

Get real about stock market return

Part 1: Understand the role of luck

Part 2: Build focused, long-term thinking

Part 3: Determine your expected stock market return

Learning outcomes

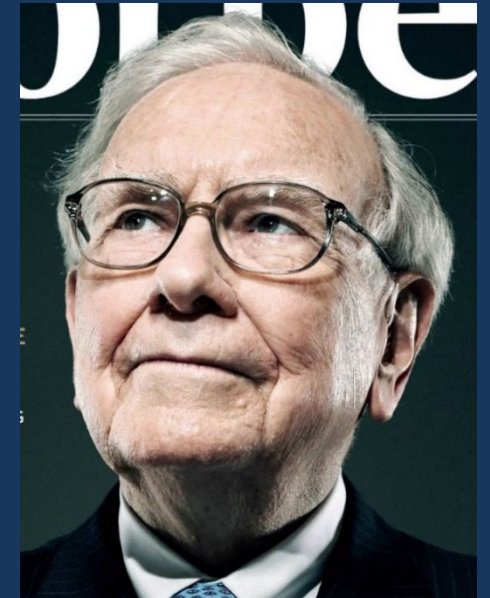
- Learn to not be distracted by winners
- Learn how most people create their wealth
- Focus on the long-term

There will always be extreme outcomes

- ★ In the stock market, it is common to think a person who got rich did so through skill
- ★ But as we have seen, simple statistics show that there will always be a small number of people who will get rich from luck

Did every winner win due to randomness?

- ★ “What about [legendary investor] Warren Buffett? It appears that he achieved his financial success through skill, not luck.”



Did every winner win due to randomness?

- ★ First remember that you are identifying him AFTER he was successful

Did every winner win due to randomness?

- ★ There are a lot of books about how he did it; people are naturally going to want to explain his success

Did every winner win due to randomness?

- ★ But, no one wrote a book about the person who lost in the stock market 30 years in a row;
- ★ The anti-Warren Buffett? That book would never sell!

Did every winner win due to randomness?

- ★ John Meriwether and Long-Term Capital Management (LTCM) - LTCM was a hedge fund management firm that collapsed in the late 1990s due to high-leverage risk strategies
- ★ The collapse was due to high-leverage strategies
- ★ Leveraging heavily in arbitrage, LTCM faced huge losses when market stability was disrupted by Russia's 1998 debt default



Did every winner win due to randomness?

- ★ Bill Hwang of Archegos Capital Management
 - His firm collapsed in 2021, causing billions of dollars in losses due to highly leveraged investments in a few stocks
- ★ The firm's use of total return swaps and heavy leverage led to its downfall
- ★ When stock prices dropped, Archegos couldn't meet margin calls, causing rapid collapse



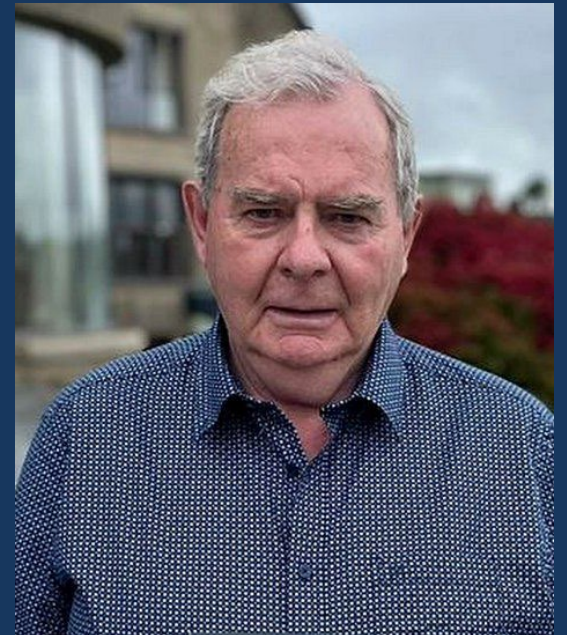
Did every winner win due to randomness?

- ★ Eike Batista - Once the seventh richest person in the world, he lost almost his entire fortune due to the collapse of his oil company, OGX
- ★ Eike's downfall was linked to OGX's failure, which overpromised on oil production
- ★ The decline in investor confidence and stock price led to the collapse of his leveraged empire



Did every winner win due to randomness?

- ★ Sean Quinn - An Irish businessman who lost his billionaire status due to speculative investments in Anglo Irish Bank during the 2008 financial crisis
- ★ Quinn's wealth loss was due to speculative investments in the bank using derivatives
- ★ The 2008 crisis led to plummeting bank shares, resulting in massive losses.



Did every winner win due to randomness?

- ★ Brian Hunter - The trader whose risky trading strategies contributed to the downfall of Amaranth Advisors, a hedge fund that collapsed in 2006 due to massive bets on natural gas futures
- ★ Hunter made risky natural gas futures bets
- ★ Incorrect price predictions and high leverage, coupled with poor risk management, led to the firm's downfall



Did every winner win due to randomness?

★ How did they lose?

Luck, skill, or a little bit of both?

- ★ People want to believe that Buffett achieved his success through skill, but
- ★ Probabilities teach us that it is possible that he could just be the lucky one

Luck, skill, or a little bit of both?

- ★ Of course, there are times that skill does come into play in the stock market
- ★ It would be hard to believe that that Buffett does not have it

How do people get rich in this world?

- ★ In the Forbes 400 list of the richest people in the world, 79 of them were listed under the following categories:

How do people get rich in this world?

- ★ Hedge funds
- ★ Investments
- ★ Money management
- ★ Private equity

How do people get rich in this world?

- ★ Though many of them were successful in the stock market
- ★ Their real riches came from starting businesses

How do people get rich in this world?

- ★ In other words, almost none of the people on that Forbes 400 list got rich from being a stock trader
- ★ They got rich because they were very successful businesspeople!

To get rich, build a successful business

- ★ What I have learned from nearly 30 years of experience in the stock market
- ★ If you really want to get rich, become an entrepreneur and start a successful business

To get rich, build a successful business

- ★ If you are not an entrepreneur, then find one and help them build a successful business

To get rich, build a successful business

- ★ Building businesses that create products and services that the world needs is how most people get rich

Is Warren Buffett a trader or owner?

- ★ You might ask, “But, Andrew, Warren Buffett is at the top of that Forbes list! Isn’t he an investor?”
- ★ Buffett really is a business owner



Is Warren Buffett a trader or owner?

- ★ In fact, he often says he would prefer to never sell his stocks

Meet Mrs. B.



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...

Rare footage of Mrs. B - Rose Blumkin.

Mrs. B founded Nebraska Furniture Mart in 1937 with \$500 of savings, selling 90% to Warren Buffett's [\\$BRK](#) 50 years later for \$55 million.

Even at 94-years old, she continued to work 70 hour weeks, pricing rugs and carpets from memory. 🧵👉

“We like managers who are in love with their business...who feel like I do - I want to tap dance when I get to the office,” is how Buffett answered Adam Smith’s question about the Berkshire Hathaway culture.

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- ★ She was born in 1893 in what is now called Belarus and she died at 104 in 1998 in Omaha, Nebraska
- ★ She was 4-foot, 11-inch

Meet Mrs. B.

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Andrew Stotz, PhD, CFA



Steps 1 2 3 **4** 5 6 7 8 9 10 11 12

Is Warren Buffett a trader or owner?

- ★ Most people do not go into the stock market with Warren Buffett's mindset
- ★ They want to trade stocks and “play the market”

My friend got rich in the stock market

- ★ “But Andrew, what about my friend (or some other guy you met) who told me he got rich in the stock market?”

But, Andrew, what about my friend?

- ★ It could be luck
 - Statistics has taught us that there will be some winners by randomness

But, Andrew, what about my friend?

★ It could be skill

- Yes, there are some who succeed over the long-run thanks to their skill

There will be big winners

- ★ It is true, that there are a few people who have made a huge amount of money from trading in the stock market
- ★ Just like there are a few people who have walked out of a casino with a lot of money

Can you predict who is going to win?

- ★ Think of the stadium of 10,000 people
 - Could you predict who would win?
- ★ The problem is that it is hard to determine if it was from luck or skill, especially after it happens

Build your plan on strong understanding

- ★ It would be irresponsible to build your investing plan based upon hoping you will be lucky

Build your plan on strong understanding

- ★ And for now, since you do not have skill, it would be irresponsible to build your plan based on you having skill

YOU

won't

GET RICH

in the
stock market



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...Until YOU change
the way YOU think
about it

People love to talk about their winners

- ★ Have you ever heard someone say something like this?
 - “I bought stock ABC at \$100 and it went to \$1,000!”

People love to talk about their winners

- ★ Hearing this may make it seem like everyone is making lots of money in the stock market!

Change the way you think about it

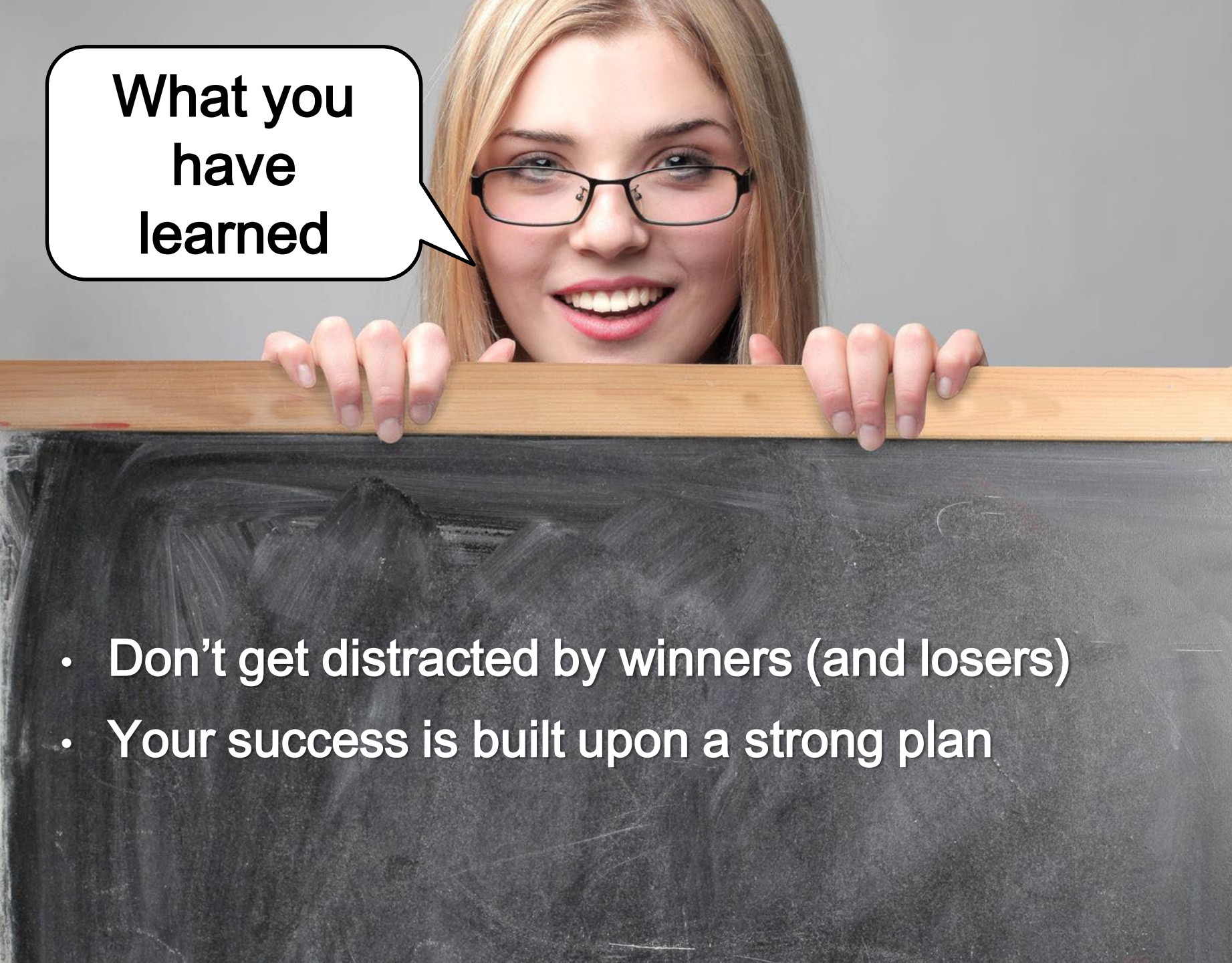
- ★ Unfortunately, you are only hearing half of the story
 - Because most people do not tell you about their losers

Change the way you think about it

- ★ But what really matters is the sum of winners and losers over a long period of time

Change the way you think about it

- ★ Remember, your investment and retirement horizons are decades long
- ★ You need to make smart decisions, one after another, throughout the entire period

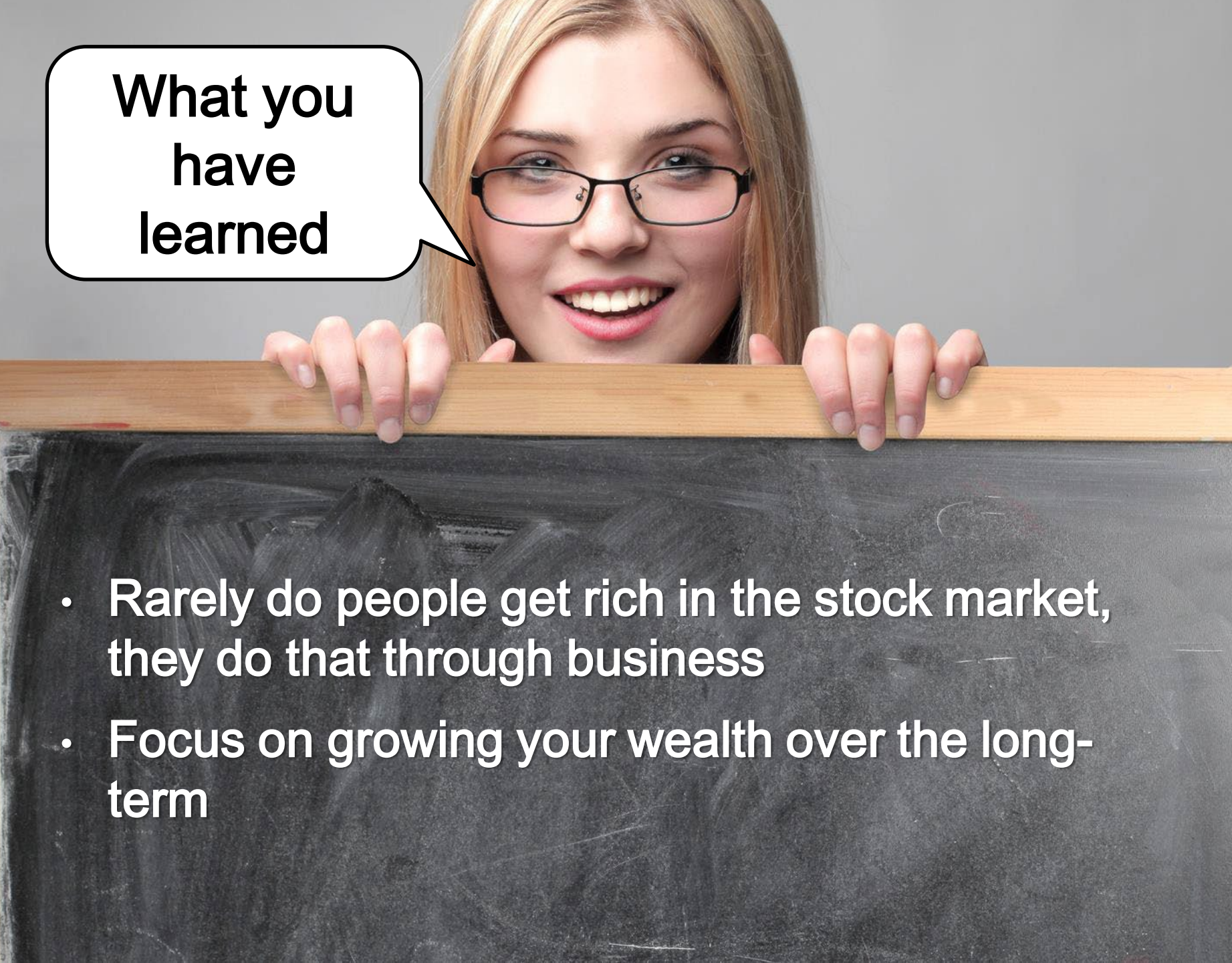


What you
have
learned

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- Don't get distracted by winners (and losers)
- Your success is built upon a strong plan



What you
have
learned

- Rarely do people get rich in the stock market, they do that through business
- Focus on growing your wealth over the long-term