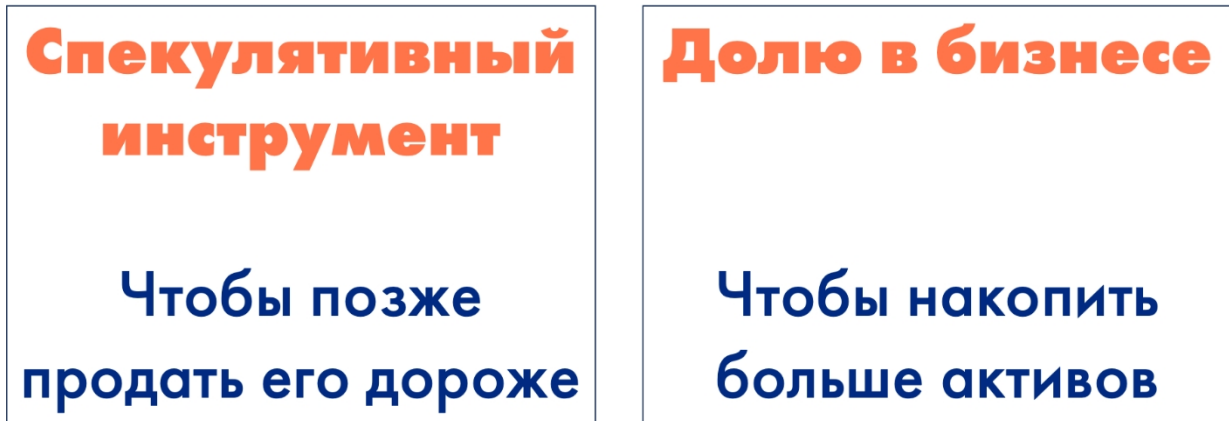


WHY DO YOU NEED STOCKS?

Why do you need stocks? Most people, of course, don't even think about what stocks are. What are you talking about? But that makes the following material all the more useful for you.

First, a question. If you buy stocks, what are you buying?

Покупая акции, я покупаю ...



A speculative instrument to sell later at a higher price, or a share in a business to accumulate more valuable assets? I conducted a survey on Telegram. By the way, don't forget to subscribe to our Telegram channel HUGSFUND, it is very useful for both investors and speculators. So I conducted a survey, and in one day, almost 1,600 people responded. The results were statistically significant, and I stopped the survey after the percentages stopped changing.



Hugs.fund

Проведем опрос на тему восприятия рынка акций.

Покупая акцию, я покупаю ...

Final Results

47% Спекулятивный инструмент - чтобы позже продать его дороже



44% Долю в бизнесе - чтобы накопить больше активов



9% Не знаю



ДЕНЬГИ

АКТИВЫ

1 575 votes

So, about half responded that when they buy shares, they are buying a speculative document in order to sell it at a higher price, and slightly fewer people responded that when they buy shares, they are buying a stake in a business in order to accumulate more assets. So the former accumulate money, while the latter accumulate assets. Those who buy shares as a speculative

instrument, exchange money for a speculative asset in order to get more money, and these are speculators. Investors initially have assets, sometimes exchange them for money, cash out, and lock in profits in order to buy other assets.

If you look at businesspeople and entrepreneurs, they are all from this field. They own assets in order to make money from them. Most ordinary people are not businesspeople or entrepreneurs; they treat money as the main means of accumulation, as the main asset. That is, here the asset is money, here the asset is business, stocks.

Recommendations from the legendary Benjamin Graham, Warren Buffett's teacher

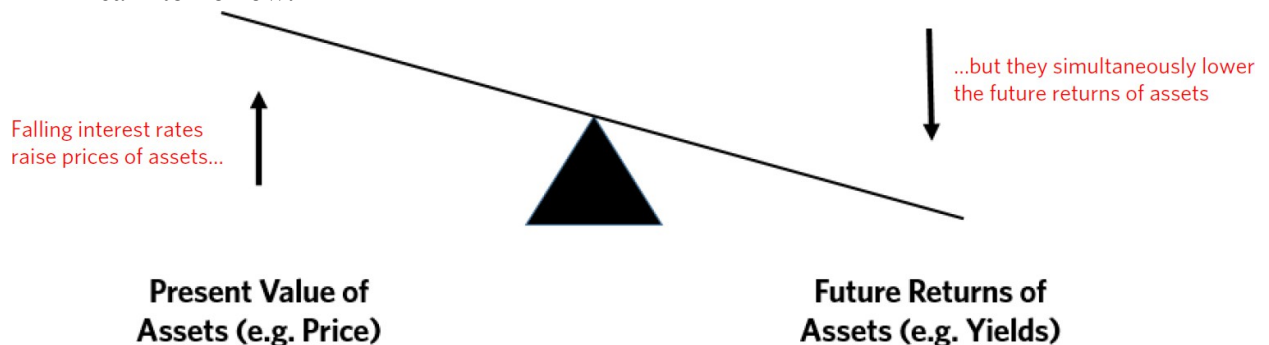
1. A stock is a document that gives its owner a share in a particular business, including the ability to vote at shareholder meetings, receive dividends, and receive their share of the profits from buybacks. Graham writes that a business does not depend on the value of its shares.

EN - But this is not the case for many companies that are in constant need of raising capital.

2. The stock index swings from optimism to pessimism; the investor's task is to buy from pessimists and sell to optimists.

EN - However, the market can remain in a zone of optimism or pessimism for a very long time, and staying out of the market can be too costly for investors.

3. Future returns depend on today's prices—the more you pay today, the less you will earn tomorrow.



4. You can be very cautious, but you still risk making mistakes. To minimize this risk, it is worth using a "safety margin" — that is, trying not to overpay for the asset you are buying.

EN – Other methods of minimizing risk include options or having a significant amount of cash in your account.

5. Financial success depends on your psychology. You must have mental resilience and critical thinking skills.

Now, to begin with, try to make a choice. After all, the entire process of investing and speculation is always about making choices. Whether you are dealing with money or assets, you are constantly faced with choices: perhaps there is a better use for your money or a better asset. By the way, there is another universal rule for investors or speculators: if you sleep restlessly, worrying about your bet or investment, then the bet is probably too big, or you made it at random and are simply afraid to admit it to yourself. Should you put all your money into one instrument or build a portfolio?

Today, even small investors or speculators have a choice, as many bets start at a hundred dollars or even less. The financial industry is more accessible than ever, and the degree of accessibility is growing.

You intuitively understand that putting all your money on one event means taking on increased risks. By the way, this is essentially what businesspeople do, as the lion's share of their capital is usually tied up in their business. Therefore, all businesspeople adequately perceive that their business carries very high risks. First and foremost, risks to their financial well-being. If something bad happens to their business, their families' standard of living will definitely deteriorate. And not everyone is ready to start from scratch.

Businesspeople protect themselves from such risks by exercising increased control over their businesses. Often, they practically live in their companies, constantly thinking about them.

Investors do not have this degree of control. Therefore, there is only one method of protection available to investors: diversification. Of course, there is also hedging using options. But that is advanced mathematics of financial markets, which we will discuss later. Diversification is what a portfolio is all about. The less correlation or interdependence between the assets in the portfolio, the better diversification works. You have to agree that there is little point in buying shares in two very similar companies that fluctuate in almost identical ways.

Should a portfolio be selected according to certain principles (for example, based on scenarios for how the situation might develop), or is it simply a set of excellent investment ideas?

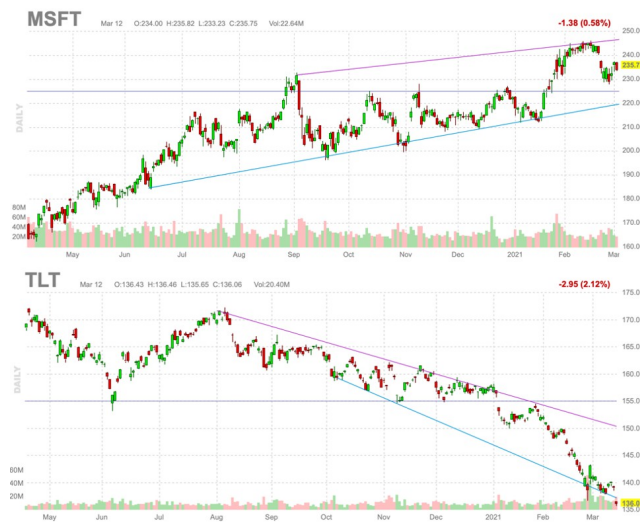
Is it worth comparing your results with others?

Yes, if you have the same investment goals. This can be a good example to follow.

Our opinion of the market determines our behavior. What we think about an investment is what we end up doing, and what we end up getting. If stocks are a speculative asset, people usually look at the chart. They see that the chart is rising, so they need to buy. The market is overheated, I'm taking profits, I'm afraid, I'm greedy. In other words, speculators look at the market through the prism of charts and technical analysis. Investors look at stocks and the market through the prism of fundamental indicators: what does this company do, what is its revenue and sales volume, how does it make money, how stable is its business, is this business growing or declining, do I want to own this business for a long time or not. This view is closer to Buffett's view.

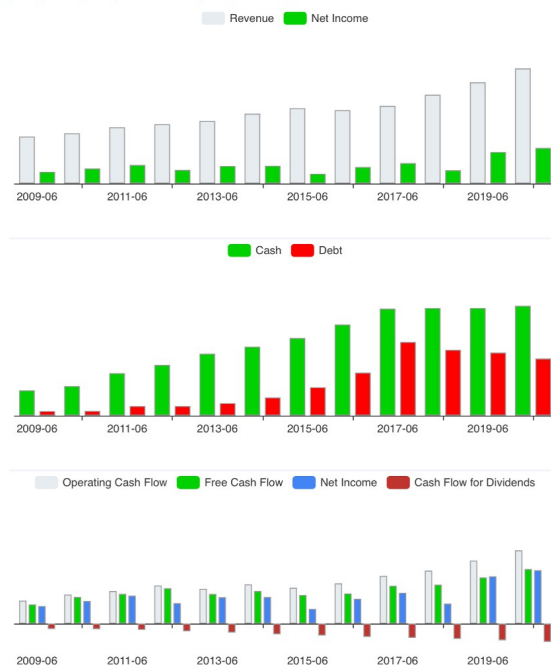
СПЕКУЛЯТИВНЫЙ АКТИВ

СМОТРИМ НА ГРАФИКИ и РЫНОК



ДОЛЯ В БИЗНЕСЕ

СМОТРИМ НА БИЗНЕС



For me personally, when I buy shares, I buy a stake in a business, and I will explain this using a very broad example. Imagine a dog. It has a tail and the dog itself. The dog itself is the business. It can exist without a tail. But the tail cannot exist without the dog. The stock market is the tail. It wags, it wiggles, it can be whatever it wants, it may not even exist. The business does not suffer in any way from the presence or absence of shares. There are exceptions, of course. For example, Tesla benefits from the existence of the stock market because it allowed Elon Musk to sell Tesla shares on the public stock market and thus raise capital for the development of Tesla. This is where the relationship between the stock market, business, and the value of business exists. For normal companies, the stock market is an opportunity, a way to raise capital from retail investors.

Now think about what is more important to you: where the market will be in a year or five years, or where the business will be. Speculators will say, "The market has a life of its own, so it's important to me where the market will be." If, for example, the market stagnates in the long term, will the stock market be able to break away from the value of the business indefinitely? In the short term, discrepancies between the value of a business and the business itself do arise. Yes, this is how manias and bubbles arise, when there is a lot of money, when everyone is greedy, discrepancies arise between the value of a business and the business itself. But in the long term, they correlate with each other.



There is a well-known statistic that today's price-to-earnings ratio of a company is the expected return on that company's shares in 10 years. In other words, there is a fairly strong statistical correlation between the two. Well, objectively, of course, because a business is worth as much as it earns for investors. It actually makes money for investors, not through virtual stock quotes. Therefore, for me personally, it is not important where the market will end up, but what will happen to the business.

Now, here's an abstract question. What businesses do you want to have a stake in? What's the first thing that comes to mind? I've conducted this survey many times, and people usually respond:

"I want to have a promising business. Promising, good, reliable, fast-growing, profitable..." That is, everything in adjectives. It's complicated. We all want to have a good business. We are all for everything good and against everything bad. But unfortunately, this has nothing to do with investing and the mathematics of investing.

Take, for example, the apartment rental business. It may be a good business. Incidentally, the worse the apartment, the higher the rental income. You can have businesses such as coffee shops, hot dog stands, and other small mobile outlets. You can have an illegal business such as moonshining, or you can have a legal business such as McDonald's, a McDonald's franchise, or by buying McDonald's shares. Or from growing cannabis. Nowadays, Chinese marijuana is increasingly conquering the world, and you can earn money by growing marijuana, or you can earn money by buying shares in real estate where marijuana is grown. These are two different businesses. You can have a stake in a pimping business, or you can have a stake in Tesla, Apple, or toys. Perhaps TikTok shares will appear on the market someday. I don't really understand what the business is here yet, because I don't see any monetization, but there was a fierce battle for the TikTok business itself and for TikTok users in 2020. You can own Playboy shares, or you can have a whole basket of different businesses in the form of an individual portfolio or an ETF. And you can realize any of your ideas and buy any business. And you can look at the chart: if it's growing, it means people are buying; if it's falling, it means I'm not buying, I'm selling. If it has grown too much, I'm afraid, I take my profits and get out. That's why I personally recommend analyzing the business rather than the dynamics of the stock market.

В каких бизнесах ты хочешь иметь долю?



Look at the cause, look at the dog, not the dog's tail. There are three types of businesses: VALUE, CORE, and GROWTH.

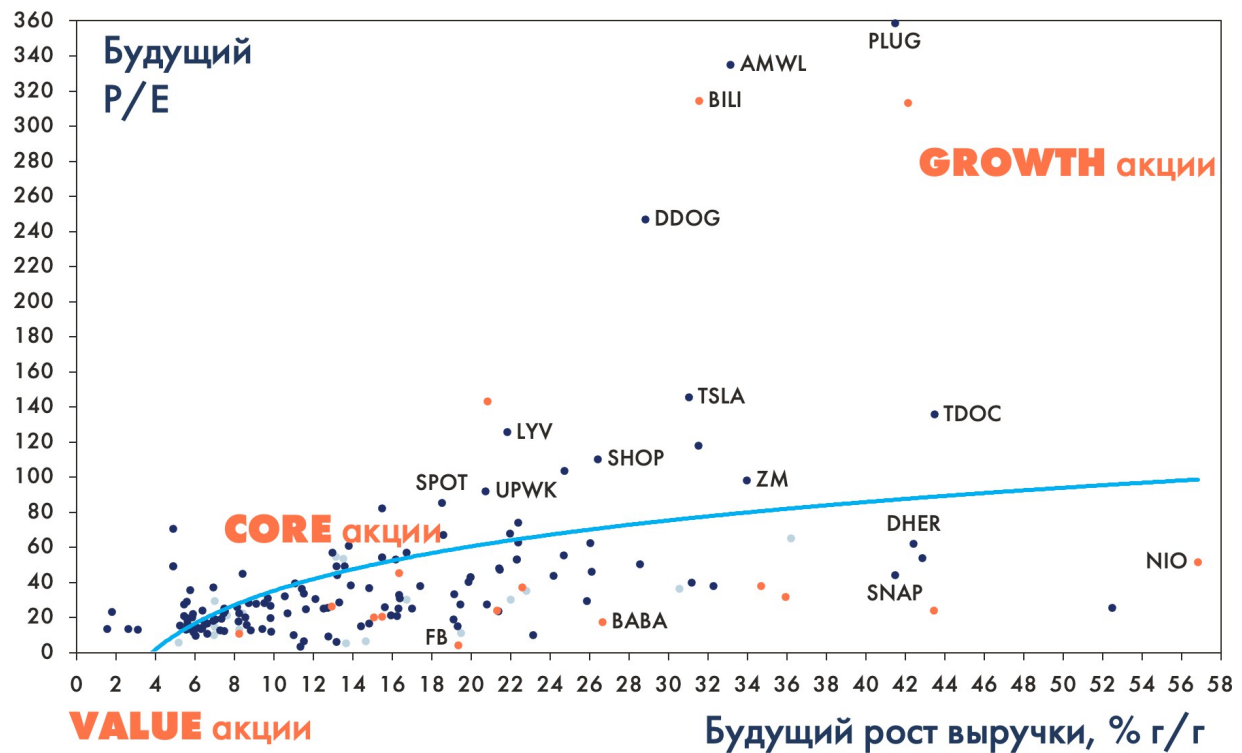
VALUE businesses see their revenue grow by no more than 10% per year. There are exceptions. For example, VALUE businesses include bank stocks, oil stocks, and automotive companies. At certain times, they can sometimes grow rapidly, faster than 10% per year. But in the long term, their business is already growing slowly.

In the short term, why might they grow during a cyclical downturn? For example, oil prices fell to \$20 per barrel, then rose to \$60 per barrel. Naturally, during this period of oil price growth from \$20 to \$60 per barrel, oil companies' revenues will also rise sharply. But this is a cyclical business; it depends on cyclical behavior in the economy. When the economy is doing well and booming, this business also booms. If we take a long-term period, for example, 10 years, when there is a full cycle of ups and downs, over 10 years these classic businesses, VALUE businesses, commodity businesses, as a rule, do not grow faster than 10% per year.

CORE businesses grow from 10 to 20% per year. CORE businesses were usually GROWTH businesses a few years ago, but now they are slowing down. That is, now they are moving from GROWTH, from rapid growth of more than 20% per year, they have reached their peak, they have reached their scale, and they are beginning to stagnate; these are CORE businesses. For example, Apple is a CORE business. Apple's main source of income is iPhones, and iPhones are boring; it's already a commodity business. Of course, they are developing it, they are developing this niche, but it has limits. Apple may become a GROWTH company again at some point, but to do so, they will need to change their business model, move away from iPhones, and reduce the share of iPhone sales in their total sales

in favor of other products, such as regional products or some other new product that will boom and grow rapidly.

Tesla shares are still a GROWTH company, their business is still growing rapidly, but in essence it is still long-term. For now, it is a VALUE company, because the basis of Tesla's revenue now, and in 5 years, is predicted to be cars. And cars are a VALUE business, a commodity business, which is boring, and Tesla is just riding the hype wave right now, growing rapidly. Tesla's high valuations can only be justified if they manage to sell not only cars, but also some other IT products.



So, once again, there are three types of businesses, depending on the rate of revenue growth, which is the main factor in assessing the prospects and valuation of the company itself: VALUE business, CORE business, and GROWTH business. It is possible to disregard these assessments altogether, because a GROWTH company can quickly become a VALUE company, and a VALUE company can restructure, find a second wind, and become a GROWTH company. However, such changes are quite rare. It is difficult for a company to change so quickly.

So, what primarily determines the assessment of prospects and interest in a business is profit. Profit is influenced by revenue—that is the basis. Minus expenses, minus taxes. Higher taxes reduce profits, which means they reduce the valuation of the business. That is why there is now discussion about when Biden's tax reform could lead to a decrease in business profitability, which means a decrease in business valuations and, therefore, a negative impact on the stock market.

ВЫРУЧКА - ЗАТРАТЫ - НАЛОГИ



ПРИБЫЛЬ



МАРЖИНАЛЬНОСТЬ ПРОДАЖ

At the time, Trump's tax reform led to a rise in stock prices. Why? Because it gave American businesses additional profits. As a result, the stock market rose sharply in 2017. Labor costs, raw material costs, interest rates, and a company's high share of debt in its assets all affect the profitability of a business and ultimately influence interest in the business. And in the end, we have sales margins. If it is stable, that's great, it means the business is predictable. If the sales margin is declining, it means the company has some structural problems, such as declining revenue or rising costs. Very often this is accompanied by an increase in marketing expenses or excessive research costs. This is a problem for pharmaceutical companies, for example. Therefore, in the end, we look first and foremost not at the profit itself, but at the sales margin. Because, again, it is based on revenue. Multiplying revenue by the sales margin gives us the profitability of the business, and therefore whether or not the business is of interest.

СУММА [ЦЕНА x КОЛИЧЕСТВО]



ВЫРУЧКА



ТЕМПЫ РОСТА ПРОДАЖ

The second important factor is revenue. Revenue is always the sum of actual sales, sales measured in actual terms, for example, how many cars I sold multiplied by the average cost of a car. If the average price of a car decreases, it means that I can produce the same number of cars. But my revenue will fall, and that's not good. Therefore, it is enough to simply forecast overall major brand trends. And what matters in the end is the rate of revenue growth. In a market that has reached its saturation point. Revenue growth rates are already low because, simply put, who are you selling to? As a rule, you sell... you can at least maintain your sales volume, and the maximum you can influence is prices. Therefore, for good VALUE companies, sales growth rates rarely exceed GDP growth rates, taking inflation into account. And now, for the US, for example, it's 5% per year. That is, our requirements for VALUE businesses are long-term revenue growth of at least 5% per year. And in the end, we take profits, understand the marginality of the business, take revenue, understand the conditions in the financial market. They are favorable for buying securities or not favorable. Plus, we take psychology into account, and all of this ultimately determines stock prices on the stock market. This is how a tail appears, which swings either up or down.

ПРИБЫЛЬ + ВЫРУЧКА



ЦЕНА БИЗНЕСА



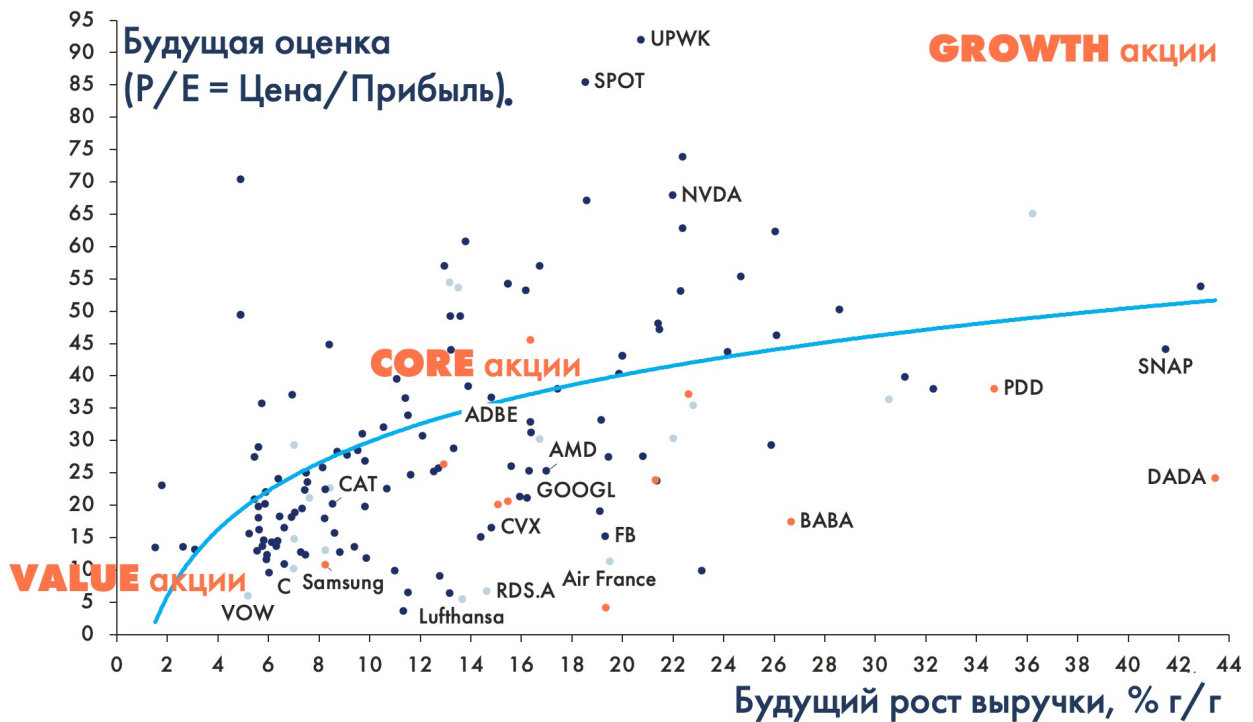
УСЛОВИЯ НА ФИНАНСОВОМ РЫНКЕ

+

ПСИХОЛОГИЯ

In the long term, since money is being printed and will most likely continue to be printed, this creates favorable conditions in the financial market, which is a tailwind for investors. Well, in the short term, there are situations such as the coronavirus, or some kind of global financial crisis, and then conditions on the financial market deteriorate, and on top of that, psychology also deteriorates. It is important to understand that psychology reinforces existing trends in the financial market. That is, if the market is growing, psychology reinforces this growth. If the market is declining, psychology reinforces this decline. In this case, psychology has a negative impact through fear.

ЧЕМ БЫСТРЕЕ РОСТ КОМПАНИИ = ТЕМ ОНА ДОРОЖЕ



In one of our previous issues, we already discussed how rising interest rates negatively affect the valuations of GROWTH companies, because more expensive money worsens conditions in the financial market for the most promising growth stocks. In an environment of rising interest rates, we strive to have more VALUE and CORE companies in our portfolio, where the main thing is that the business grows by more than 5% per year, and when interest rates fall, it is better to focus on GROWTH companies, because this creates good conditions for the financial market and psychology, and also helps to inflate certain elements and bubbles.

So, if you view stocks as a speculative instrument, what I told you about profits and revenues may not seem very useful at first glance, but you need to understand that you are then trading on a whim, which means you are condemning yourself to unpredictable financial results. I prefer to act like an entrepreneur, like a businessman. For me, stocks are a purchase of a share in a business, and my task is to accumulate as many shares as possible in good businesses. And that's why I look first and foremost at profits, revenue, and margins. At the same time, revenue should grow by more than 5% per year, and it is desirable to have diversified sources of revenue. The more diverse a company's business is, the more sustainable it is in the long term. Therefore, it is very interesting when a company has new sources of revenue that are growing rapidly. This is always very good, and I prefer to have such companies.

Profitability is a must for VALUE businesses. For GROWTH companies, profitability is not a must. GROWTH companies can even be unprofitable. The key here is high, very high revenue growth rates.

We must look at who manages the companies. It's great when it's the first or second generation of founders. For example, Zuckerberg is a young man, he's still

runs the business, which is why I like Facebook. The situation is the same at Nvidia. There are many businesses that are run by the first or second generation of founders. But it doesn't necessarily have to be the founder; it could simply be a strong visionary, a very strong leader, or a strong top manager. It is important to understand that a good business run by poor top management, unfortunately, is also not attractive to investors, and I would also prefer to avoid it. Therefore, I would prefer to invest in a good business that is run by good top management. Preferably, it should be a growing sector of the economy. Let's say it's data centers, cloud computing, cybersecurity, various video streaming services. In other words, a growing business segment that, like a tailwind, increases revenue growth rates to double digits. It is desirable for the company to have a stable level of marketing and research and development expenses. This is because if a company's share of revenue from innovative spending declines, it will lead to a decline in that business in the future. And of course, if a company's administrative expenses are growing rapidly, I try to avoid such companies. This means that bureaucrats are taking power. Instead of spending money on business development, they spend it on themselves, and that's not good. As a result, I try to buy a business that I am ready to hold for five years or more, one that I can confidently buy today, close my eyes, and understand that in five years it will not only be better than today, it will be much better than today. And that this business will become even bigger and ultimately bring more profit to the shareholder, and I, as a shareholder, will earn primarily from the business. And I don't care what the stock market thinks about this business at the moment. So my advice is to look at the stock market after all. To buy good businesses, not charts. Charts are secondary. I have yet to see a single billionaire who has made money trading based on charts. But those who own businesses are millionaires and billionaires.

Good business

Revenue should grow faster than nominal GDP (5%)

The more diversified the sources of revenue, the better (growing number of product categories)

Profit – must be for Value, not necessarily for Growth Strong leaders at the helm of the company

Growing sector of the economy

The share of R&D, marketing, and Capex expenses relative to revenue is NOT decreasing (growing faster than administrative expenses)

Result = Ready to buy for 5 years (or not ready, which means the company is rejected)

Strong leader

Top managers are usually hired from within

Calm, unobtrusive, reserved, and even shy leaders. At the same time, they combine "outstanding human qualities with strong professional will," as well as modesty, decisiveness, persistence, and calmness. They are exceptionally

ambitious, but not for themselves, but for the companies they manage.

The success of the company comes first for them, not personal glory (strong charismatic leaders can suppress their subordinates and lose touch with reality).

When talking about success, top-level managers usually talk about luck ("looking out the window"), and when it comes to failure, they "look in the mirror" and never blame their colleagues.

5 Level	Level 5 leader His leadership enables achieve exceptional and long-lasting results thanks to a paradoxical combination of outstanding personal qualities and strong professional willpower.
4 level	Effective leader Formulates a "vision" for the company's future and consistently ensures that the company moves forward along the planned path. Ensures high standards of work quality.
3 Level	Competent manager Organizes people, rationally distributes resources in order to accomplish the tasks at hand.
2 Level	Valuable team member Contributes personally to the achievement of the company's goals and works effectively with other team members.
1 Level	Highly professional employee Contributes through active use of their abilities, experience, and organizational skills. work.