

- *Nothing is permanent*, so **this advantage and these barriers need to be cultivated and the company needs to adapt in order to keep its competition at bay.**

- But you **don't want to be partnering in a company that makes something the nature of which is so large as a component of something so as to subject to the seasonal demand or subject to external risks through government intervention, regulation or competition. You want that element of independence to be there.**

30. Don't just make an investment because you want to make a quick buck from it, rather have a strong framework and a set of questions that you ask yourself before making an investment.

- **Do you like this business?**

- **Do you understand it?**

- **Do you want to be in this business?**

- **What is the history of this firm?**

- **What is the competitive advantage that this company has?**

- **What is the larger environment in which it operates?**

- **Where does the demand for the product come from? In essence, does it come as a result of government policy, subsidy, regulation or does it result from a choice on the part of the consumer, customer etc?**

- **What are the components that go into this business and how are they regulated?**

- **What risks are there?**

- **What is the market for this company's product?**

- **How honest are the revenues?**

- **How permanent are they?**

- **What are the factors that influence their operating margins or unit growth?**

- **How have they deployed their earnings in the past?**

- **How have they grown? A company growing purely on acquisitions or financial engineering is an accident waiting to happen.**

- **What is the ownership structure of the company, who owns it, for how long and what have they done with it?**

- **Who are the people involved and how long have they been there?**

More often than not when you start answering these questions, you will come across something significant that makes you disinterested in the company.

In a handful of cases, at the very end of your analysis, you will realize that you are onto something substantive, valuable, enduring, scarce, extraordinary, and beautiful. It is then that you ask yourself, **well what is it worth? Understand that there is a difference between what a company is worth and what it's selling for.**

- **What are the components that add to value?**

- **What are the risks inherent in the business that you would want to take haircuts against?**

- **How do other people think it's worth and under what circumstances over a period of time?**

- **Is it something that's neglected?**

- **Is it something that is followed by every mutual fund and ETF in the world? Because if it is then that makes a company uninteresting.**

*Then ask yourself some broader yet critical questions before you actually make an investment***;**

- **If you could, would you want to own the entire company? Is this something you would want in your collection of assets? - If the answer is no then why would you want to buy a piece of it?**

- **If you could own the whole company, would you want the same people to run it?**

- **Is this business likely to be around 20 years from now?** You can get an idea of that by looking at some decision that the owners have taken over the past decades. By looking at the decisions you understand the motivations of those who own the firm and understand whether or not they are sowing the seeds for the next decade or two.

31. **Investing is not a science**. There is **no one size fits all or there are no fixed checklists** you can adhere to. It is **a subjective process**;

- . Sometimes you come to a quick conclusion to the attractiveness of something. Love at first sight actually happens in investing as well.

- At other times, you don't love something right away rather you take your time and slowly start seeing value in the company.

32. T**he price is important no matter how good the company.** No one can predict earnings accurately and consistently. So, **don't base your investment decisions on 'potential' earnings**.

Try to develop some mental tools with which to **think about the economic value of a business endeavour rather than its financial value.** It's **easy to say, ' this company sells for X number of dollars a year' but what's difficult to say is, 'what is this company worth and why?**'.

33. What is 'intrinsic value'?

- In its essence, it is a sounds like **a necessary idea.** Yet, to the extent we wish to quantify it, **we end up excluding what is unquantifiable and unseen—the very essence of what concerned the prudent man of olden times.**
- **We conjure unknown future flows of money**, that is, something we guess, **from a business whose results are subject to interventions and distortions**, or from one that is being hollowed out and sacrificed at the altar of shareholder value, and run by persons who don't quite care if the company is likely to be around in twenty years' time.
- **We then discount it all by a number—a rate of interest that bears no relationship to anything**. We get a number and we compare it to the monetary value of an investment instrument. The math can be impressive to the customer, but what does it really mean?

It means absolutely nothing

34. Instead of looking at the stock price fluctuations on a daily or weekly basis, l**ook for the seeds that are being sown today in the company, good or bad, that are likely to bear fruit a year, two, three or four years down the road**.

35. When you find something that looks very nice in the first instance, ask yourself the question that there is something wrong here. **Seek out the reasons why you shouldn't add something to your collection of assets**.

Always be a 'doubting Thomas' while analysing investments

36. Once you are in a participation with a company, **there will be times when you will have doubts** about something. Here you can **create a decision-making framework based on your comfort level with the past actions of the owners of the company.**

- Some managements have shown extraordinary faithfulness to their companies, families and shareholders over many years that it's not worth second guessing them in case it's a one-off 'perceived' anomaly that you have noticed. You need to trust their judgement and decision-making abilities.

- There will be other companies where you would need to second-guess, in that case, seek to get some answers by politely writing to the management.

- If a company has a series of errors and actions that you are not sure are in the best interest of the company long-term, it's better to quietly exit. **As that's really the only thing you can do, being a minority shareholder**.

37. It's not important to be looking for opportunities. What is **important is to acquire an understanding so you can recognize the opportunities when you see them**. If there is an opportunity, it comes across for everyone to see it but very few people recognize it. **So the people who recognize it are the ones who are prepared to recognise it.**

So what are the **tools that will help you recognize opportunities** that others don't;

- **Understand the business.**

- **Understand the sector.**

- **Understand what the market needs.**

- When you go through hundreds of probable investment ideas, **you invest a lot of time and effort working on them and in the meantime, you learn something about the process.**

- **This time spent is never wasted,** you keep making mental notes as you go on researching company after company and industry after industry. And **the next time the situation comes, you have the tools with which to think.**

- In the process, you develop **a third or fourth sense of things which sets you apart from the crowd.**

38. There is **no value in reading the financial press.**

- The **news** is not news, **it's fake and it always has been.**

- A lot of reports for news are **poorly disguised promotions or written by people who have no clue.**

- **People who are involved in real economic endeavour don't have the time to indulge in meaningless activities**.

- The reason why people are looking at the press constantly and seeing, what do other people do is because **their investment decisions are largely based on other people's decisions.** Instead, you should figure out what's right for you by yourself because **you don't know what is the real motivation of the person behind the news**.

39. Remember that **a play on words can change the whole perspective on how your brain processes things**. Over the years, **the gambling business has changed its name to the gaming business**. This is not by accident. They want to infer to you that there is an element of fun in giving money to the house when all odds are against you.

If you can simply replace the words 'shareholder/stakeholder in a company' with 'participation/partnership/ownership in a company' in your investing vocabulary, you will start looking at your investments differently especially in terms of your time preferences.

40. What does the economy or money in the modern day world actually means, is it real or simply an illusion?

- we look at prices on an exchange to reckon value, having failed to see that **wealth creation via the stock market does not create resources in the economy**. **We don't see that booming markets without savings is not an accumulation of resources but an accumulation of claims on existing resources.**

- We hail growth by looking at a meaningless aggregate such as GDP and we hope for higher prices, dismissing the fact that **such aggregate growth in money terms more often than not comes from debt creation and the consumption of our capital. Yet we reckon all this as a modern financial miracle.**

- **We have abolished the idea of failure—nature's cleansing mechanism**. As a consequence, **we've lost real economic vitality**. We've substituted finance for an industry as the locomotive of economic growth. In GDP terms, it looks terrific. But **it is neither enduring nor real**.

- **A promise to pay is not money**. We dress it up as a bank deposit, a treasury bill or some variation thereto and insist on calling it an asset. But we also laugh at the man who chooses to keep his cash in gold. **The price of something becomes our value determinant rather than its characteristics in being real, enduring, or suitable as a means to our objective.**

- **Dishonest money begets dishonest statistics, dishonest accounting, dishonest balance sheets, dishonest means, dishonest objectives, dishonest compensation policies, and dishonest relationships; that it begets ambiguousness and corruption in every aspect of life—from the loftiest of boardrooms down to the lowliest economic agent**.

- We need to appreciate the fact that **our own claims, promises and debts are nothing but a false reckoning of wealth.** We trade instruments on financial exchanges that possess no inherent economic value. **We trust there will always be a bid or a greater fool as they say.**

- One of the most nefarious consequences of dishonest money is **to destroy our ability and willingness to act responsibly in light of our own judgments**. It has **led us to replace common sense by compliance**.

- **We have substituted the law for what is moral and what is right**. We have **substituted audit checklists for an auditor's judgment about what is true and fair**. And we have **substituted phoney mathematics for the judgment we once possessed in understanding the nature of value and that of risk.**

Conclusion:

- **Tony believes that;**

Wealth in created on the main street and not on Wall street. Our job as custodians of that wealth is to understand the irreplaceability of that capital created over generations of hard work and savings. It must be respected.

- The history of business and money is replete with stories of companies like Xerox where fortunes made over a lifetime were lost due to some inappropriate decisions. So we need to **view the financial process with some humility.** For unless you inherit it or win the lottery, **creating great wealth is quite difficult and, keeping it, is substantially harder.**

'Humility' and 'Judgment' are two foundational traits they don't teach in Business School. They are impossible to identify or quantify.

A little arrogance, over-confidence or lack of judgment results in disaster. Be it money or life in general.

- **More importantly,**

The best thing you can pass onto your children is not money, it's the way of doing things.

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