# INVESTOR DISPOSITION
## Amazon

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> ***"A lot of people with high IQs are terrible investors because they've got terrible temperaments."***
>
> *- Charlie Munger*

"Ouch." This is the one-word sentence that began Jeff Bezos' letter to shareholders in the year 2000. Amazon had endured the worst of the 2000 collapse of the technology bubble, and seen its shares plummet over 80% from the prior year. They experienced price swings from as high as $106 per share to $6 a share within a 2-year period. While this may be the most extreme example of Amazons volatility, it is not the only example. From 2004 to 2006, Amazon shares fell from $52 to $26.55, a fall of nearly 50%. And again, from 2007 to 2008, shares fell from over $93 to $42, a fall of over 50%.

During these periods of volatility, Amazon continuously fulfilled the promises made in the 1997 shareholder letter:

- The optimization of cash flows per share over GAAP net income
- Maintaining a long-term orientation regarding capital allocation decisions
- Dedication to providing immense value to customers, which in turn provides value to shareholders
- A focus on attracting and retaining the most elite talent possible in the industry

With amazon consistently fulfilling these obligations and the outlined metrics of performance improving, these price movements should have been opportunities as the business became cheaper and more attractive for potential returns. At the time of this writing, Amazon's share price sits at over $3,300 per share.

### Patience

The major multi-bagger investments—especially those rare 100-bagger investments like Amazon—take time. Therefore, investors need to be willing to buy right and sit tight for a long period of time. The average time to achieve a 100-bagger (a 100x return on one's capital) is 26 years. And only 20 of the 365 companies evaluated in Christopher Mayers book 100 Baggers, for example, achieved a 100x return in 10 years or less. In order to promote this patient disposition, the idea of the "coffee can" portfolio—where you gather a portfolio of positions and put it away for 10 years or longer, without checking the prices, provides a vivid example. This strategy minimizes the number of trades an investor is tempted to make over time, allowing him or her to remain patient and tolerate wild price movements along the way.

The advantage of this approach is personified in the story of Ronald James Read. Ronald Read was a gas station attendant, janitor, prodigious saver, and a patient investor. Read converted a modest and decent paycheck into over $8 million dollars by consciously and consistently investing his saved dollars into blue chip, compounding stocks. This approach, conducted over the majority of his long life, led to life-changing wealth for his children and immense philanthropic giving to local causes. Patience is what set Ronald Read apart—not stock picking prowess or above-average income.

## Volatility

The road to 100x returns is paved with volatility. These 100x candidates are generally small with high growth rates. One investor selling stock can drive the stock price by a significant percentage. To achieve desirable returns, investors must be able to sustain these price movements. Netflix has seen daily price reductions of over 20% four times, with their largest daily move being over 40% during their road to 100-bagger status. If your plan is to be a consistent buyer and holder of a business, as is necessary for a super-compounder, it is beneficial to you—if you can add to your position over time—if the stock price of that business experiences volatility and goes down when you are buying it. Warren Buffett uses the analogy of hamburgers: If you plan to consume hamburgers over the next 10 years, would you prefer the price of hamburgers to go up or down? This is obvious, yet we abandon this logic when buying ownership stakes in businesses via the stock market. If business fundamentals remain strong and a stock gets cheaper, it allows you to improve your potential returns.

## Concentration

To maximize the returns of potential 100-bagger stocks, an investor must be willing to not only hold for prolonged periods, but also concentrate his or her positions. In his days running a partnership and in running the stock portfolio at Berkshire Hathaway, Warren Buffett has consistently held the majority of his portfolios in 10-20 positions, and has often been heavily weighted in just the top few positions. Other well-known investors that have achieved strong returns with high concentration include Prem Watsa, Mohnish Pabrai, and Nicholas Sleep. The lesson learned from these investors that one should be patient for the right opportunity, and then bet big when the right idea comes along. Or as Charlie Munger has put it: “The wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don’t. It’s just that simple.”

To maximize returns, investors need to be concentrated in the companies which meet the criteria they have laid out for a sound investment. Furthermore, investors need to maintain strong conviction because the road to high returns is volatile—often extremely so. Temperament is the key ingredient to having the edge. As Warren Buffett described it in a 2011 interview:

> *‘The ones that have the edge are the ones who really have the temperament to look at a business, look at an industry and not care what the person next to them thinks about it, not care what they read about it in the newspaper, not care what they hear about it on the television, not listen to people who say, “This is going to happen,” or, “That’s going to happen.”*
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> *You have to come to your own conclusions, and you have to do it based on facts that are available. If you don’t have enough facts to reach a conclusion, you forget it. You go on to the next one. You have to also have the willingness to walk away from things that other people think are very simple.*

*A lot of people don't have that. I don't know why it is. I've been asked a lot of times whether that was something that you're born with or something you learn. I'm not sure I know the answer. Temperament's important.*

*...If you don't know the answer yourself don't accept somebody else to tell you. If you don't know the answer yourself and somebody else says they know the answer, don't let that fact push you into coming to a conclusion about something that you don't know enough to come to a conclusion on.'*

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