A SIMPLE GUIDE TO INVESTING IN STOCKS: THE MINDSET OF A TRUE INVESTOR

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THE MINDSET OF A TRUE INVESTOR

"Everyone knows a tree does not grow forever.

Hopefully it grows to full height and someday it comes hurtling down to earth under the crack of a chainsaw.

What is most apparent about its growth is"…

This book is not about giving hot tips or stock picking.

This book is about being a wise investor.

Chapter 4: The True Investor

For the true investor, the reasoning behind creating value for money spent through investing can be summed up in one question, “Why work hard creating nothing?” The true investor makes a big deal out of increasing the quality & quantity of financial skills available to them. A mindset of creativity is critical while working with the right people. Investing for them is a game to be won & not lost. Though they may lose at the start, it’s all part of a strategy to win. They can be recognized by the following attributes listed below by which they approach investing. While not exhaustive by a mile, it places the spotlight on some of the reasons why the true investor who doesn`t just invest for the long or short term makes better returns on investment than the average investor who prefers to rush into an investment, or invest at the crest of an emotional brainwave.

Thus, a true investor,

Understands the difference between an asset and a liability:

This can be described as a major reason many average investors make little or fail to make any money in the market. Knowing the simple but subtle differences that exist between these two classes can be the difference between increasing financial success and a lifetime of financial struggle.

For many so-called investors, not knowing the difference is the reason why many buy liabilities and call them assets. For many this can be as a result of investing on a hot tip or largely not having the right information as to what constitutes a healthy investment. By simple understanding, an asset is any investment that puts money in your pocket while a liability takes money out of your pocket. Lack of understanding of this simple distinction causes needless financial confusion for many millions of people the world over.

By inference, purchase of any item be it land property, automobile, gold, etc and it gets sold for a sum greater than what it is paid for (if your intention is trading), then such an item becomes an asset. Just that simple. If the obverse is the case and an item is sold for less than what you buy it for, then such item to you the seller is a liability.

Even a business can also be a liability even though it is the best form of asset you can have. Why? and under what circumstances can a business become a liability? Just because you have furniture or office equipment or machines in a plant or even vast real estate does not qualify you to list those items as assets. By that simple definition above, if the end result of the value of all those items does not result in more cash flowing into the financial statement of that business, then they are all liabilities. In an automated bottled water factory for instance, it is neither the automated machines nor the bottled water nor the trucks that deliver the bottles that are the true assets of the business. As long as the packaged water does not leave the factory to the end-user who happily pays for it and keeps returning to buy with the cash flowing back into the business, every machine in the factory including the bottled water are all liabilities. Even the staffs are liabilities because they are costing you money to maintain.

The aim of acquiring assets is to generate cash to buy more assets. Greater quantity and commensurate quality of assets is accompanied by improved financial skills which generate more positive cash flow and less work. If an investment is not generating cash to cover its taxes and overheads, it is simply running a deficit and for the time being becomes a liability. Once it starts generating a gross margin sufficient to run its operations, accommodate taxes and expenses, overheads and staff salaries, all other sundry expenses and have extra for profit can it comfortably assume an asset status. With those profits the management then has the prerogative to seek out other quality assets which pour money into the income column and deepen the balance sheet.

Traditional accounting inputs public companies' list cash balances in the bank in the asset column of the balance sheet when making their end of year annual reports. However, in what money instruments those cash balances are kept in the bank is not revealed to the investing public. A discerning investor reading those financial statements should understand the impact of inflation and interest rates on cash reserves in a bank. Money put to sleep in some bank vault not working hard to raise more currency is worthless and should not be listed as an asset unless it is in some interest yielding deposit.

What is not understood is that the wealth of an organization or of an individual is not a cash value in a bank vault but a way of thinking of its people. The manner and methods in which the management of an organization or an individual appropriates money to acquire more cash yielding assets which pour money into the income column is what determines their long term financial survivability.

Money by itself is worthless. It's simply a piece of paper or polymeric material with fine markings on it. It is how that money is sent out by way of expenses that makes money an asset or a liability. It`s what makes for good or bad expenses by way of either returning money to the income statement or piling liabilities. It is meant to be exchanged for something of real value whether tangible or intangible. That is why it is called a medium of exchange. An organizational head or an individual who blows out money through the expense column without it creating value of some kind is really creating liabilities which will become difficult to hide in the long run like a pregnancy.

While not expressly begrudging the expenditure of money for the finer qualities of life, understanding how money works in real life and it`s ephemeral nature helps one keep an open mind and alert towards the concept of money in one sense as a asset and a liability in converse.

And how does one know what is a liability and what is an asset? Through a financial statement with its inter-relationships between the income statement and the balance sheet which shows how & where the money is flowing to. The true investor understands the links between the two categories and thus is able to see with the mind investment opportunities in a business which is not seen with the naked eye. Therefore the understanding of this crucial piece of the puzzle gives a considerable edge to the investor which is not available to the casual individual investor who does not bother to invest the time needed to reap the benefits behind studying a financial statement.