



May 16, 2017

Henrico Education Foundation
3820 Nine Mile Road
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Dear Students,

Thanks so much for participating in the Henrico County Public Schools Investment Challenge! A few teachers asked that I write you a letter, so here it is.

After reading this letter, I hope you will conclude, "Hey, I can be an investor too." Investing is probably a new topic to most of you, so I thought I might share some of my observations in case they are helpful. Consider everything in this letter as my take it or leave it opinion.

THE MARKET CANNOT SEE YOU

One thing I love about the US stock market is that anyone can participate. The market doesn't know your age, it doesn't know where you live, it doesn't know your gender, it doesn't know your race, it doesn't know your IQ, it doesn't know if you have ever played sports, it doesn't know if you are shy or outgoing, it doesn't know what other people think of you, etc. and it doesn't care.

The stock market is where people buy and sell ownership of companies. It is the same market for everyone. If we both own shares of Verizon, your shares and my shares will change the exact same every day and we get paid the exact same dividend yield.

One thing I love about investing is that anyone can do it well, if you develop discipline and patience. You do not have to be a genius, but you do need to develop discipline and patience.

However, developing discipline and patience is turning out to be a lifelong process for me. You will never be fully disciplined and most of the "developing" occurs by learning from mistakes. Cherish those mistakes. You can make them inexpensively while you are young, but the cost rises as you get older. Similarly, patience is usually developed by situations that test your patience. But I believe the ability to develop discipline and patience is within everyone, and it is more than worth the effort- it is surely better than a life of undisciplined impatience.

The way I encourage you to consider living your investing life, is to own stock in good companies that you understand, for long periods of time. You only have to get a few investments right in your lifetime to have a satisfactory overall result. Perhaps half of my investment ideas don't work out very well OR WORSE, but that is okay. You can only lose 100% on any investment, but you can make 100% many times over by owning the stock of a good company that you understand for very long periods of time.



For example, when I was in high school, Dominion Power's stock was trading at less than \$15/share and recently it has traded above \$75/share. The 400% appreciation doesn't even begin to tell the whole story. A good exercise would be to study the value of a \$150/year investment in Dominion Power from 1987 to 2016, and be sure to include dividends. All the data you need can be found at <https://finance.yahoo.com/quote/D/history?p=D> . One didn't have to be a genius to guess that people would continue using electricity, but one did get a bit lucky because Dominion is one of the best managed utilities anywhere- although you might not want to argue that point when the power is out.

Investing success is driven more by what you don't do than what you do. It is easy to say "own good companies that you understand for long periods of time", but it seems hard for most people to do- and that especially includes investment professionals. Discipline and patience are required to avoid participating in popular fads that can last for years, but tend to end badly. If you owned boring Dominion Power during the late 1990s when people were getting rich in internet stocks (most of which went bankrupt), your discipline and patience would have been tested! It is worth pointing out that in ancient times the wise people were known as the ones who stayed steady while others were labile {labile is a good SAT word}.

HOW YOU CHOOSE TO LIVE YOUR LIFE

Long term investing requires discipline and patience and your success is driven more by what you don't do than what you do. So I feel compelled to describe a few personal topics which might have a large impact on your investing success. These topics include reading, internal vs. external score cards, happiness, greed, jealousy, and humility. I have noticed commonality in investors that I admire most with regard to these topics. The point is that striving to live your life certain ways can impact investment choices, though all of us are far from perfect.

READ

All great long term investors were/are reading and learning machines. Arguably the most successful investor is Warren Buffett. Buffett reads all the time and so do the people he hired to take over his job. Read! Read a lot!

Reading is such an important topic and you are so young that it bears expanding beyond investing. I'm not sure how or why, but reading a lot seems to be extremely common among successful people. I have heard that the typical CEO reads 50 books a year while the typical person may read one or two. Abraham Lincoln, Malcolm X, Warren Buffett, Dr. Ben Carson, Bill Gates, and countless others are all prolific readers. Reading can change lives. Abraham Lincoln used to learn words by writing on the back of a shovel with coals from the fireplace. Malcolm X learned to read in prison and whoa did he work hard at it. At one point he had copied the entire dictionary, and whoa did it change his life. Dr. Ben Carson was born in very tough conditions. His mom realized that reading was the way out. She made



Ben read a book per week and write a book report, in addition to regular school work. It took him a few years to realize that his mom couldn't read and had no idea what was in the book reports, but that didn't matter because he was on the path to becoming the top neurosurgeon in America.

Back to the topic of investing, I'd encourage you to read Dr. Carson's *Take the Risk* because it provides a helpful method for making decisions, and the method can be applied to more than just investing. Owning stocks for long periods of time requires some faith that progress will continue to be made in the USA. Dr. Carson's *America the Beautiful* provides a sense that though America will never be perfect, things tend to improve over time, and it is the best country in the world. If these books are not at your school library, let me know and I would be happy to supply a copy.

It is okay if you are a slow reader or even dyslexic. I am dyslexic to the point I almost had to do 1st grade three times! One approach slow/dyslexic readers can take is to read the first sentence and last sentence in each paragraph, and for long paragraphs maybe read a sentence in the middle. You'll get the hang of it and become a good skimmer rather than a good reader. Comparing yourself to yourself, the progress and learning should be quite rewarding.

INTERNAL VS. EXTERNAL SCORE CARDS

The propensity for jealousy is in all of us to varying degrees, and it is tempting to imagine how great it would be if I had what some other person had. For example when I could bench press 100 lbs. I wanted to be like the older people who could bench press 150 lbs. I imagined how a backpack would be light as a feather, how people would be impressed, perhaps people who would not have normally wanted to associate with me would ask me to hang out etc... And before the time I had ever bench pressed 150 lbs., I surely told more than a few people that I could bench press at least that much. So basically I wanted to be like someone else so badly I would tell a bold face lie, and it didn't feel good. Now you may be able to get away with a tiny amount of that behavior, but it is a set up for a life of misery.

The point at which exercise became fulfilling and brought contentment was when I started only comparing myself to myself (Warren Buffett talks a lot about ONLY using an internal scorecard- comparing himself to himself- versus having others keep his external scorecard. Buffett got that idea from his dad.) I wanted to be the best version of me and became willing to work toward it. As I quietly achieved goals, it dawned on me that the process of working toward a reasonable goal brought at least much happiness as achieving the reasonable goal. Now that is a set up for a life of happiness!

Of course, there is learning and skill involved with maintaining an internal scorecard. Being a flawed human, not all the goals I set were reasonable. Some goals were too easy and some were near impossible. Plus there were times when I was working hard but didn't feel like I was, and times when I wasn't working hard but felt like I was. Several decades later, I am still improving on this. {One of my goals was to dunk a basketball in a game, and I got the chance before I was ready- actually it turns out I was never ready. Let's just say the fast break dunk attempt didn't go well, and you can use your imagination. In investing it is important to do the things you can do reliably, and not attempt the things



you would like to be able to do. One of my most reliable and most powerful investment skills is to hold stocks for long periods of time.}

I encourage you to keep a diary (internal scorecard) of all investment related thoughts you have. This diary will teach you more about investing than you could ever learn in a classroom! But you have to be disciplined and brutally honest. Your incorrect guesses should teach you more than your correct guesses, especially the first hundred incorrect guesses. Producing such a diary at a job interview will also set you apart, regardless of the job you seek!

I've owned CarMax for over 15 years, and I almost never correctly guess how much money the company will make in a quarter or what the stock will do. I figure by the time they have 300 stores, they will be making a lot more money and my ownership will be worth a lot more. I might be wrong and that is okay.

MILLIONAIRES

I'd encourage you to read *The Millionaire Next Door*. It is most important to realize that the millionaires in the book are content and not greedy. There is another group of millionaires who flaunt their wealth, almost as if they want you to (perhaps NEED you to) give them high marks on their external scorecard. These people do not tend to be fulfilled or content, from what I can tell. To an extent it seems they feed on the jealousy/envy they create in others. Have you noticed that religions all around the world harp on how poisonous jealousy and greed are? Jealousy and greed never result in long term happiness. To love and to be loved provides the maximum amount of happiness a human can experience. If you have a jealous or greedy thought, replace it with a loving one. If you get good at fighting off jealous and greedy thoughts (we all have them), it is easier to be more disciplined and patient.

Ignore fairytales about powerful investors. There probably have been fewer powerful investors living fairytale lives than 90 year olds who smoked cigarettes for 75 years. Trying to become a powerful investor or a 90 year old smoker are both completely horrible ideas. Don't even think about trying either one.

HUMILITY

There is another commonality I've noticed among investors who have produced exemplary results for a long time. A long time in this case is not three, five, or even seven years. I am talking about investors with exemplary +20 year histories. From what I can gather, this group of people is especially humble. They all seem to believe there is something greater than themselves, and they feel lowly compared to it. They are filled with gratitude for the gift of life and aware of how fragile life is. They attribute much of their success to simply aligning themselves with goodness.

The humility doesn't seem as much of a personality trait as it seems like the result of an accurate perspective.



WHY DID I CREATE THE HCPS INVESTMENT CHALLENGE?

There are several reasons, and the main reasons can be jumbled together. Though you are young and inexperienced, your perceptions are not trivial, not by a long shot. I don't think you need to do sophisticated financial analysis to have a solid chance at identifying a good company. I am showing you how owning a portfolio of good companies works, and you are showing me which companies you deem to be good.

I wouldn't be surprised at all if your portfolios do better than many professional investors' portfolios! I hope that in three years you see that successful investing can be uncomplicated, and can be a way for you to create wealth.

I took note of the companies you picked. For example, most classes picked Verizon more than Google (technically the name of the company changed to Alphabet), and Google more than Apple... and that got me thinking....

This contest and letter contains a lot. Take from it what you need and leave the rest. But I hope truly there will be something useful to you in all this. And I invite you to share your thoughts or ask me questions by communicating through your teacher.

All the best,

Scott Redmond