AN INVESTOR LEARNS FROM THE GRAND MASTER!

“An investment in knowledge pays the best interest”

- Benjamin Franklin

It happened at the Intel/PCA Rapid Chess Grand Prix in 1994 in New York. It was round one. Two young grand masters (aged 20 + something) played the first two games which ended in a draw. As a result, they had to play an Armageddon Blitz tie breaker – a short, fast-chess game where the White gets a total time of 6 minutes and the Black gets 5 minutes. White clearly has a minute more which is a huge advantage in such a short game. However, the Black is compensated by a benefit that incase of draw, Black wins.

The game starts with quick moves. White starts with a strategy known as the ‘Petroff’ defense but makes an unusual move on move #4. The opponent suddenly stops. He goes numb. The clock is ticking. Commentators are shouting “Make a move! Make a move!!”. Fortunately, their voices are not allowed to reach the players. The Black wants to take his time to study and react to the move. Seconds are rushing by and soon the player has spent a minute and 43 seconds out of the 5 minutes given to him on one move. He finally moves, more decisively and quickly now. The next 46 moves, he completes in 2 minutes and takes the game!

The player who played Black and won is none other than Viswanathan ‘Vishy’ Anand, the Indian chess Grand master and the former world chess champion. Also known as the “Lightening Kid” during his early years (because of his fast game), Anand became the first grand master from India in 1988. He was also the fourth player in history to pass the 2800 Elo mark on the FIDE rating list, after Garry Kasparov, Vladimir Kramnik and Veselin Topalov. He is a five-time world chess

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champion and the recipient of the Padma Vibhushan award, the second highest civilian honor in India. I read the story of his fascinating journey in ‘Mind Master’ (his Autobiography) and would highly recommend this book to everyone. As I moved through the book, I found myself highlighting ideas from chess that can be used in investing.

WHAT INVESTORS CAN LEARN FROM THE CHAMPION

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➢ Before making your move

In the book, Anand describes in a lot of detail, the kind of preparation required before the game. One of the ideas he mentioned was going through experiences of former greats in chess. This works for the investors too. It is important to go through history of strategies that worked in the markets in the past, the investment philosophy of successful investors and what investment styles yielded good results under what conditions. Investing is about understanding history, businesses, finance and psychology.

Psychology is important, in chess too. Anand says “The perception of chess as a left-brained activity executed with cold reason and calculation is not the one I entirely agree with…. Principally, winning in chess is centered on your emotions”. He writes about how it is important to understand oneself and as well as one’s opponent to win in this game. In investing too, it is important to understand the behavioral cycle of the market (opponent) to take advantage of the mistakes the crowd makes. It is also equally important to understand one’s own decision-making process to avoid any behavioral pitfalls.

➢ Error checking

“… after I have calculated a long, beautiful line for which I have travelled deep and uncovered interesting facts, I always return to the first move and run an error check. …Often in trying to look for beauty, I find I have missed something elementary”
This is so common in investing. For most of the people, the most dangerous bias is confirmation bias. Once they are mesmerized by the story or the narrative of the stock, they actively seek out confirming opinions. The other side of the coin is cognitive dissonance (read about them in detail here), in which investors try to rationalize and reject any opposing data or opinion. Before making an investment, one should look for holes in the theory, be skeptical and try and play the devil’s advocate. Sometimes missing out or miscalculating a detail can be detrimental to long term returns from a particular investment.

➢ Recording of decisions and review
From a very young age, Anand made it a habit of writing down his impressions immediately after every game. This helped him understand his mistakes and what he could have done differently during the game. The journal provided him with ideas that could be implemented in future and also at a macro level, to understand, if there was any pattern that needed to be eliminated. Maintaining an investment journal works the same way for investment decision making. Whenever an investment is made, the investor should record the reasons behind the decision. During a review, reflecting on the outcome and the initial thesis will highlight if there was any error in judgement or any learning that can be carried to future investment decisions.

Bull markets are like successful winning streak in chess. Typically, people don’t probe the reasons behind good outcomes and assign the results entirely to superior skill. It is important to review good decisions too and extract any important learnings from them.

➢ Don’t force yourself in a style/investment you can’t handle
It is extremely difficult to make superior returns in every market condition. A good investment philosophy, style or approach adopted by the investor and followed with discipline will result in good returns over a longer term. Shifting between different styles to take advantage of every short-term move can work negatively for the investor. In chess, the players try to get their opponents to step out of their comfort zones. That makes defeating them easy. “The essence of chess is identifying which approach works best against an opponent because what people hate doing is what they will eventually do badly” – Anand.
Investors should be happy to lose less during conditions which are adverse to one’s investment style and make superior returns when those conditions are favorable. Anand defended his title successfully against Boris Gelfand in 2012 through a similar strategy. After studying Gelfand’s games, Anand decided to adopt a strategy where he will push for draws when playing Black and try for wins when playing White (in chess, White has an advantage of making the first move in the game).

➢ **Adopt technology**

23 years ago, in May 1997, “Deep Blue” - a computer developed by IBM, was able to defeat the then reigning chess champion, Gary Kasparov. Though Kasparov had been playing against machines since 1985, only in 1997 were the developers able to get the breakthrough. With increasing computing power and development of Artificial Intelligence (AI), machines have only got better at Chess. In 1999, Anand was invited to play a game of advanced chess where each player is allowed to use a computer to assist him in his moves. This was a first of a kind collaboration between man and machine to get the best out of both. Anand played against Karpov and won by a good margin. This event helped Anand accept the change that was coming, and in the following years, he leveraged technology rather than fight it.

For computers, the playground and the rules for markets are much more complex than chess. However, there are processes when machines can work better than men and a collaboration is warranted in investing too. There is a rise of Quantamental/Investing which combines the best of fundamental and quantitative analysis. Investors need to be open minded to adopt new technology rather than fight it.

A **GRANDMASTER OF INVESTMENTS**

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ABOUT STOIC INVESTOR:
The word “Stoic” is used to describe someone who remains calm under pressure and avoids emotional extremes. For the purpose of this newsletter we refer to the “Stoic investor” as an investor who is realist (avoiding extreme optimism and extreme pessimism), resilient (withstand difficult conditions) and rational (who acts with logic and reason).

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