

*This is the fourth and final part of the article on Zurich Axioms, the first of which appeared on Aug 12, 2011, the second appeared on Aug 26, 2011 and third appeared on Sep 09, 2011*

*(A lot of these axioms are contrary to traditional thinking of investment gurus. While one may agree or disagree with these, it is a good idea to go through them and their rationale)*

### **The Eighth Major Axiom ON RELIGION AND THE OCCULT**

It is unlikely that God's plan for the universe includes making you rich. Indeed, if money is on your mind while praying, you are more likely to pray yourself poor. If you depend on God or any other supernatural power or agency to bring you wealth, the chances are you will drop your guard and get flattened.

If there is a God, a question on which the Axioms hold no opinion, there is no evidence that this supreme being gives a hoot whether you die rich or poor. Thus, as far as the Axioms are concerned, it makes no difference whether you are devoutly religious, an atheist, or something in between. No matter what your beliefs might be, thoughts of God or other supernatural help should play no part in your speculative behavior.

#### **Minor Axiom XII If astrology worked, all astrologers would be rich.**

This minor axiom seems to pick on astrology, but that is only because, in America and the rest of the western world, astrology is the most popular of occult beliefs. If you are attracted by astrology or some other mystical or supernatural doctrine, by all means enter into its substance and spirit as deeply as pleases you. Play with it, make it a part of your life -- do what you wish with it.

But before you try to use it to help you make money, do yourself a favor. Look around at the practitioners of this doctrine -- and particularly at those who profess to be its teachers, priests and gurus -- and ask one question: Are they rich? If they are no richer than any other random group of men and women, then you have learned a useful fact. No matter what this occult doctrine might do for you in terms of inner peace and all that, one thing it won't do is fatten your bank account. Anybody can have a lucky hit or two, but the true test of any touted moneymaking approach is whether it works consistently.

#### **Minor Axiom XIII A superstition need not be exorcised. It can be enjoyed, provided it is kept in its place.**

Most of us carry at least a few pieces of superstitious baggage about with us. We've noted that chance plays an enormous role in other money ventures such as the stock market, but at least there you have an opportunity to do some thinking and hunching in the struggle for speculative advantages. In the case of a pick-a-number game there is no such opportunity.

Speculative Strategy: Now let's review the Eighth Axiom. What does it have to say about money and religion and the occult? It says, essentially, that money and the supernatural are an explosive mixture that can blow up in your face. Keep the two worlds apart. There is no evidence that God has the slightest interest in your bank account; nor is there any evidence that any occult belief or practice has ever been able to produce consistently good financial results for its devotees. The most anybody has ever been able to show is an occasional, isolated bull's-eye hit, which gets a lot of attention but proves nothing except that lucky flukes happen.

To expect help from God or from occult or psychic powers is not just useless but also dangerous. It can lull you into an unworried state - - which, as we've seen, is not a good state for a speculator to be in. In handling your money, assume you are entirely on your own. Lean on nothing but your own good wits.

### **The Ninth Major Axiom ON OPTIMISM AND PESSIMISM**

Optimism means expecting the best, but confidence means knowing how to handle the worst. Never make a move if you are merely optimistic. Optimistic people are cheerful souls, good company in gloomy times. A general feeling of hope and good expectations cannot do you any harm. "I'll learn. I'll do well. I'll make it." Indeed, without that fundamental buoyancy, how could one be a speculator at all? But be extremely wary of optimism as it applies to specific money ventures. It can be a dangerous state of mind. Professional gamblers know this. It is one of their most effective tools for emptying the pockets of amateurs.

You can beat the odds once in a while but not consistently. Usually, if the odds say you've got a loser, it's a loser. The pro, knowing this, and knowing how easily the optimistic sucker can be persuaded to bet when he shouldn't, gets rich. The pro doesn't have optimism. What he has is confidence. Confidence springs from the constructive use of pessimism.

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An optimist, descending into the valley of the shadow, puts on a brave smile and says, "Things never are as bad as they seem." Or instead of saying it, sings it. "Never make a move if you are merely optimistic," says the Axiom. Seek confidence instead. Confidence comes not from expecting the best, but from knowing how you will handle the worst.

If we are to go by the newspaper columns, bulls are vastly in the majority. Why? There are two explanations: First, bulls do, in fact, outnumber bears -- by a very big margin. The reason for this is, of course, that optimism feels better than pessimism. So even if a conscientious journalist were to beat the bushes for an equal number of quotable bears and bulls, with the object of writing a carefully balanced report, he would be frustrated by the fact that bulls are considerably easier to find. Second, financial journalists don't usually seek equal bull-bear representation in any case. Why not? Because they prefer interviewing bulls. The song is sweeter. So even if there were an equal number of the two species wandering about on the Street, the bulls would still be over represented in the reports. There are optimists all around you, and there is undoubtedly a very insistent one inside your head. Watch out for them all. They can befuddle your good judgment to an alarming degree.

**Speculative Strategy:** The Ninth Axiom warns that optimism can be a speculator's enemy. It feels good and is dangerous for that very reason. It produces a general clouding of judgment. It can lead you into ventures with no exits. And even when there is an exit, optimism can persuade you not to use it. The Axiom says you should never make a move if your are merely optimistic. Before committing your money to a venture, ask how you will save yourself if things go wrong. Once you have that clearly worked out, you've got something better than optimism -- you've got confidence.

### **The Tenth Major Axiom ON CONSENSUS**

Disregard the majority opinion, as it is probably wrong.

In our democratic age, on our democratic side of the world, we tend often to accept majority opinions too uncritically. If a lot of people say something is so, why, all right, it's so. Thus does our thinking run. If you aren't sure about something, take a poll. The rightness of majorities is pounded into our heads in grade school. This humble acceptance of the majority opinion spills into our financial lives. We listen not only to economists, bankers, brokers, advisers, and other experts, but also to majorities. This can cost us money,

As Descartes said, it is more likely that the truth has been found by few than by many. The majority of people believe the ancient clichés to be unarguable truths. In the light of this, it may be instructive to note that the majority of people aren't rich. Believe in "I think, therefore I am."

### **Minor Axiom XIV**

Never follow speculative fads. Often, the best time to buy something is when nobody else wants it.

When is the best time to buy a stock? When the price is low, of course. And when is the best time to sell it? Why, when the price is high, naturally. Kids learn this in seventh-grade economics, and even if nobody ever taught it to them, they would figure it out for themselves. What they don't usually learn until adulthood is that this seemingly simple formula is amazingly difficult to put into practice. It is difficult, in large measure, because it requires the speculator to act against the pressure of popular opinion. It is notoriously hard to think "yes" when everybody around you is shouting "no!"

Some speculators find this to be among their worst problems. Majorities are always dissuading them from carrying out good moves. Arguing with a majority is enormously hard. It is hard even when the debate deals with factual matters that can be verified by looking or measuring. It is vastly harder when the debate deals with questions of opinion that can't be subjected to that kind of quick verification. Nearly all money-world questions are of the latter variety.

None of this means you should always automatically do what the majority isn't doing. It means only that you should stubbornly resist majority pressure instead of just drifting along with it. Study each situation for yourself, process it through your own good brain. The chances are you will find the majority wrong, but that doesn't happen always. If you determine that everybody else is right, then by all means march with the majority. The point is: Whatever you do, whether you bet with the herd or against, think it through independently first.

**Speculative Strategy:** The Tenth Axiom teaches that a majority, though not always and automatically wrong, is more likely to be wrong than right. Guard against betting unthinkingly either with the majority or against, but particularly the former. Figure everything out for yourself before putting your money at risk.

The greatest pressures on you, and the most frequently felt, will be those that push you into betting with the majority. Such march-with-the-crowd speculations, the Axiom warns, can be costly, for it is in their nature that they tend to make you buy when prices are high and sell when they are low. The strongest line of resistance against these pressures is a keen awareness of their existence and insidious power.

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## **The Eleventh Major Axiom ON STUBBORNNESS**

If it doesn't pay off the first time, forget it.

Perseverance is like optimism: It has always had a good press. "If at first you don't succeed, try, try again," an ancient English king is reported to have remarked, having watched a spider build a web after many bad starts. That is certainly good advice for spiders. Also for kings, who are usually born rich. For ordinary men and women like you and me, struggling to make a buck, it is advice that should be heeded selectively.

How can an investment medium "owe" you money? A person can owe you. If that person fails to pay up, you have a right to dun him or her for the money and to get upset if the irresponsible behavior continues. But if you lose money on a precious metal or a work of art, it is illogical to personify the investment medium with thoughts about "owing." Not only is it illogical, but it can lead you into the chasing kind of behavior that is likely to cost you still more money.

Somehow or other, you must defeat the wish to persevere when perseverance will lead you astray. The ancient king's apothegm, as applied to speculation, needs to be quite thoroughly revised. If at first you don't succeed, then hell with it.

### **Minor Axiom XV**

Never try to save a bad investment by "averaging down."

If an investment falls in value, before averaging ask yourself "Why into this particular investment? Of all the potential bargains around, does this one really look the most promising to me? Or am I just trying to make myself feel better by averaging down costs?"

Like perseverance in general, of which it is a special type, cost-averaging clouds one's judgment. Another problem with this down-averaging dance is that it encourages you to disregard the important Third Axiom, on hope: When the ship starts to sink, don't pray. Jump.

Don't chase an investment in a spirit of stubbornness. Reject any thought that a given investment "owes" you something. And don't buy the alluring but fallacious idea that you can improve a bad situation by averaging down. Value the freedom to choose investments on their merits alone. Don't give that freedom away by getting obsessed with one soured venture.

## **The Twelfth Major Axiom ON PLANNING**

Long-range plans engender the dangerous belief that the future is under control. It is important never to take your own or other people's long-range plans seriously.

If you can't know what you're planning for, how can you construct a sensible plan? To plan for a future one cannot see -- this seems like an egregiously silly undertaking. Yet life-insurance salesmen, investment counselors, and other experts go on urging it, and families -- particularly young families -- go on doing it. A plan is a lifelong illusion of order. Economists, financial advisers, and others who sell twenty-year plans always talk as though the money world is an orderly place that undergoes change very slowly and predictably, like a tree growing.

That being so, don't try to make long-range plans or allow other people to make them for you. They will only get in your way. Instead, stay light on your feet, like the grasshopper. Instead of attempting to organize your affairs to accommodate unknowable events in the future, react to events as they unfold in the present. When you see opportunities, go for them. When you see danger, jump out of the way. The only long-range plan you need, as far as money is concerned, is an intention to get rich. Exactly how you will accomplish that purpose is something you cannot know except in the most general way.

Don't let a plan immobilize you.

### **Minor Axiom XVI**

Shun long-term investments.

Jesse Livermore wrote: "I believe it is a safe bet that money lost by [short-term] speculation is small compared with the gigantic sums lost by so-called investors who have let their investments ride. From my viewpoint, the [long-term] investors are the big gamblers. They make a bet, stay with it, and if it goes wrong, they can lose it all. The intelligent speculator will . . . by acting promptly, hold his losses to a minimum." Betting on tomorrow is chancy enough. Betting on a day twenty or thirty years in the future is absolutely crazy.

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Long-term investment, like so many of the fallacious procedures we've looked at, does have its charms. The main one is that it relieves you of the need to make frequent, perhaps painful decisions. You make just one decision -- "I'll buy this and sit on it" -- and then relax. This caters to laziness and cowardice, two traits with which all of us are abundantly supplied. Moreover, having a long-term nest egg, coupled as most nest eggs are with some kind of a long-range plan, gives you that cozy immersed feeling. Life is all figured out! No thing of the night can get you! Or so you think.

Your broker or dealer would prefer that you be a light-on-the feet, fast-moving kind of speculator rather than a long-term sitter. The more moves you make, the more money the broker/dealer makes. In this particular case, his financial interests coincide perfectly with your own.

Speculative Strategy: The Twelfth and final Axiom warns about the futility and the dangers of planning for a future one cannot see. Do not get rooted in long-range plans or long-term investments. Instead, react to events as they unfold in the present. Put your money into ventures as they present themselves and withdraw it from hazards as they loom up. Value the freedom of movement that will allow you to do this. Don't ever sign that freedom away.

The Twelfth Axiom says there is only one long-range financial plan you need, and that is the intention to get rich. The how is not knowable or plannable. All you need to know is that you will do it somehow.

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