Investing & Trading Lessons from Rakesh Jhunjhunwala

Early Life & Career

Rakesh Jhunjhunwala was born on 5th July, 1960 in Mumbai, India. He was from the middle-class family. His father was Income tax officer and stock market investor.

Rakesh wanted to be a pilot and then dreamt of being a journalist. However, in his childhood, he was introduced to the world of stock market by his father.

Once he asked his father that, what is the reason for fluctuations in stock price? He got a simple answer that price fluctuation is linked to news flow. This was his first learning for the stock market.

He started reading a stock market column in the newspaper with fascination. During the initial stage of life, he decided to make a career in the stock market.

Before getting into the stock market, he has done graduation in commerce line from Sydenham College. After graduation, he enrolled at himself in ICA and became a Chartered accountant in 1984.

After completion of CA, he expressed his wish to become a full-time stock market investor to his father. This type of move was unorthodox and unacceptable, but his father reacted by telling him that he can start career in stock market, however he would not support him financially in this endeavour. He further told RJ that **never take any shortcuts and never forget that "Your word is your bond".**

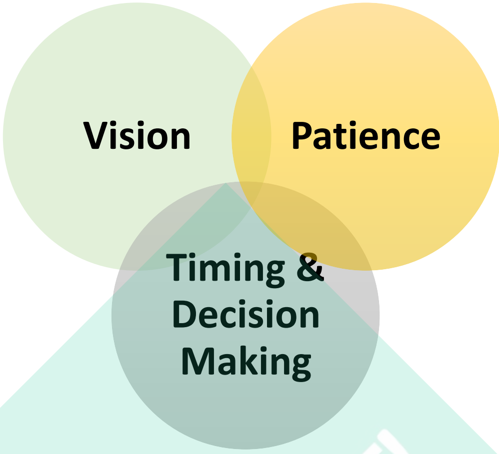
Rakesh Jhunjhunwala started his journey on the D streets in 1985 (At that time BSE Sensex was at level 150) with firm conviction to succeed.

During initial period he did not trade or speculate but soon he realized that **to be an investor one need big capital and only way to generate capital is through trading income**.

RJ on Trading

In trading, the first principal to never forget– **Trading is trend and price based, and not opinion based.** This means that if you buy stock at Rs 100, and then the price falls to Rs 95 you can take your loss and square off your trade. This is one common quality of successful traders.

In trading you should remember Churchill's words, **'You have to lose many a battle to win the War'**.



Along with that one should also remember word of George Soros, **"It's not important whether you are right or wrong, it more important how much you lose when you are wrong and how much money you make when you are right".**

This requires you to square unfavourable trade, and to **pyramid your profitable ones**. In trading, everything else is illusion and hope, except price.

As per him a good Trader requires following qualities –

- ✓ **Knowing what and how much to risk**
- ✓ **Knowing when to exit and how to take a loss**
- ✓ **Tremendous independence of thought**
- ✓ **Lot of discipline & Control over emotion**

His advice to young traders:

- Be realistic. Make trading price dependent, no opinion dependent
- Trading is a full-time profession, not a part time job. It cannot be half-hearted
- Have a broad idea of direction. Remember, trend is your friend
- **Don't be afraid to make a mistake. Only ensure you make one that you can afford so that you may live to make another**
- **Good judgment comes from experience. Experience comes from bad judgment. Trading can only be learnt, it can't be taught**

RJ on Investments

As per RJ to be successful in investing, many elements have to fall into place. But four things are critical. There has to be an attractive, addressable, external opportunity; sustainable competitive advantage; scalability and operating leverage and the management should be of high quality and integrity.

RJ learned a great deal of market from being in person at the Dalal Street. **The pavements at the Dalal Street can teach you more about the working style of markets than any other source**. He was also blessed to have mentorship of great investors like Radhakishan Damani.

He has been a forerunner of India's growth story and believes that **the mother of all Bull market is yet to come**. Going by a simple calculation that if Indian households save ~$1 trillion and even 10% of that ~$100 billion flows into the equity markets, it will be a huge bonanza for the markets.

His advice to young investors:

- Be an optimist: the necessary quality for investing success
- Expect a realistic return. Balance fear and greed
- Invest on the bigger picture.
- Never forget this four-letter word: **R-I-S-K**
- Be flexible for investing is always in the realm of possibilities
- **It's important what you buy, it's more important at what price you buy**
- Have conviction, be patient. Your patience may be tested but your conviction will be rewarded

Lessons to learn from RJ

✓ **I have learnt two things about the press and wives. When they say something – don't react.**

- Investors often go by stock recommendations in the newspapers and media all across but they seldom study the fundamentals of the business concerned. Such investors often end up making losses, as they are unable to gauge the factors which may hit a particular stock.

- ✓ **Anticipate trend and benefit from it. Traders should go against human nature.**
  - Many-a-times, traders or investors follow the herd mentality by buying the stocks in which most of the other people are buying. This is not a good practice as the objective of investment may vary from person to person and from time to time. So do ask yourself why you are buying a particular stock.

- ✓ **Invest in a business, not a company.**
  - Generally, investors do the opposite, that is, if a stock of a particular company excites them, they buy it without knowing the details of the business and without studying the nature of the business.

- ✓ **Make the investment when the stock is not popular.**
  - Most investors lack this acumen because often they do not want to examine or investigate a business before buying shares. People buy shares of a company when it becomes as popular — when the street vendors also start talking about it.

- ✓ **If you see an opportunity, grab it today!**
  - Don't wait too much for the right time. If there is an opportunity where money can be made then grab it immediately before it is gone. But this doesn't actually mean that buying a bread without looking on its expiry date.

- ✓ **Learn from mistakes. Learn to take a loss.**
  - Investors should always make a deliberate attempt to learn from the mistakes which they make in stock markets as every mistake will be a lesson in itself. Investors should also learn to digest losses because one's profit is loss to other and vice-versa.

- ✓ **Always go against tide. Buy when others are selling and sell when others are buying.**
  - Try to buy on dips at the time when market are correcting. Through this you will end up buying more quantity against the people who buy when the market rallies. When most people are selling, then you may get a stock at cheap prices!

- ✓ **Emotional investment is a sure way to make loss in stock markets.**
  - Don't stick to a company on the emotional front for silly reasons such as: "this was my father's favourite company", or other such reasons. Always fall in love with the business which has potential to grow and make your money grow. Try to keep your emotional quotient away and proceed as a rational person.

- ✓ **Blindly following stock picks by big investors is not a wise thing to do.**
  - Investors habitually get into following the rumours of investment by big names, for instance deciding to buy a stock if a big investor has bought it. This doesn't necessarily guarantee a good return. Most often the news stories of a big name buying into a specific stock breaks out after their exit or when they are nearing selling the stock.

- ✓ **Give your investments time to mature. Be patient for the world to discover your gems.**
  - People usually buy and sell stocks in quick succession. Investors do practice this for short-term gains but end up making losses. Seek an investment for a longer time horizon and let your investment mature.

- ✓ **Have some cash in hand so that you can grab the opportunity when it occurs.**
  - Always have some spare cash in hand in order to grab an opportunity as and when it arrives. Very often, investors put all of their money in the stock market, which is a bad practice as the history suggests that flexible returns are always cyclical in nature.

My favourite pearls of wisdom from RJ:

- If a girl is beautiful a suitor will come. If a stock is beautiful, a suitor will come. So I don't search for suitors when I buy a stock.

- Successful investors are opportunistic and optimistic ones.

- Respect the market. Have an open mind. Know what to stake. Know when to take a loss. Be responsible.

- Market is above individuals. The market is rational. An individual can never be smarter than the market.

- If in doubt, listen to your heart.

- Whatever you can dream you can, begin it. Boldness has genius, power and magic in it.

- Aspire, but never envy.

- Be paranoid of success — never take it for granted. Realize success can be temporary and transient.

- Always Have some cash in hand so that you can grab the opportunity when it occurs.

- Blindly following stock picks by big investors is not a wise thing to do.

- Give your investments time to mature. Be Patient for the World to discover your gems.

- Never in my life have I not made an investment because the stock is not popular. In fact I like to make the investment when the stock is not popular.

- I only make mistakes, which I can afford, where I can live to begin again.

- In the market you have to be like a chameleon, always changing your colours and going with the trend. You're lost if try to go against it.

- Invest in the small caps, which will be the large caps. The biggest challenge of investing is that you should recognize whether organization has the ability to scale.

- Trading is against human nature.

- My decision to aggressively invest in the asset class of Indian equities at the right time was a very important determinant of my success.

> **"Markets are about money, but markets are also about knowledge. Markets are also about egos; markets are also about the satisfaction of having been proved right. Especially, when that right is from an original thought and not from a guided source or following somebody" – Rakesh Jhunjhunwala**