(This copy is an AI-assisted translation of the original transcript in Chinese)

E02 Buying Stocks is Buying the Company

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Have you ever wondered what exactly you are buying when you buy a stock?

Are you buying a chance to make a quick buck? Or the relief of finally catching a trend? A thrill, an adrenaline rush? Or are you using your actions to prove that you are right and only a fool would sell?

You see, everyone has their own internal drama playing out.

Now, take a guess: if everyone voted with their feet, would the market go up or down today?

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Introduction: The Fundamental Difference Between Investing and Speculating

Hello everyone, I'm Patrick, and welcome back to *Slow is fast*. In our last episode, we discussed what wealth is, the importance of buying good assets, why we should get rich slowly, and the importance of rationality. Today, we will focus on how to invest properly in stocks once you are ready to acquire good assets and dive into the market. Some might wonder: to invest in stocks, do I need to choose a specific "school of thought"? After all, there are various schools out there, like technical analysis and others.

Warren Buffett once said that in "value investing," the word "value" is actually redundant, as all investing is fundamentally value investing. If you aren't investing to buy a valuable asset at a good price, then what are you investing for? Therefore, there are no different "schools" here; there is only the difference between wanting to invest and wanting to speculate. However, because of the various interpretations in the market, people currently refer to the theories practiced by Buffett and Munger as "value investing." This is an accepted convention, so we will stick with it. But in reality, any investment, at any time, is value investing.

Today we will discuss the most important principle of value investing: buying a stock means buying a company. If there is one principle that captures most of the essence of value investing, it's this one. Yet, the vast majority of people do not truly understand it. Once you truly grasp this, you have already surpassed 99% of people; it determines whether you are a true investor or a fake one. Obviously, in reality, the vast majority of people fail to treat buying a stock as buying a company.

What does stock trading look like in reality? We all know: opening your favorite trading app every day to see if your favorite stocks went up or down. Red makes you very happy, green makes you very depressed (note: in Chinese markets, red means up and green means down). Then you check what's trending, which sector everyone thinks is about to explode, what the most urgent thing to focus on is, and then you decide whether to "sell high and buy low" or "chase rallies and cut losses." So it's fair to say that today's stock trading—all the attention, all the fun, and all the anxiety it brings—comes from price volatility and the trajectory of that price line.

The Core Principle: Buying a Stock is Buying the Company

Let's think about it: stocks are one type of asset, but there are many other types, right? As we discussed last time, buying a house is also an asset. Have you ever thought about why, after buying a house, you don't track its price every single day? Theoretically, you could gather data to monitor your house's price. You could check if the houses next door, upstairs, or downstairs have sold, and for roughly how much, or even what similar houses in the neighborhood are selling for. You could get a relatively real-time price for your house. But in reality, after buying a house, it seems no one tracks its price daily.

Now let's talk about buying a business or a company as an asset. If a relative said they wanted to sell their business to you, I imagine you would generally ask them these types of questions: How exactly does this business make money? What are the future prospects for making money? You would also ask: How many people does this business employ? Then you'd ask for some financial data: How much money does it make every year, and how much are you asking for it? Then you'd estimate: if I pay this price, roughly how many years will it take to recoup my investment? This is the typical way of evaluating a business.

So we can see that when buying assets like a house or a business, our focal points are completely different from those in current stock trading. Stock trading might consume all your energy focusing on price fluctuations, while when buying a house or a business, we look more at the intrinsic value of the asset itself and the potential returns it might bring. Therefore, the first principle of value investing is that when you buy a stock, it should be just like buying a house or a business.

This inherent difference, of course, stems from the very modern invention of the stock market. A stock market actually provides you with the ownership of a company as an asset, in a highly liquid, real-time quoted manner. This is certainly a major invention of modern society, but at the same time, it has bred massive speculation, turning the act of buying a company into something you can gamble on. When a company's fundamentals haven't changed, its value is arguably unchanged, yet its price fluctuates constantly. Many people vote on its price, and because everyone's decisions and psychological states are different, you cannot predict what the overall voting result will be. Predicting price trends means guessing the result of crowd voting, which is essentially *nothing* different from guessing how many heads or tails you'll get from 100 coin flips.

The stock market is a voting machine in the short term, but a weighing machine in the long term. Short-term price fluctuations are the results of everyone's votes; long-term, stock prices will revert to their true value. Because of the invention of the stock market, the act of buying a company has diverged into two paths. You can focus on the company's fundamentals and value changes, or you can focus on the results of everyone's voting to see what short-term price fluctuations will look like. The former hopes to earn the enterprise's money—as the enterprise develops and makes more money, I make money too; the latter wants to earn the market's money, which translates to: I want to try my luck and see if we can guess the outcome of everyone's voting.

Mr. Market and the Redefinition of Risk

A value investor's attitude toward the market is that the market is merely a tool; it serves me. This is what Benjamin Graham meant when he said you should treat the stock market as "Mr. Market." He knocks on your door every day, asking if you are willing to buy or sell your stocks at a certain price. You can ignore him, and he won't get angry; he will just knock on your door and quote you a price again the next day. Only if you treat the market with this attitude are you a true investor. If you believe the market is the ultimate dictator, and you are just like everyone else, guessing voting results by observing market volatility and reacting to endless news updates, then you are speculating. Your fundamentally different attitude toward the market determines whether you are an investor or a speculator.

There is another very important difference between the two: their definition of risk. Value investors believe risk comes from the permanent loss of capital—bluntly put, the risk of losing money. What I want to avoid is losing my principal. I must do everything possible to find sufficiently low prices and good assets, ensuring that I won't lose money in the long run. Stock price rises, falls, and changes are not risks for value investors; they are opportunities. Because only when prices act irrationally crazy do I have the chance to buy a high-value asset at an extremely low price.

Stock traders, however, believe their risk lies in price volatility; they are deeply afraid of price movements. After buying a stock at a certain price, they are terrified it will drop, thinking this price fluctuation equates to their own loss. This mindset doesn't occur when you buy a house or a business. You wouldn't worry that your house had lost its value just because a strange person gave you a price quote for it every day. But this is indeed the norm in the stock market. Thus, value investors and stock traders have diametrically opposed definitions of risk.

Therefore, "buying a stock is buying a company" tells us that for a true investor, deciding to buy one lot of Moutai for over a hundred thousand RMB is no different from buying the entire Moutai company for 1 trillion RMB. Because buying one lot of stock is equivalent to buying a fraction of the entire company. Although I'm only buying one lot, when making the decision, I must consider: if I had enough money, would I be willing to buy the entire company? Although I only own one lot, I am one of the company's owners. I earn money from the company's profits; the more money the company makes in the future, the more money I will make. This is the meaning behind the phrase "buying a stock is buying the company." Only by truly understanding this phrase can you possibly return from the track of speculation to the track of investing.

Clearing Up Cognitive Misunderstandings: Capital Size and the Game Between Whales and Retail Investors

Some people might say this is incorrect; how can a retail investor with little money compare with wealthy institutional whales? There are two situations here:

One is the gambler's mindset. Bluntly put, they feel that since they have little money, it doesn't matter anyway, so they'll just take a gamble, even risking their entire net worth to bet on stock price movements and guess the voting results. For this type of person, they believe that because they have little money, they need to gamble to turn a bicycle into a motorcycle. So they are constantly gambling, which is exactly why they are poor.

The other category logically feels that compared to large shareholders, or wealthy investors compared to poor ones, there are fundamental institutional differences. For example, if I only have 100 shares, and the large shareholders or management are malicious and defraud small shareholders, the small shareholders have absolutely no protection. That is different from being able to buy the whole company. If you think the large shareholders or management are malicious, you should stay away from such a company; it's a bad company, which has nothing to do with whether you have money or not—just stay away from it.

Another consideration is the belief that with a massive amount of capital, I could consider fully acquiring the company, restructuring it, changing its dividend policy, and improving its future performance. This actually holds some meaning for so-called strategic investors or activist investors. But for ordinary individual investors, you don't have the capability to restructure a company or improve its performance. So when making a decision, you simply assume this is impossible and ask yourself if you are still willing to buy the company. So, having more or less money does not determine whether you are a true value investor; you cannot use having little money as an excuse to choose to speculate.

For true investors, whether they have a lot of money or a little, investing 100,000 RMB is fundamentally no different from investing 1,000 RMB. In fact, in investing, having less money is an advantage. Because with less money, the range of your investment choices is much wider. Compared to Buffett, I have more investment opportunities to choose from, because his massive capital scale restricts him to companies and opportunities worth tens, hundreds of millions, or billions of dollars, whereas I have a wide variety of small and medium opportunities to choose from. Furthermore, investing might be one of the rare fields where amateurs have a very real chance of beating professionals. Because many so-called professional investors are also blindly speculating at their core. So there's no guarantee that the returns of so-called professional or institutional investors will definitely be better than an individual's.

The key here lies in choosing the right game. If you participate in the speculative game, then of course whales have a massive advantage over retail investors. But if you don't participate in the speculative game, a so-called whale's understanding of an enterprise is not necessarily better than an individual's. So, returning to the righteous path of investing requires us to constantly practice the principle that buying a stock is buying a company.

Manifestations of Deviating from the Principle: Chasing Trends and Bubbles

In reality, very few actually achieve this. Many people think they are investing, or even value investing, when in fact they are not. Examples of this are everywhere. A classic example is shown in their differing attitudes toward price. If you are preparing to buy a company, do you hope the seller's asking price is higher or lower? Undoubtedly, you hope it is as cheap as possible, right? This is no different from buying bread. If bread is cheaper today than yesterday, you buy more. But in the stock market, it is the exact opposite. If a stock has already gone up 20% in three days, people rush to buy it; the higher the price, the more they buy.

This different attitude toward price clearly indicates that the two are participating in entirely different games. The former participates in a game involving a correct grasp of value, hoping that based on this rational foundation, the price is as cheap as possible; the latter participates in a game of guessing what everyone else's final voting result will be. Because I see that a large portion of people seem to have voted in this direction, I vote with them, and I might end up being right.

A second common situation showing a deviation from "buying a stock is buying a company" is when, after buying some stocks, you start losing hair, losing sleep, and experiencing various negative impacts caused by buying the stock. Someone who truly views buying a stock as buying a company wouldn't be emotionally affected by how the stock price fluctuates, or even if the stock market closed, forcing him to lock up his shares for ten years, or even if the company was delisted. Your emotional changes can indicate whether you are truly following the principle that buying a stock is buying a company.

A third situation I can think of is buying whatever is currently popular in the market. For example, since autonomous driving, EVs, and AI are popular now, I'll allocate some money to related stocks. This type is buying trends, not buying companies.

So, is buying trends the right approach? History proves that buying trends highly likely leads to losing money. Guessing the right trend and picking the winner within it has historically proven to be harder than reaching the sky. Undoubtedly, our world is constantly changing, driven forward by technological revolutions. Buying trends is certainly nothing new. Think about those historical inventions that completely changed the world: the electric light, the telegraph, the automobile, the internet, AI, etc. You can imagine that in every era of upheaval, people gambled on the trend. What were their results?

Let's look at two examples:

1. The Transition in the Electric Light Industry

Imagine the pre-electric light era, where everyone relied mainly on oil lamps or gas lights for illumination. The invention of the electric light in this era was undoubtedly massively revolutionary for the world. But as an investor wanting to achieve good returns during the electric light revolution, what did you need to do? First, you had to judge that electric lights would definitely replace oil and gas lights. Before electric lights appeared, gas lights were the mainstream, so mainstream investments were in gas suppliers, and these gas light companies were naturally the large-cap, blue-chip stocks of the market then.

First, you had to judge that when the electric light era arrived, you needed to bet on electric lights. Many people in history did exactly this, but they all ended up losing everything. Why? Because when electric lights first appeared, the mainstream type was the arc lamp, which is different from the incandescent lamp later invented by Edison. When the arc lamp appeared, everyone saw its revolutionary potential, so all capital poured into arc lamp companies. Hundreds of arc lamp companies were enthusiastically chased by the market, their valuations skyrocketed, and ultimately, they all disappeared.

With the benefit of hindsight, we know that the incandescent lamp Edison later invented was the ultimate winner. Arc lamps were inferior to incandescent lamps in terms of cost and scalability. But the people who invested in arc lamps could never have foreseen that there would be another wave of disruption called the incandescent lamp. Even if you were very lucky, or had exceptional foresight, and didn't participate in the arc lamp investment wave, choosing to wait for a better solution to appear, or betting on Edison himself.

We also know that Edison tested hundreds of materials before finally finding a stable material—a tungsten filament—for the incandescent bulb. What if he hadn't found it? You might say, OK, I'll wait until he finds it, then I'll invest in him. Well, later history tells us you still wouldn't necessarily have made much money. Because later there was the war between direct current (DC) and alternating current (AC), and the entire industry suffered vicious competition due to the influx of massive players following the invention of the incandescent lamp. Finally, after a round of industry restructuring, Edison's electric light company became General Electric (GE). Therefore, finding the ultimate winner and not being shaken out to become the one who laughs last is incredibly difficult.

2. The Automobile Industry Bubble

The second example is the automobile industry. During the horse-carriage era, the appearance of the automobile was undoubtedly a massive change for the world. Looking through the rearview mirror, we obviously see the automobile becoming a giant industry. However, after the automobile appeared, hundreds of companies emerged and became the absolute darlings of investors. Ultimately, those hundreds of companies vanished, and what remained was Ford. As for Ford, it was only after his companies went bankrupt a couple of times that his third company finally succeeded, thanks to the invention of the Model T. So if you invested in the automobile trend and put your money into any of the first few hundred companies, or into Ford's first two failed companies, you likely lost everything.

Electric lights and automobiles are not isolated examples. The same applies to the telegraph, the telephone, the computer, and the internet. Among early investors, the vast majority who clearly saw the macro-trend ended up making very little money. So now people can understand why Buffett doesn't invest in these new technologies and high-tech companies. It's not that he's old, can't keep up with the times, or doesn't understand. It's because he is nearly 100 years old; he has experienced round after round of technological revolutions and has seen these investors lose everything. He knows that predicting whether an industry can change the world might not be hard, but predicting the ultimate winner is extremely difficult.

This includes AI right now. There is no doubt that AI will bring revolutionary changes to human society; AI will definitively change our entire world in the long run. But who will be the AI winner? Will it be OpenAI, DeepSeek, Alibaba, Tencent, Apple, or some startup stealthily developing in a corner? We are actually still in the very early stages of AI, so predicting the future winner of AI is basically unrealistic. So we have to ask ourselves: compared to Buffett, is your judgment capability stronger than his, or what?

A fourth divergence from the path is thinking that buying stocks is buying industries. You might think a certain industry has a great future. For instance, you believe an aging population is a trend, so you invest in the senior care or healthcare industry. You then select the top companies in that industry and bet heavily on them. Buying stocks does not equate to buying industries, because buying stocks ultimately has to land on specific companies.

You must understand here that although an industry might be booming, a booming industry will also attract a massive number of participants into the competition. Perhaps due to intensified competition and the ultimate lack of significant product differentiation, all participants end up receiving very mediocre returns. Therefore, we cannot simply assume that because an industry has prospects, buying the leading companies within it is a surefire bet. An industry does not equal a company. We must thoroughly analyze the competitive landscape of the entire industry and the macro-trend of profit distribution within it before making a judgment.

For example, the automobile industry is a very typical example of this. Of course, after the invention of the automobile, the entire auto industry was destined to replace horse carriages, and it was undeniably going to be a massive industry. However, during the development of the auto industry, the lack of ultimate product differentiation meant that no single company could make something so vastly different from another to capture the vast majority of profits in the industry. Consequently, many auto companies eventually went bankrupt. Even the so-called former leading companies eventually faded into the crowd. So a good industry does not mean the top company you pick in it will definitely be good; there is a massive logical leap missing in between.

So, for example, if I buy a fund focused on a certain industry that basically includes all the industry leaders, simply because I'm bullish on this industry, it must be fine, right? From the perspective that buying stocks is buying companies, this actually still has a huge logical flaw. This also applies to buying broad-market indices. Some say, OK, I'll just buy an index. For example, I'm bullish on the entire Chinese economy, so I buy the A-share CSI 300 or something similar.

Well, we can still use the principle of "buying stocks is buying companies" to guide our index purchases. For example, if I want to buy the entire A-share market, I need to see how many trillions it would take for me, if I had enough money, to buy all the companies in the A-share market outright. Then I calculate how much return these companies can bring me in a year; added together, it's very clear. I need to see if I am willing to buy all these A-share companies at such a price. And if you are bullish on all of China, you might need to find a portfolio that best represents the future of China's entire economy. The CSI 300 might not be representative enough, because a large portion of excellent Chinese companies are listed in the Hong Kong stock market or other markets, putting them outside the scope of the CSI 300.

Conclusion

So, what I meant to say above is that truly achieving "buying a stock is buying a company" is not a very easy thing. Many of our practices have deviated from this principle. True investors might seem very lonely, quiet, and boring. They practice very simple, common-sense principles, but they survive a long time and make money steadily. Isn't that a beautiful thing? Let us slowly get rich together, bye-bye.