

Investing Strategy & Research Process – Sven Carlin – Low Risk High Reward Portfolio

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Introduction

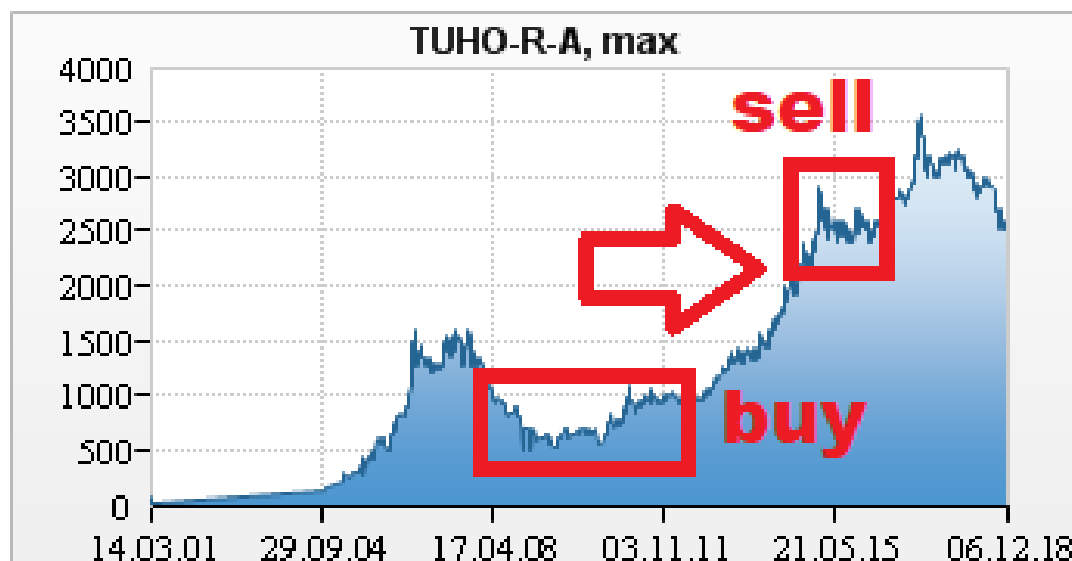
My daily research is creating a knowledge compounding effect. I am very happy about it and I can't even imagine what will I be able to do, investing wise, in 10 years' time. However, the past experience, almost 20 years now, is sufficient to write down a clear and concise investment strategy to follow and build on. Let's start with a bit of my history, the basis of my investing strategy, discuss the portfolios and then conclude by putting it all together.

My investing history – an example of what I am looking for

I'll go through 3 examples that will describe where does my strategy come from a personal standpoint.

**A company that has it all**

The best investments in my life were crazy cheap value investments with no risk. Let me give you some examples. In 2010, up to 2013 I was loading up on a hospitality business in Croatia, I think I did put about 70% of my net worth into it. The dividend yield was around 10%, revenue growth was around 10% per year as the company was investing half of the yearly cash proceeds and half was paid out as a dividend. The book value was high, albeit hidden as it was held at historical cost, and the management was fair as they owned and still own the company. The result was the following:



Source: [Moje Dionice](#)

Now, there must have been an issue there. Yes, the issue was liquidity as it was a thinly traded stock and most of my buying was done when the stock was 50% to 100% above its 2008 and 2009 lows.

Investors were fearing another decline and didn't care much about the business behind the stock. If the stock would have declined, my dividend would go to 20% and I would have simply bought more. The expected return was purely from the business, not from the stock. Eventually, the stock increased to a dividend yield of 3.5% which is not as attractive, and I had better investment opportunities in 2015, so I sold. Nevertheless, the above company had it, and still has it all, good business, moat, good management, positive outlook etc. And this is exactly what I am looking for.

### Research Process

How did I find the above company? Well, I simply looked at all the stocks traded on the respective exchange and this was one that perfectly fitted my investing criteria.

When Buffett is asked about how to find great investments, his usual answer is that he starts with the As. I find that the best way to find good investments, and the only time I find great investments, is when I do deep analyses on various lists of stocks. So, this is what I do. For example, I am currently researching all the stocks listed on the Austrian stock market. I have looked at a dozen of them already and found one that is very interesting to closely follow already ([research and large portfolio transaction here](#)) and one that I did just put on my watch board. Next, I'll be researching copper miners again as I know the sector pretty well and the next decade might be very interesting for copper due to electrification and economic growth.

One by one, I can research approximately a few hundred stocks a year. I hope to find a few that I can closely follow and then from those that I closely cover, where I get to know the business really well, source the best investments for my portfolios.

### What kind of business would fit my portfolios?

I recently reread *The Dhandho Investor* by Mohnish Pabrai and he shares 7 great questions that help in finding stocks as the one mentioned above.

1. Is it a business I understand very well—squarely within my circle of competence?
2. Do I know the intrinsic value of the business today and, with a high degree of confidence, how it is likely to change over the next few years?
3. Is the business priced at a large discount to its intrinsic value today and in two to three years? Over 50 percent?
4. Would I be willing to invest a large part of my net worth into this business?
5. Is the downside minimal?
6. Does the business have a moat?
7. Is it run by able and honest managers?

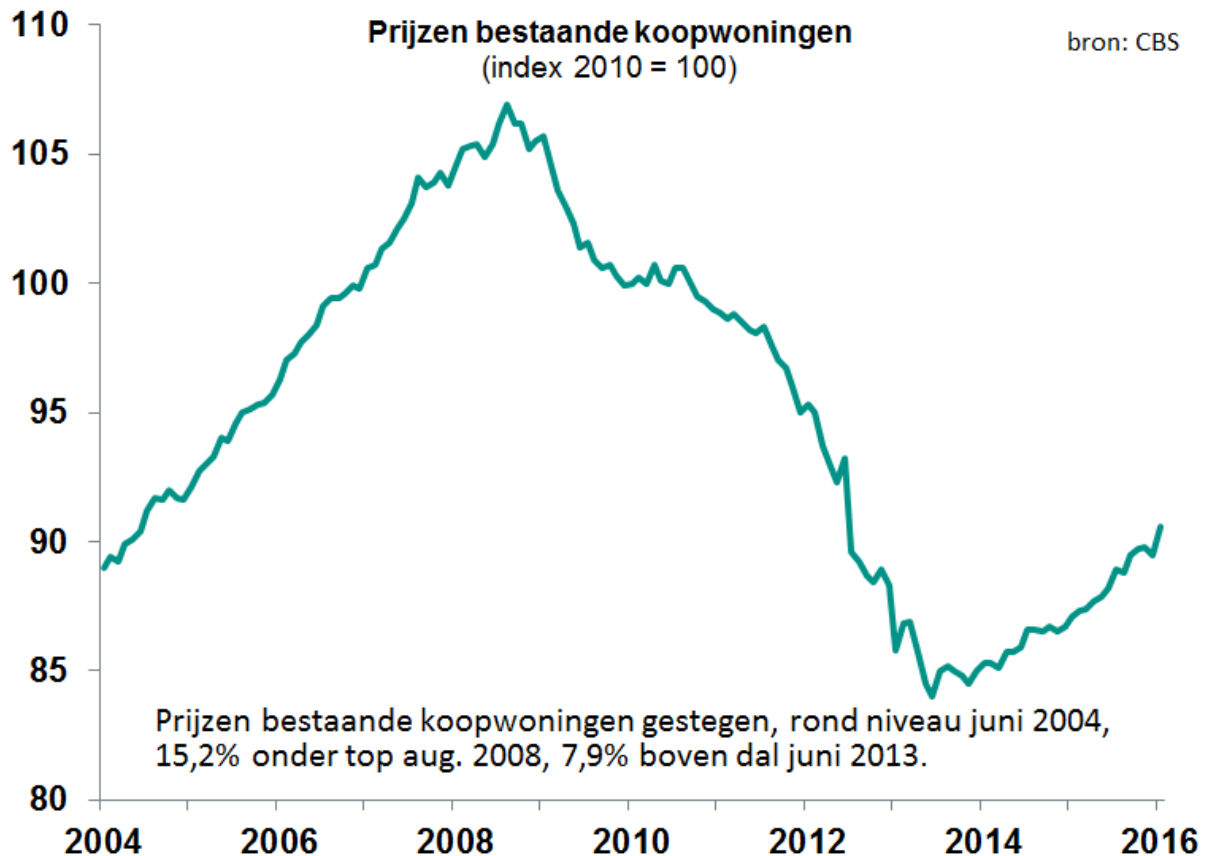
Source: [The Dhandho Investor](#)

I try to find investments that are low risk, which means that whatever happens the returns will be ok over the long-term, but also provide high potential returns from growth. One example of such an investing philosophy is my 2014 real estate investment.

#### Real estate example

This was the lowest risk highest reward investment in my life because I almost didn't have to put any money down. In 2014, in the Netherlands, the cost renting something was 50% above the cost of a mortgage, including the repayment of it. This was because home prices were still declining and people were scared to buy, so they thought it was better to rent.

This was an insane situation for me and we took advantage of it. My wife and I decided to leverage ourselves up the hilt. The downside? We give back the keys of our home and bye, bye Netherlands.



Source: [Huizenmarkt](#)

Fast forward 5 years, and the property we bought with a 303k loan was sold for 442.5k. Given the no money down situation, the return on investment is practically infinite. However, the point is the low risk versus the potential upside. If real estate prices in the Netherlands would have fallen, we would simply have owned the property forever, rented it out and let the tenants pay off the mortgage.

The morale of the story here is that there was no downside. Worst case scenario we would have rented the home and ended up with a home in 30 years for practically free.

The examples above describe some of my life investments and situations that I keep looking for. However, you cannot find them at will, which means you need patience and you need to wait for them to come to you but constantly do research and estimate at what level current opportunities become as the ones described above. For that you need a clear strategy and criteria.

Investing strategy and criteria

In any case, the 7 Pabrai questions to ask, are a great example of part of my life basis investment style and therefore, the basis of my core portfolios.

Further, I know that my investment returns depend 100% on the long-term performance of the business I own. Thus, on the business' earnings. If I can find businesses that will create good value for shareholders over the long-term with little risks, that is what I strive for.

What I focus on are, depending on the business, owner's earnings or future cash flows where I try to find businesses that give me, from an ownership perspective, returns that are above 10% per year. Such situations will likely reward me over the long-term and if and when the market recognizes that a quality business is delivering returns of above 10% when compared to the stock price, then my returns usually become much higher than 10% as the stock spikes as it was the case in the initial example.

To determine whether a business can deliver double digit returns over the long-term, I make in depth analyses in the form of research reports, follow the business through earnings updates and over time, I get to know it really well. Well enough to make an investment decision about it and stake a significant part of my wealth into it.

Apart from the research, I like to own the businesses I am interested in, even if it is just a small amount. That small amount of ownership gives me a better connection to the business and the stock. But more about that in the portfolio explanation report next on portfolios and strategies.