The Aspirational Investor

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The Problem

Success in investing is defined as achieving “above average risk-adjusted returns”
The Investor’s Worst Enemy
Speculative Bubbles & Market Manias
Behavioral Flaw
Market Assumptions

Financial markets, like floods, hurricanes, and other irregular and random phenomena in nature, are inherently unpredictable.

They are not “mildly random,” …“but wildly random.”

Benoit B. Mandelbrot: "New Methods in Statistical Economics," 
The Question

Why Invest?

What is the purpose of the Money?
How much (Money) do I Need?
Introduction: Classification of Goals
Maslow’s Hierarchy of Needs

- **Self-Actualization**: Personal growth, fulfillment
- **Self-Esteem**: Achievement, mastery, recognition
- **Social Needs**: Friends, family, community
- **Safety Needs**: Security, structure, stability
- **Physical Needs**: Shelter, warmth, food, water
Volatility of Markets during a Human Lifetime

(US Home Prices – Data based on work of Robert J. Shiller, Yale University)
Fat Tails: Pound-Guilder
1609-2000

Fat Tails: Pound-Guilder
1609-2000

Owning the world
Owning the world
How do People become (very) Wealthy?
Wealth of America

Source: Based on 2007 Survey of Consumer Finances Data

The Wealth Allocation Framework
The Wealth Allocation Framework

**Exhibit 4**
Three Dimensions of Risk

<table>
<thead>
<tr>
<th>“Personal” Risk</th>
<th>“Market” Risk</th>
<th>“Aspirational” Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preserve Lifestyle</td>
<td>Cash</td>
<td>“Do Not Jeopardize Basic Standard of Living”</td>
</tr>
<tr>
<td>Goal Risk</td>
<td>Equities</td>
<td>“Maintain Lifestyle”</td>
</tr>
<tr>
<td>Principal Protection</td>
<td>Fixed Income</td>
<td>“Enhance Lifestyle”</td>
</tr>
</tbody>
</table>

- Minimize downside risk
- Safety
- Accept below-market returns for minimal risk

- Balance risk and return to attain market-level performance from a broadly diversified portfolio

- Maximize upside
- Take measured risk to achieve significant return enhancement

Three Layers
(Portfolios)
Digging Deeper
Digging Deeper

HIGH

INVESTMENT
REAL ESTATE

HUMAN
CAPITAL

SMALL BUSINESS
CONCENTRATED STOCK
AND STOCK OPTIONS

ASPIRATIONAL BUCKET
Don’t try this at Home
<table>
<thead>
<tr>
<th>SAFETY</th>
<th>MARKET</th>
<th>ASPIRATIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Cash for margin of safety</td>
<td>- A long only portfolio of well run profitable owner/investor companies with strong balance sheets. Each company could be in the aspirational bucket by itself but as a portfolio they provide a diversified market portfolio with excess return</td>
<td>- Sells a portfolio of put options (insurance and re-insurance operations) and reinvests the float in the first two buckets</td>
</tr>
<tr>
<td></td>
<td>- Cash for opportunistic investments</td>
<td>- Low probability events that can cause large losses but produce a large float</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Speculative bets, such as selling puts, during market turmoil, on companies brk owns</td>
</tr>
</tbody>
</table>
The Digital Age
The Aspirational Society
The Aspirational Investor

Taming the Markets to Achieve Your Life's Goals

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