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E05 About Money: Things I Wish I Could Tell My Younger Self

March 7, 2025

Alice and I chatted about the mistakes we made in our youth while trying to accumulate wealth, and the things we'd like to say to our younger selves.

These experiences might not be of much use to others. People usually learn profound truths only through first-hand experience, and even if one were an omniscient prophet, some detours are unavoidable.

But if a few people can trial-and-error earlier, and then looking back, realize "it really is like this," that still counts as having influenced another life.

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1. The "Just entered the workforce, no money to invest" phase: Redefining a "Good Job"

Patrick: Hello everyone, I'm Patrick, welcome back to *Slow is fast*. Today, I've invited a guest again, our old friend Alice, to chat together.

Alice: Hi Patrick, hi everyone, I'm very happy to be a guest on Patrick's podcast again.

Patrick: Welcome Alice. Today we're going to chat about something new, outside of theory. We've chatted before, right, and one feeling I had was that different people definitely have different understandings of investing. Because everyone is at a different life stage, their focal points vary. Outside of investing, people certainly have things they care more about, right? For instance, we all pursue happiness and have our own set of worldviews and life philosophies. And investing might occupy a large portion of life for some, and a smaller portion for others.

Alice: Yes.

Patrick: But for example, when we study Buffett, Munger, and Duan Yongping, our initial intention might be to learn investing from them, right? But a common feeling we should share is that besides learning about investing from them, we also learn many life lessons. These life lessons are quite helpful as we pursue happiness and wealth accumulation along the way, right? Because overall, we both quite envy their lives, right? First of all, they are naturally very wealthy.

Alice: Yes.

Patrick: But more importantly, they also seem spiritually rich; they haven't felt extremely anxious or miserable on the path to wealth. Because looking at them, they say they "tap dance to work" every day, right? And the things they face daily are quite simple; although their lives seem plain, they are very content. They also have their own hobbies, like Duan Yongping saying investing is just his hobby, while his main job is playing golf, right? That is very enviable. And Buffett and Munger are/were near-centenarians; precisely because they lack anxiety, they have lived very long lives. Overall, their lives are quite enviable. So we realize that what we learn from them is not just investing, but also many life lessons on how to view important life choices. That leads to today's topic: let's chat about what we would want to say if we were speaking to our younger selves, especially regarding money and wealth.

Alice: Yes, this topic also reminds me that when I was young, although I knew money was important, because I had just transitioned from campus to the workplace, I hadn't yet established a very correct understanding of money. I feel that for me personally, my thoughts today would look very different from back then.

Patrick: Right, let's chat about that. Because at different life stages, there might be different confusions, and what you'd want to say to yourself at that time would also be different. We can start with the first phase, right when entering the workforce. At that time, you have no money, no accumulation; you are a novice, unfamiliar with the workplace and unfamiliar with business. I don't know what your state was like then, Alice? Do you have anything you want to say to your past self now?

Alice: My state at that time—because I majored in finance—after graduating, I was just thinking about how to apply the knowledge I learned to my work. But my goal was very clear then: after graduating, I definitely had to find a job first and become an employee. The thing I cared about most was finding a job—how to find a good job, how to find one with the highest possible salary, that was stable, or that looked prestigious. After starting to work, I was thinking about how to do my job better, how to get promoted and get raises faster, and how to navigate that path step by step.

Regarding money, I didn't actually think about it too seriously back then. It seemed that as long as I worked hard and did my job well, I could slowly earn money. There were also many voices telling me: "Young person, don't be impatient, don't think too much, you just need to do your duty and do what you should do, and the money will follow." So most of my energy was placed on how to work; I truly didn't spend much time thinking about managing my finances and considered investing very little.

Patrick: And you didn't have money anyway, right?

Alice: Exactly. And there was another issue: back then, after deducting basic living expenses, because I had no money, my principal was actually very small. I also thought about this: I only had a few pennies in my pocket. Even though I knew about value investing and compounding early on, if you do the math, because the principal was so small, even if I invested it and multiplied it several times, it wouldn't amount to much money.

There were also voices around me then saying: "Instead of investing, you should use the little spare money you have now while you are young to experience things, broaden your horizons, or make friends. Through these experiences, you might discover more opportunities; building a network while making friends might also uncover money-making opportunities. These things are actually more important. So when you are young, you should do more of these things, don't think about Buffett and Munger, those are too far removed from you. They are already very rich people; their system is correct, but it's not suitable for your current stage." This was a voice I heard a lot at the time.

Patrick: Now that you are a bit older, right, if given the chance, what would you want to say to your younger self regarding money? What advice would you give yourself?

Alice: If I went back to my youth with my current mindset, I don't think I would view the issue like that anymore. I would likely use more rationality to guide myself in dealing with financial management, treat it much more seriously, and spend more time quietly studying the value investing theories of Buffett and Munger. Because I feel that even if your principal is small, the earlier you try, the knowledge accumulated through continuous practice will not disappear; instead, it will grow thicker, which is very important. In fact, I now feel that if you can focus on business models when you are young, and start by viewing the world and considering problems from the most basic frameworks of business models, many problems will become much simpler. Some problems won't even be problems at all, and won't distract your energy. Therefore, I believe this value investing theory is actually what young people need to learn the most.

Sometimes, although the things we learn from school education are useful, they are mostly textbook knowledge. When you truly step into society, there is actually a huge gap, and our education cannot yet support you in making a smooth transition. So what young people actually need most is wisdom. Usually, older people have wisdom and experience, but young people actually need wisdom the most because they have time. If they can be exposed to these commercial and life wisdoms earlier, I believe they can utilize their youth much better, whether it's the compounding accumulation of cognition or the compounding accumulation of wealth. And regarding wealth, if you start at age 20, by the time you are 30, the power of compounding is formidable. As long as you are truly doing the right things, you will also seize some opportunities. If you believe in "getting rich slowly," you should start as early as possible. If I could do it again, I wouldn't be as casual as I was in my youth, listening to those voices and thinking "experience is quite important" and just following the crowd to do certain things.

Patrick: Returning to myself, I don't know if, back then, I would have had the energy to learn from them outside of work. Because I can deeply understand that young people just entering the workforce actually have a lot of anxiety; suddenly entering a working state, a person is very tense, especially needing to figure out how to navigate and advance in the corporate system, so your mental bandwidth is truly fully occupied, right?

But I feel that at that time, I hadn't thought very clearly about "what is a good job." My thought then was very simple: a good job is the one with the highest salary. I looked around, saw investment banking had the highest salary, so I was single-mindedly desperate to get into investment banking, right? Perhaps because I had been too deprived and too poor before, right, my desire for money was intensely strong, which I think is completely understandable. But looking back now, a good job is definitely not just the one with the highest salary. Because often, a so-called high salary is exchanged for your physical health or sacrificing many other things; looking back now, this is not the most ideal choice. A good job now, it seems, must first be a job you are interested in. Although it sounds like a cliché, interest is a very magical thing; nothing else can motivate you to persistently cultivate such a grueling task for so long. So finding a job you are interested in is still paramount. Second, what kind of person your boss is largely determines your happiness level, exactly. Do you respect him? Do you feel you can learn a lot from him? I think this is the second most important factor. Beyond these two factors, the rest might be relatively secondary, because money can always be earned slowly, right? As long as you learn things, as long as you are interested in the task, you will naturally develop your unique abilities, and ultimately you will certainly be able to monetize those abilities, right.

Another thing I want to tell my younger self is that, while it's understandable that young people must complete their early accumulation of knowledge or original capital through work—after all, you start with nothing, have no understanding of the business world, your pockets are empty, and without a foundational accumulation, you can't even talk about how to gain wealth through compounding later, right? However, I also want to warn myself: a job is not the only option leading to wealth. You still need to maintain an open mindset; pay more attention to those around you who didn't take the conventional route and chose different paths, and see what their experiences with work are like. For example, those who choose to do business or start a company—how do they understand what they are doing? Because only by maintaining this openness can you break out of your so-called small circle and see a larger world.

Humans are social animals, right; everyone has their own small circle of life. For example, when we were working back then, the few colleagues around us basically made up a huge part of our world. In this small circle, everyone will strive hard for the goals that are mutually recognized or deemed good. For example, back then we felt promotion was the most important thing; in this circle, everyone felt promotion was a matter of utmost importance, so you would expend immense effort to climb up, while simultaneously ignoring the outside world, right? This is actually a typical social psychology phenomenon. Just like classmates or friends in academia, right; to them, the most important thing might be how many papers they published and what their citation count is. In their cognition, this is a matter of utmost importance, but to those of us on the outside, we might feel, is this really that important? If what you pursue is a kind of happiness, is this thing really that critical to your happiness? Once you enter a certain state, the goals of a small group become your goals, causing you to ignore the larger world outside. Therefore, making your younger self aware that "there are mountains beyond mountains, skies beyond skies," that there is actually a larger world out there, is extremely important. Wealth is not only accumulated through a job; it can also be accumulated through other avenues. We need to learn what wealth is and how to accumulate it; this way, we will come into contact with entirely new things.

One thing I actually quite regret is buying stocks. It's not that I regret missing out on a few bull markets, because I know that when you first buy stocks, you will definitely lose money; this experience of losing money cannot be skipped. But the earlier you do this and the earlier you lose money, the earlier you might be able to return to the right path. My situation at the time was that because I was in investment banking, I might have access to insider information, so buying any stock required compliance approval. The same was true later when I went to the investment department of a major internet company; buying stocks was not free. I felt it was too troublesome back then; buying a stock required approval, and by the time approval came a day or two later, the opportunity was long gone, right? So I thought, well, I just won't buy it, whatever. As a result, for an entire decade after graduation, I didn't try to understand stocks or what their essence was. I feel this is very regrettable.

Alice: Me too.

Patrick: Taking a small amount of capital, right, to experience it and know what it's all about. Understanding which paths lead to dead ends, I think is actually quite important. This would also make one's understanding of "what is an asset" a bit deeper, rather than thinking that wealth can only be obtained through a job, because that original thought is indeed too limiting, right?

Alice: Yes, I think what you said, Patrick, is very good. For young people, transitioning from campus to the workplace, because they haven't established their entire cognitive framework yet, they definitely need to learn from seniors. But precisely because of this, it's very easy to enter into the thinking framework of seniors or the microclimate of a certain group, mistakenly believing this is the entire world. However, if you can be exposed to value investing, stocks, and companies earlier, you can pull yourself back from those limitations in your spare time, look at the outside world, and know what the entire world is like. This way, you can actually have more choices. When you discover enough choices, only then will you look at what choice is most suitable for you, and what might be the best choice, instead of just pulling the cart with your head down every day. You should occasionally look up to see what else is out there in the world.

2. Multiple Paths to Accumulating Wealth and the Utility of Leverage

Patrick: Yes, maintaining openness is key, I think this is highly crucial. Because our entire education system, including our parents, will tell us: "Of course you have to find a job after you graduate, right?" It's as if finding a job is the only way to wealth or happiness. But naturally I understand now, finding a job is just one way; it's simply selling your labor and time in exchange for regular compensation, right? Right, it has a very obvious upper limit. You can only work a maximum number of hours a day; your hourly wage might be high or low, it might differ for each industry or role, but ultimately, your upper limit is the time you can spend awake and working, right? So this is just one way. Of course, doing your own business or starting a company is also a way, right; investing in stocks is certainly a way too. My understanding of these things now is a bit deeper.

For example, regarding entrepreneurship back then, my cognition was actually quite flawed. At that time, I thought people who went to start a business must be those looking to change the world, people with extremely grand ideals. That they had to do something earth-shattering to choose such a high-risk endeavor. But looking at it now, there's nothing unattainable or overwhelmingly lofty about entrepreneurship. Actually, entrepreneurship is an excellent way to accumulate your own assets, right? As a shareholder of a company, equity is your asset. And within assets, you can actually utilize a lot of leverage to maximize your wealth. If you are an employee, you lack leverage; all you have to sell is your own time. But if you start a business, you can pry open other levers: for instance, you can hire people to work for you—this is human leverage; you can have capital leverage; you can also manufacture replicable products—this is product leverage, right? Through the utility of these levers, you have the potential to achieve greater wealth. This is also why I said before, to achieve wealth you must possess good assets, because good assets have a leverage effect, whereas your own time has a very clear upper limit. If you want to acquire true wealth, you must utilize the power of leverage well. So back then, I indeed had some incorrect cognitive views on entrepreneurship.

So nowadays, I feel young people today are much more enlightened than we were back then; many young people have their own side hustles, right? Right, understanding how money is made and how to use leverage to pry open resources through side hustles is excellent, I think. Nowadays, if you can have your own side hustle, it's a very good and important way to do initial asset accumulation.

Alice: Yes, I noticed that the post-00s generation seems quite different in this regard. For example, even within business schools, the thinking of students in your generation and my generation was still a bit patterned and stereotyped. For example, like you going into investment banking, everyone thought this was the best way out, and other paths would be ranked in a 1, 2, 3, 4 tiered order. Thinking this path is okay, that one is mediocre, and this one is excellent. But I found that young people today, including many business school students, don't seem as interested in traditional prestigious industries like investment banking. They feel the time-to-value ratio of that kind of work isn't high. Many kids, starting from college or even high school graduation, try to do their own side hustles. For example, becoming influencers (self-media bloggers) and the like, because for them this is the easiest, a way to start that requires almost no cost, right. Many people have built something up this way, and others will start doing a little business, or even start their own educational tutoring companies. I found they are somewhat different from the two generations of students before us.

Patrick: So today's young people are smarter and more open. We indeed easily placed restrictions on ourselves back then, and some limitations seem quite obvious looking back now.

Alice: I think so too.

Patrick: Indeed, young people today have more open minds and are more open in their thinking. They can experience the process of building a business and accumulating assets as early as possible. They might also try trading stocks early on, going through some necessary processes; I think it's all very good. The new generation is much more open in facing "how to accumulate wealth"; we were indeed not open enough back then, true.

Alice: There might be a kind of so-called Status Quo Bias. Because we always felt that successful people from the past were life role models; we thought this was very good and that was very good, so we assumed the world wouldn't change, and that we should replicate their paths; there was more or less this mentality.

Patrick: I think that's exactly it; everyone is doing it, so you just follow along, right? So seeing young people's minds being so active now, running side hustles and doing self-media, shows society is progressing. People understand that there are actually multiple paths to accumulating wealth, and a job is absolutely not the only way, right? This is great. So Alice, is there anything else you want to say to your younger self?

Alice: There's one more thing. We just talked about two types of people: one who only cares about work and promotion, and another who, because their principal is small, simply spends all their money on "experiences." There's actually a third type of person, who has saved a little money and doesn't need to blindly spend it on experiences, but faces a choice: how should they use this money when they are young? Should they put it into value investing, or buy other assets, like should they buy a house? Facing such a choice, I wonder how you view it?

3. Delayed Gratification and the "Consumption" Attribute of a Primary Residence

Patrick: Everyone probably goes through such a process, right? Regardless, transitioning from a student to someone who starts earning their own money, has savings, and can buy things they like—it's very normal to consume more right after graduation. I also went through this phase; I wanted to buy luxury goods and the like very much back then, and I bought quite a few. As for "experiencing" things, it still depends on each person's different definition of life's meaning or their own pursuits, right? Everyone pursues happiness differently. If, in someone's definition, happiness means being able to buy things they like, that's completely fine, right; if you have the ability to buy, then buy. Pursuing happiness itself is not wrong, right?

But one must accept a fact: if you use your entire salary for consumption, you have to accept that after consuming, the principal left available for appreciation and investment will be very limited, right? Then the foundation you want to use to grow wealth through compounding will become smaller, right? Being able to accept this, I think, is OK. The worst thing is being conflicted—wanting to buy these consumer goods on one hand, while constantly feeling you have no money to invest on the other; it's very hard to have it both ways. So if you are willing to exchange consumption for present happiness, you naturally have to accept the cost of not having initial capital to enjoy the compounding snowball effect, right?

Alice: So it's a matter of choice; you have to figure out for yourself what you truly want.

Patrick: Right, the core is that everyone's definition of happiness is different, right. If your definition absolutely includes something called "personal freedom"—meaning I need to possess enough wealth so that when faced with things I don't want to do, I can confidently say I won't do them. If this is what you pursue, then you must save well. Saving is very necessary for young people. If money is all used for consumption, consumer goods will constantly depreciate after purchase, right; they become less and less valuable. Only by saving money and putting it into good assets can you possibly enjoy the compounding effect, and only then will assets slowly appreciate, right.

Alice: So the opportunity cost of consumption is actually very high. Because besides the issue of depreciation itself, the funds you could have used for investment are consumed, and this money originally could have created massive compounding in the future. So as time passes, your opportunity cost will grow larger and larger, right? Therefore, the long-term returns that delayed gratification can bring are astonishing; it can be understood this way.

Patrick: The premise is that your definition of happiness includes acquiring enough wealth to gain freedom, right. If you think an ideal life is having a stable job, enough salary to spend, and living happily ever after, then there's indeed no need to delay gratification, right? Moreover, while delayed gratification is a virtue, it certainly cannot go to the other extreme and turn you into a "miser," right. Not willing to spend a penny, saving all money for wealth growth without enjoying life at all—I think that's quite tragic too, right? Creating wealth for the sake of wealth, while completely scoffing at normal consumption, I think this is putting the cart before the horse. A balance is still needed; enjoy when you should, buy what you like when you want, as long as you feel it brings true happiness. After buying, you just need to be clear in your mind that this money has been used for consumption and cannot be used for investing; that's fine, accumulation will just be slower, right? Many things can't be helped, especially when you are very short on money early on; if you have to desperately save a tiny bit of money, it will indeed have a huge impact on your quality of life, which sometimes isn't worth the loss, right? But overall, saving and delayed gratification are indeed very crucial for those who want to accumulate enough wealth to achieve personal freedom, yes.

Alice: I'm a bit curious how you view Buffett's life? Because Buffett is indeed extremely wealthy, but he lives very simply, often eating McDonald's and drinking Coca-Cola, settling for a casual meal. He doesn't seem to consume much normally, and his car is also very modest (of course he has a private jet, but that's for travel convenience). How do you view a life like his?

Patrick: I think everyone's definition of happiness and the meaning of life is very different, right. Perhaps in his world, what he eats has absolutely no major positive utility for him, so he doesn't take it seriously, right? But I know he actually went through a lot of struggles regarding wealth as well. The early Buffett wanted desperately to use every penny to accumulate compound interest; he might have been too rational, feeling the power of compound interest was too strong. If used for consumption or donated, it couldn't enjoy the compounding effect. So for a time, he did struggle a lot. But when his wife was diagnosed with late-stage cancer, he suddenly realized that wealth was actually not the most critical thing in his life. When a loved one is about to leave, no amount of money is of any use, right? So that's why he decided at that time to donate his wealth.

So I feel everyone's definition of the meaning of their own life and happiness is different; there's no need to deliberately imitate their lifestyles, I think everyone is different, right. However, I strongly agree with a plain, simple life, especially when it comes to investing. You can invest some money to bet on it multiplying 100 or 1,000 times, right, but it could also go to zero? Then I just won't make that kind of money. I invest and accumulate wealth to live happily, and happiness should least of all include anxiety, right? If pursuing wealth makes you extremely anxious, unable to care for your family, stripped of hobbies, and kept in perpetual unrest all day by stock prices, then I think it's better not to make this money, because it's putting the cart before the horse.

So the biggest impact Buffett and Munger's investment philosophy had on me was making me realize I accumulate wealth to gain freedom in life, right; but I absolutely do not want to become a slave to wealth, constantly living in fear, highly anxious, unable to sleep, and kept in perpetual unrest by these stock prices. In terms of wealth accumulation, I choose a simple method, rather than a dramatic, nerve-wracking one. I feel this is actually a very profound inspiration.

Alice: Understood, so the principles are actually very clear. Everyone's personal choice ultimately depends on what they are pursuing.

Patrick: Yes, so I personally feel that what I discussed earlier about how to choose companies and stocks doesn't apply to everyone. If your way of acquiring wealth or your speed requirements don't necessitate spending so much time researching, then there's absolutely no need to learn these things. Only if you are truly interested, feel this is a good method, and a relatively reassuring, anxiety-free way, and you want to learn more about it, should you learn it. In fact, most people really don't need to learn to analyze individual stocks; buying some bonds or index funds is actually enough; there's no need to expend such energy to learn these things.

But you mentioned a point just now, which I think is what I wanted to say to myself back then, which is: when I indeed don't have much money, right, and have a little savings, should I buy a house first? I faced this very same question back then. Of course, I bought a house first. Back then I felt investing in stocks was too troublesome and required approval, so I didn't invest, and I bought a house. But if I could speak to my past self now, I would tell him: if it's your first primary residence, you really shouldn't treat it as a wealth-accumulating, appreciating asset. Back then it might have been okay; housing prices were still rising, right, you could buy a small one, and then slowly trade up to a larger one.But regardless, you have to consume your primary residence yourself, right; once you have a family, it's also very difficult to sell your primary residence. In this way, this thing can't really be considered an asset; it carries a much heavier consumption attribute.

We Chinese all have this notion, and I don't think there's anything wrong with it, right? If, in my definition of happiness, I need to have such a home, and to own a house as early as possible, then you do everything possible to buy it first, right. After buying it, you also shouldn't hope to make big money off this house. I think nowadays everyone has basically given up this fantasy, knowing it's very hard to make money from houses, right. Logically speaking, I think a primary residence belongs more to consumption and cannot be considered accumulation of your assets.

Alice: But would this conclusion be somewhat influenced by the time or historical cycle you are in? For example, now the pace of real estate appreciation has slowed. If it were thirty years ago, even if you bought a primary residence, after five or six years it might have tripled or quadrupled; that was possible. Then you could immediately sell it and buy several more houses, meaning one house could become three or four. I think the experience of people who bought houses thirty years ago must be completely different. Do you think this conclusion is influenced by the current real estate downturn, or is it fundamentally not that different?

Patrick: I think the fundamental impact is actually not large. Of course, now the housing market is in a downward cycle; appreciation is out of the question, and everyone is facing depreciation, right, so naturally people won't think buying a house now is a good investment. But the core I wanted to express earlier is that regardless of the cycle, a primary residence has a heavier consumption attribute. If you look at the balance sheet and income statement, you initially spent a huge sum of money, perhaps even taking on debt to buy this thing, right, but it hasn't brought you any continuous income on the income statement, because you don't collect rent. It hasn't brought in income, but it has continuous expenses. For example, renovations and the depreciation of those renovations, which incur expenses every year, plus how much it costs to maintain the house, right? So from a cash flow perspective, a primary residence actually requires constant spending. If you always must own a primary residence, and you cannot sell it in exchange for capital gains, then it's very difficult for you to experience positive cash flow again.

So things that exhibit this behavior are mostly consumer goods. Consumption works like this: you spend a huge sum of money, and you have to spend a bit more regularly to enjoy the thing. This is very similar to buying a coffee machine: initially you spend money to buy the machine, and later you constantly have to buy coffee beans and raw materials. So from a cash flow and income statement perspective, buying a house is very similar to buying a coffee machine. But if you buy a second house to rent out as an investment property, that's different. Then it becomes a clear asset with investment attributes, right? You collect rent, this rent cash flow—positive cash flow—keeps coming in, and you hope this cash flow can cover your costs; you hope it achieves capital gains, right. This is a typical asset attribute. So, don't count a primary residence too heavily as your asset; view it more as your consumption.

Alice: Some people say I can rent out my primary residence, and then rent a cheaper place for myself, so then I'll have an asset.

Patrick: Indeed, if you can truly push it onto the rental market, then by nature it does become your asset, if you are willing to make such a personal lifestyle adjustment to optimize cash flow. But currently, everything is in a downward phase, so I want to tell my past self: buying a house is fine; if you believe owning a house is within your definition of happiness, it's fine. But please do not be complacent, mistakenly thinking that buying a primary residence makes your asset foundation strong, right? That's actually not true. A primary residence is very hard to easily liquidate; you need to focus more on finding those truly good assets that can continuously bring in positive cash flow.

Alice: So Cash Flow is critically important.

4. The "Slight Accumulation" Phase: Avoiding the Incentive Traps of the Mainstream Financial World

Patrick: Yes. Alright, can we chat about the next phase? When we've been in the workforce for a while, seen a bit of the world, and have some accumulation, some spare cash we can use for investing, right? At that stage, is there anything you want to say to your past self?

Alice: Yes, for example, a very typical mindset, which is what most people think: feeling that the stock market is too profound, and not having systematically studied finance. Then if I want to invest, should I listen to those various gurus, or simply hand it over to professional fund managers? Because I do quite well in my own industry, I'm somewhat of an expert, but the learning curve for this investment stuff is too steep for me; I feel I can't do it.

Patrick: This is actually very natural; everyone has gone through this phase. I wonder what your state was when you were in that phase? Are there any words you'd want to say to your self at that time?

Alice: My mindset was actually quite similar. Even though I majored in finance, if you really asked me to pick individual stocks in the stock market and do value investing, I still felt the learning curve was very steep. I didn't know where to start, didn't know what industry to pick, whether to pick large-cap or small-cap stocks, or even which market to choose—buy Hong Kong stocks or A-shares, right? It was completely without method; I didn't know how to begin or where to start.

Because even having studied this major and some theoretical knowledge, the entire industry is too vast; when it comes down to an individual, the specific work you do is actually very narrow. When you truly face the market, it's still the same lack of method; maybe just watching the news, tracking some industry news, mostly engaging in "trend investing." Although it's shameful, back then it was often feeling that a concept was very hot, everyone cared about it, so it must have great prospects, and then rushing in. This is quite common among retail investors. This approach is very immature; essentially it still lacks one's own robust framework and cognition, so you don't have a good mindset towards market volatility. When it goes up, you lack confidence, and when it goes down, you lack confidence. In short, I feel that if you manage finances and invest like this, to be honest, there's absolutely no need to do it because you will end up with nothing.

Patrick: I think this is also very natural; I've experienced this phase too. If I were to speak to my past self, I think the first piece of advice would be: spend more time on this matter, because it is important enough. It might not be as urgently important as your primary job, but it is absolutely worth spending some spare time to understand the underlying logic within it. Because if you don't understand it, it's too easy to get taken advantage of ("harvested as chives"). The money you worked so hard to earn, if it's squandered in the stock market and harvested by others, it's truly a huge loss. Spending more time learning and understanding these things, establishing basic financial intelligence, and avoiding major pitfalls, yields an extremely high overall return on investment. So perhaps I would tell my past self to spend some more time on it.

As for how to learn and what major pitfalls to avoid, I think everyone faces similar situations. For example, what you just mentioned: should I listen to a guru, or hand the money over to a professional fund manager? I think this is actually a very common pitfall. In this commercial world, we more or less have a sense that: in the commercial world, where you sit determines what you think, right? Everyone's incentive mechanism is completely different. Those gurus you talk about have absolutely no motivation or incentive to help you make money; even those fund managers are the same. We need to understand the fund's business model and the fund manager's incentive mechanism. The fund's business model is "I manage money for you, and I charge a 2% management fee based on scale," and this income is not dependent on investment performance. Only when performance is extremely excellent can he participate in a share of the excess returns, right? The design of this incentive mechanism dictates the behavior of these professional fund managers.

He stably collects this 2% management fee regardless of whether the market is good or bad, so he inherently has no worries, right. Moreover, he rarely puts his entire net worth into the fund he manages; he is merely managing money for others. If he loses money, you can neither dock his base salary nor dock his own money, right; but if he takes a risk and bets right, he gets a large share of the profits. Therefore, this mechanism naturally encourages them to act very aggressively and take unnecessary risks. Because only through aggressive gambling or placing heavy bets on hot spots and taking some risks can he potentially earn massive positive returns, thereby securing a good profit share, right?

We need to ask ourselves, can we entrust our hard-earned money to them? Looking at historical public performance, in reality, whether it's mutual funds or hedge funds, it has always been very difficult to beat the index over long-term performance. Buffett once made a famous ten-year bet with hedge funds. Around 2005, he publicly proposed a $1 million bet: find any professional fund manager, and see if they can beat the simplest S&P 500 index over a ten-year cycle. Buffett's viewpoint was very clear: because these actively managed funds charge very expensive and complex management fees and commissions, the massive friction costs brought by these fees guarantee that their overall net returns will struggle immensely to beat the index. Add to that the incentive mechanism designs just mentioned, which drive them to take unnecessary risks, etc.

Initially, no one even dared to accept this bet. It wasn't until 2007 that a hedge fund manager accepted it. The result, as everyone knows, is that the hedge fund ultimately lost, and that $1 million was donated to a charity. So overall, it's extremely difficult for a so-called professional management institution to beat the index long-term. For us ordinary people, if you hand your blood-and-sweat money over to a guru or professional fund manager, you really have to think hard: can you trust him? Do you understand him well enough? If you don't understand him, then you're better off honestly buying government bonds or investing in a very low-fee index fund. Only this way can you effectively avoid the loss of your principal.

Because, again, incentive mechanisms determine people's heads and actions, right. Including recently when I chatted with some friends working in hedge funds, I asked them what they were up to. One person told me they were looking at the direction of humanoid robots. Just as you said earlier, they *must* bet on a new trend, right? So I asked him: "Have you guys figured out the business model for this direction?" He said: "There is no business model at all right now; we don't even know what this thing can be used for, right." So I asked him why they still invest in it? He said: "Because the country has designated humanoid robots as an industry tied to national destiny, for flexing muscles in the US-China rivalry. So massive amounts of funds will definitely pour into it in the future. So as a fund manager, I feel I have to place a heavy bet on such a possible trend."

So, the supposedly very smart hedge fund manager doesn't have some astonishing insight into the business model of this trade, but because this is also a job, right? His boss hires him to constantly come up with new ideas and constantly generate action in the market. No boss hires you to sit there motionless all day just thinking about problems; that's impossible. So every fund manager must continuously move and operate. But in investing, these extra "moves" mean trading friction, meaning commissions and transaction costs will get higher and higher.

People like Buffett often don't move; they are always quietly waiting for a perfect moment, right. They might wait two years for one opportunity, but when they strike, they bet heavily, right. If an investment requires you to constantly move, constantly buy and sell, a large portion of your final money flows to intermediaries. Because the intermediary's business model is to make money off your frequent activity; their business model encourages you to constantly churn, right. Why do we easily become "chives"? That's why. Because the business models of many financial institutions in the entire financial world are built on you constantly churning and contributing fees to make them money; they actually don't care whether you ultimately make money or not, right. Therefore, you must understand the business model of the entire financial world, and understand the underlying motives of specific institutions and individuals, to possibly avoid falling into a pit helping others make money while ending up not making much yourself.

Alice: Yes, what you said about these mainstream, large hedge funds, because they manage massive funds, this money sitting in accounts actually has costs and investment pressure; they are forced to find ways to spend it. And in the financial industry, there is a mindset that exceptionally tests people's patience, which is the fear of missing out. Because countless themes flash before your eyes every day, although this opportunity is still in a very initial stage and hasn't formed a reasonable business model yet, you seem to feel that if you don't do it, and everyone else does, you will miss out. This FOMO (Fear Of Missing Out) mindset will drive you to follow along. When everyone starts following the trend, this matter will become somewhat irrational.

Patrick: Everyone is a worker, after all; everyone's compensation mechanism and bonus mechanism dictate their actions. He might subjectively be a long-termist, but standing in that position, he is forced to move. Just like you said, terrified of missing an opportunity. There's actually a saying in finance that two phrases are the most dangerous: the first is "everyone else is doing it," and the second is "this time is different." Anytime you hear these two phrases, it's actually when you should be on high alert; this means massive risks are secretly brewing, right? But it can't be helped; this is the inevitable outcome of incentive mechanisms and where you sit determining what you think.

For us ordinary people, if you also do it because "everyone else is doing it," feeling "this time is truly different" and thus willing to take a gamble, then you might quickly become a "chive" too. Because this active incentive mechanism design lures people into willingly taking extra, unnecessary risks. This risk directly threatens the safety of your principal. But for those institutions, they collect the 2% fee no matter what, right; they might only get more bonus by taking more risks, right.

So, if you don't want to risk losing your principal, and don't have the energy to systematically study business models and such, then the safest approach is to buy government bonds, or buy index funds. Even when buying an index, you actually need to spend some time researching how to buy a good index. For example, if you are optimistic about the future of the Chinese economy, or the future of the US economy, right, then you need to research which index has low enough fees (this is critical), and secondly, whether it can truly represent the overall economy of that country, right. Buying such an index fund will carry lower risks.

Actually, buying those broad-based index funds, for example for the Chinese economy, you might feel just buying the CSI 300 isn't enough, because those are mostly large-cap stocks. You might also need to mix in some CSI 500 representing small and medium enterprises, and even add some highly representative Chinese companies listed in Hong Kong, like the Hang Seng China Enterprises Index. Such a combination might better simulate the complete future development trend of the entire Chinese economy. Spending some time researching these, I think, is very worthwhile, right? It can help you avoid some blind speculation and getting harvested by others.

Alice: I think one more phrase could be added; besides the two you just mentioned, there's another mindset that often drives people crazy: "Although I haven't completely understood this thing, I see so-and-so has started doing it, and that big shot has also entered the market, so there must be some core things they understand that I don't know yet. To avoid missing out on this wave of making big money, I'd better follow along first, so I don't miss this wave." This mindset is often also the root of blindness and madness.

Patrick: The so-called "missing out on the opportunity to make big money," in reality, those opportunities you didn't grasp because you didn't understand them were never your opportunities to begin with; they never belonged to you. There are plenty of various opportunities to make big money; people can also make big money overnight in a casino, right? Do you also feel you missed out on those opportunities?

Alice: So "don't invest if you don't understand" is extremely important.

Patrick: Yes, "don't invest if you don't understand" is extremely important. But the next new problem is: I know nothing about the industry, I'm only familiar with the industry I work in, and I know nothing about others. Although I can spend time now, I don't know how much time to spend or how much knowledge I need to learn to truly understand. If I want to do value investing by picking individual stocks, it always feels unrealistic to execute. Because a person with slight accumulation has to juggle a job and trivial life matters, leaving very little time for themselves. Facing this situation, they don't know how much time they should spend or can spend doing this.

Patrick: This is essentially an issue of ROI (Return on Investment), right? If you have high output expectations, you inevitably must invest corresponding time in it, right? You can't say I won't invest time but still hope for excess output; that's impossible. My feeling is, if you feel gaining the average dividend of the entire Chinese economy's growth is already enough, then go invest in index funds; that indeed doesn't take much time. But if you say "I want to beat the index, I hope my investment performance can beat the market, or even achieve an annualized 20% return like Buffett," then you must spend time researching. It's impossible to easily achieve that without spending time; that doesn't exist, right.

As for how much time to spend and how to learn to understand, there's definitely a process of "paying tuition fees" in between. I feel the earlier this process happens, the better, right. Everyone has to go through a process of paying tuition and taking losses in the market. The earlier you experience it, eventually you will walk onto the right path. Moreover, learning these things, the theories of Buffett and his peers aren't actually complicated; rather, they are the simplest things in the market. Compared to looking at candlestick charts every day, studying short and long-term strategies, doing long/short hedging, or frequently day-trading, value investing is much simpler. However, it requires you to spend time in reality to experience, trial-and-error, and attempt it. Starting is the most important step, right?

Alice: Understood, so you can't save any effort on this; it depends on what you want. To reap, you must sow; there truly are no shortcuts.

Patrick: There truly are no shortcuts, I think. Researching companies is hard, right? But is it really harder than the mysticism of looking at lines and charts every day? I don't think so, right; I think looking at companies is much simpler. And those looking at lines and charts are terrified all day, right? Doing it our way, after buying, we don't have to pay attention to it normally; we can play ball, work, do whatever we need to do, right. So I think taking the main road, though less traveled, is more solid. Everyone can weigh their own needs; if my needs aren't high, then buying an index is quite good, right, and not troublesome.

For me, speaking to myself when I had a little accumulation, I actually took quite a few detours too, right. Back then I had a thought: I'm already in my thirties, not young anymore. If the compounding method you're talking about is too slow, taking over a decade to multiply a few times, I'll be old by then, right; I won't even get to enjoy it. So back then, I had some internal resistance towards this "getting rich slowly" method, right. But looking back now, it was still too naive, right. Although I wasn't young anymore, the problem is, on this path to acquiring wealth, if there truly were a way to get rich quickly, everyone would definitely flock there, right? Then why would it be your turn, right? So, it's not that people don't want to get rich quickly; everyone does. It's just that anyone with a bit of rationality knows there is no such method to get rich quickly or overnight, right.

Wealth must be accumulated slowly. Even those cases that look like getting rich overnight—for example, joining a certain startup, and suddenly the company goes public, and they achieve financial freedom, right. But this actually involved taking massive risks early on, right. When they initially joined the company, it might not have looked very promising, might even have been nearing bankruptcy, not knowing if it could pay next month's salary. They were actually taking massive risks, and ultimately gained this wealth. On one hand, it was certainly due to their willingness to take risks and their dedication; on the other hand, there definitely were elements of luck. The capital markets granted such enterprises a specific wealth dividend, right. But you can't see some people lucky enough to accumulate wealth after taking massive risks and think, "Could I do this too?" This is exactly the same as seeing someone in a casino put in 200 bucks, make 20,000—a 100x return—and then trying to emulate them, right. So the old Chinese saying is so true: haste makes waste, Slow is fast.

Alice: That's a good translation. The faster you want to be, the less likely you are to be fast, right. Conversely, there are many ways in the market to make you "go broke quickly." For example, adding leverage; it looks like it amplifies your returns, but it also drastically accelerates the process of your account blowing up and going to zero, right. There are also some fast-looking operational methods that actually extremely consume a massive amount of your mental energy, causing you to be anxious all day, lose hair, grow white hair; it's simply not worth the loss, right? So avoiding these crooked paths that make you go broke quickly and returning to the right path, even if it's slower, is better than ending up broke, right.

Patrick: I agree with your viewpoint. And regarding those faster methods you mentioned, just when one gets that thrill and incentive, I've also heard people say: if you get used to using leverage while trading stocks, not using it makes you very uncomfortable, or you feel buying regular stocks is just too boring and uninteresting. Another example is playing options; if you play options a lot, you'll also feel buying regular stocks is too boring and slow, right. These things will severely aggravate your mental instability.

Humans inherently have a gambling nature, right. When the dice are revealed, that adrenaline rush to the head is indeed easily addictive. But we ordinary workers must constantly reflect: this money is the tiny savings you painfully accumulated through overtime and sacrificing your youth. We aren't second-generation rich, and our families don't own mines, right? Are you really willing to treat it this way? I must say, the gambling nature of Chinese people is actually quite heavy. Perhaps due to past scarcity, deep down there's a strong desire to "turn a bicycle into a motorcycle, a pheasant into a phoenix"; this get-rich-overnight mentality is actually quite common. But the world doesn't operate this way; we must respect the objective laws of this world.

Alice: Yes, let's slowly get rich together.

5. The "Investing Veteran" Phase: Deep Reflection on the Localization of Value Investing

Patrick: Alright, let's move to the next phase. When you've done some investing, you could be called a "veteran" in the market—not sure if a veteran investor or a veteran speculator, but you've also been exposed to Buffett and Duan Yongping, read their quotes and things, right. But at this stage, there are often many doubting voices. For example, people frequently say: their set of value investing concepts doesn't work in China. Their wealth scale is incomparable to us ordinary people, so it's hard to apply it to ourselves. I think there is such a phase too, right?

Alice: Yes, there are too many voices like this. The moment you mention value investing, saying Buffett is amazing or Munger is amazing, the first reaction of many A-share retail investors is: "That stuff doesn't apply to A-shares; A-shares are all retail investors and too heavily influenced by policies. Or many say, even if Buffett came to the A-share market, he'd just be a 'chive' too, with no other choice."

There's another type of person who says: "I read Buffett's books, I learned value investing, and I honestly held stocks long-term in A-shares, but ultimately I didn't make any money. How do you explain that, right?" I'm not a trend investor, I didn't follow the herd, I just applied these principles, and I'm still at a loss now; how do you view this problem?

Patrick: When I first started out, I actually had similar confusions. But from the perspective of a rational person, when I look at a person or decide whether to learn something, I can't just learn mindlessly, right? There must be something that makes you decide it's worth learning, right? I think the first thing is looking at a sufficiently long track record. Nowadays, many people claim they make a lot of money, but they only show off when they're earning; they don't tell you when they aren't, right. Whereas you can see Buffett's investment track record for at least seventy or eighty years, right; he's made money, and he's made mistakes, right. So, you must ensure that this thing has withstood the test of time. I believe Buffett, Munger, and the theory of value investing have withstood the test of time, right; and only if it aligns with your own values and temperament will you be willing to learn it, right?

So does it really not apply to A-shares? I've had my doubts; indeed, the markets are different, right? However, Buffett said that in "value investing," the word "value" is actually redundant, right? When we invest in something, if we aren't investing in its value, what exactly are we investing in? Could it be fundamentally different in different markets? Do we invest in value in the US market, but invest in "X" in the A-share market, right? That's certainly not the case. You also see that Buffett has bought Chinese enterprises; he bought PetroChina and BYD, right? Aren't these highly successful cases, right? So, the argument that it doesn't apply to A-shares because there are many retail investors or many policies is definitely invalid, I think. The key is, have you truly understood it, right? Did you really understand the enterprise you bought? Are you investing or speculating? Have you truly distinguished the fundamental difference between investing and speculating?

Many people reject this because they are actually speculating, and the rules of investing naturally don't apply to their speculative actions, right. Others say, "I've been hurt, I've held long-term for seven or eight years, and I'm still at a loss now, right." I think one must understand this: value investing does not equal long-term investing. Long-term investing is not a sufficient condition for a person to get good returns. It's not that if I just hold onto it long-term I will definitely get good returns. The core premise is: did you buy a good company, a good business model, a good culture, and most critically—a good price, right? If you bought Tencent at a high of 700 RMB back then, and then complain about not making money, right, you can't use the length of your holding period as a bargaining chip. Often, if you buy the wrong company, or buy at the wrong price, holding it longer is actually more problematic. So I think these two absolutely cannot be equated, right?

Alice: Right, a good company, good people, and a good price; all three conditions must be met simultaneously. Although long-term value investing requires you to hold long-term, it doesn't mean that just because you hold long-term, you are doing value investing, right? Because if you bought the wrong company, especially a company you completely don't understand, right, then you are essentially speculating. You were never investing at all, so you cannot possibly reap the rewards of investing.

Patrick: Or even if you picked a good company, if you bought at the wrong price, right, holding it long-term will still be very painful. So, true value investors can operate just the same in A-shares, Hong Kong stocks, US stocks, even in the Japanese stock market, or even with private companies. Because Buffett actually invested in many private companies, right; he bought controlling stakes, like buying the entirety of See's Candies, right. So, anytime, in any market, when we invest, we invest in value, right. I believe this value investing framework is quite self-consistent; at least it aligns well with my worldview.

I haven't found another method that is well-founded and backed by long-term historical data proving it actually works. Quant investing might also be able to beat the market, right, but I can't do that, right, and I don't want to pursue that kind of dramatic intensity. I just want things to be simple, where I basically don't have to frequently monitor the stock market, so I choose this simple approach. As long as everyone finds a method that is self-consistent for them, there's no need to force it, yes.

But I think there's another quite common criticism of value investing. People often say, Buffett didn't invest in Bitcoin, or look, he hasn't invested in Nvidia now, feeling he's losing his touch, right. Yes, I hear this often too. I think the people saying this are typical opportunists. It seems in their logic, to get rich you must get close to all profitable opportunities; because I am close to the opportunity, only then is it possible for me to get rich, right.

But from the perspective of value investing, everyone has their own circle of competence. Actually, the opportunities that truly belong to you are not that many. And those companies outside your circle of competence are essentially companies that have nothing to do with your interests. Whether it's Bitcoin or Nvidia, if I don't understand it, I stay far away from it. I must ensure I don't speculate blindly because I don't understand, ultimately losing my principal, right? So if Buffett were someone who invested in everything—a little of this, a little of that—then he would be a typical opportunist, and one should stay far away from him, right. Because everyone's circle of competence is different; your circle of competence is definitely different from Buffett's. If you just copy his homework, it will be very hard for you to get good returns in the end. Getting rich doesn't mean you must seize all opportunities, that only by residing in every possible opportunity can you make money, right?

We might have gone through a phase where, during the economic reform and opening up, many felt that if you went into business and encountered such opportunities back then, you reaped the dividends, right. So people today are very sensitive to opportunities, always feeling "I must get close to this opportunity," right. But you must understand, even if you get too close, if you don't understand it and lack the ability to manage it, it's actually a huge risk. So I think it's still about progressing step-by-step; let yourself get exposed, make mistakes, experiment, and slowly, the opportunities that belong to you will emerge, right. You need to prepare for these, rather than squeezing into wherever there is an opportunity. Ultimately, over time, the results will naturally show.

Alice: Yes, could it be understood that Buffett's choice not to invest in Bitcoin or Nvidia actually proves that he steadfastly adheres to his value investing principles? As a person who has lived on Earth for nearly 100 years, he has experienced many cycles. He knows perfectly well what kind of money he wants to make, so he isn't overly greedy, feeling he has to make all the money. So even if some things are opportunities or whatever, he always places them within his own framework, scrutinizes them using his framework, and decides whether to invest or not; using rationality to guide himself in making these investments. This could actually be considered one of his secrets to success, right? This is actually...

Patrick: This major point is actually about overcoming the jealousy within human nature, which is bluntly put, FOMO (Fear Of Missing Out), right? Seeing others make money, seeing others head in that direction, being terrified of being left behind, and quickly following the wave. Because people envy, feel jealous, and resent: why did others seize this opportunity and succeed, why didn't I, right? If you constantly live in this jealousy, it's hard to avoid doing things that follow the herd—feeling that everyone else is doing it, aren't I just sitting duck if I don't? Things like that. But at that moment, you are actually the "chive," right? Because by the time you see many people doing it and you join in, it's impossible to get very good returns, right?

So it's still about cultivating your own character. Can you overcome this jealousy, greed, and unease in human nature, right? Peacefully making the money that belongs to you, which means preparing yourself well, waiting for the opportunity that belongs to you to arrive, and seizing it in one fell swoop. This is the only long-term sustainable right path suitable for everyone. Otherwise, you might be busy and running around in circles, ultimately drawing water with a bamboo basket—ending up with nothing.

So indeed, at these different life stages—when just entering the workforce, when having a slight accumulation, or when becoming a veteran at this time.

Alice: The feelings are quite different.

Patrick: Yes, and indeed we've all taken some detours, right. Everyone is actually like this, which is very interesting. If people don't have firsthand personal experience, it's very hard to truly acquire something solid. Everyone has to try firsthand, fail, and only then can it truly be accumulated. So it's hard to say there are any shortcuts, meaning if I today jumped back and shouted to my younger self, "Just don't do this!" Even if they heard this voice from the future, they'd probably still want to try it out. That's just how people are; there are no shortcuts, everything must be experienced by oneself. This so-called experience of predecessors, without one's own firsthand experience, sometimes might not work either. But I think leaving these voices behind today, right, which might be seen by our children in the future, is also quite fun; or when we ourselves get older and listen to our voices from this time, we might feel we were still slightly naive.

Alice: Or you could be right. I recently had an epiphany about this too, which is: people actually don't learn anything just from their own experiences; people learn from reflecting on their experiences. So the most, most important thing is not the experience, not what you went through, not the feeling, but your reflection based on those experiences. I think this is very core.

Patrick: Very well said. For example, if you lost money or made a mistake, should you reflect on it, or just keep walking the path ahead? If you didn't reflect, even if it happened and you just experienced it, if you lack reflection and fail to establish new principles based on it, you won't necessarily do better moving forward, right?

Patrick: Alright, shall we wrap it up here for today?

Alice: Okay, very happy to. Thank you, Patrick, bye-bye.

Patrick: Okay, bye-bye.