
Sun Zhang, Daniel – An Investment Thinking Toolbox

Ekerlids, 2021 [Equities] Grade ★★★★★

Within fundamental equity investing there is a body of different best practices and a canon of literature with important insights – what this site has labeled financial wisdom. Ever so often a person who has assimilated this wisdom writes a book about how he or she uses this in their investment management. This is such a book and as many of these books it is interesting to follow the personal exploration journey of the person and to see how the practical results look. Daniel Sun Zhang has written an easy to read user's guide to his toolbox of investment thinking – similar to what Charlie Munger would call mental models. According to the author who according to the sleeve is the CXO of Teqnon the book was his own attempt to structure his investment thinking and we are all invited to join to everybody's benefit.

The structure of the book is simple. It contains a number of chapters each dedicated to one investment thinking tool, say Warren Buffett's circle of competence, fist principle, Munger's inversion practice, anchoring, survivorship bias, unknown unknowns etc. Each chapter follows roughly the same format with some kind of background story related to the topic, a definition, linked personal investment experiences and finally "practical advice to myself" in bullet form.

Then there are two appendices covering the types of companies he likes (he has over time moved from deep value to compounders that are worth more than they cost) and the investment process he uses. This includes a somewhat eclectic idea generation, a learning process aiming to understand what the key issues are, a research process that combines a will to learn about all factors that has bearing on future cash flows with an insight of the declining marginal utility of investigating too many things. Then the

author constructs an investment narrative that is also made quantitative to make sure it makes sense. This is thrown into a DCF using Monte Carlo analysis to account for varying scenarios. He sells when a stock has become overvalued, when there are better alternatives, when he doesn't feel that he understands the investment case anymore or when he needs money for other things. It might not fit everybody but I would call that quite a decent investment process.

The book is in a way somewhat lightweight and it is a quick read for its 200 pages. In one or two of the linked personal investment experiences the link feels a bit loose. On the other hand this is easy to forgive as the author has digested some very useful tools and I particularly like the practical nature of his advice and the amount of self-awareness that is shown. A person that has read some amount of the books, blogs etc. of the value community the last decade or two will not find anything new but for those who haven't they get a good dose of financial wisdom presented in an accessible way. I especially liked the linking done between William Ockham's razor and Buffett-Munger's notion of focusing on what is both important and knowable – see, I did find something new.

The author displays a good combination of the art of reaching an investment story and the science of looking at investment using statistical tools. Not everybody can synchronize qualitative and quantitative thinking. I think this combination could be even more important as everybody and their mum are compound investors today and stringent price discipline will be crucial for long-term success.

Above all this is a book to be used. Anyone who learns the mental models Sun Zhang presents will be a better investor than before.

Mats Larsson, January 31, 2022