

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

## **E08 The Investor's Comparative Advantage**

May 9, 2025

How on earth can one gain a competitive advantage in investing? China's 300 million-plus stock market participants and fewer than 20 million true investors probably all want to know the answer.

I've taken the liberty of offering an answer. In my view, like most investing-related questions, the answer is simple but incredibly hard to execute. Some say it takes 10,000 hours to master something. Perhaps there's a question of whether that's a sufficient or necessary condition. At the recently concluded Berkshire Hathaway annual meeting, Buffett remarked that if he had been born a shepherd, no amount of hours worked would have made him good at it. In investing, time and effort are clearly not sufficient conditions. Some are naturally suited for it, while others are destined to struggle. So, are you and I the lucky ones?

They say the best investment is an investment in yourself. April 23rd is World Book Day, and reading good books is an excellent way to improve oneself. So, while discussing this topic, I'll also recommend some great books.

*Slow is fast - Chinese Booklist*

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## Introduction: Reading and Evergreen Business Wisdom

Hello everyone, welcome back to *Slow is fast*. I'm Patrick. I've been reading a lot lately, specifically a massive tome that I've been thoroughly enjoying, which is why I haven't found the time to record a podcast. Since April 23rd is World Book Day, and I'm just about finished with this massive book, I wanted to use this episode to chat about reading and recommend some good books along the way.

Have you ever wondered why investors read? Looking at Warren Buffett and Charlie Munger, it's obvious from how they speak that they've read an incredible amount; they appear wise and well-versed in history and the present. Do they read just to sound scholarly? Or, can you invest well without reading?

Someone actually asked this at a shareholder meeting, and Munger's response was that he had never met a highly successful investor who didn't love reading. As professional investors, the majority of their time certainly isn't spent executing trades, but rather reading books or company financial reports. I used to always wonder, what exactly are investors looking for in books?

Today I want to chat about this. Of course, the angle I'm taking comes from my own experiences, which I summarize as the investor's comparative advantage. In other words, among so many investors, what exactly can serve as a comparative advantage that determines why one person succeeds over others? I want to explore today's topic through the lens of investment comparative advantages, combined with reading.

Before we set off, we should first check if, as an investor, you are on the right path—which is what I always say: do you understand the difference between investing and speculating?

Every day, countless people rise and fall in the stock market. We've also noted that the stock market is a voting machine in the short term and a weighing machine in the long term. If you are participating in a short-term voting game, it is generally a zero-sum game. If someone sells high, it must be because someone else bought high; if someone profits, it must be because someone else lost. It is inherently a zero-sum game. When a company's fundamentals haven't changed, these short-term wins, losses, ups, and downs have absolutely no impact on the company's actual operations. The company doesn't receive more or less actual capital just because shareholders are buying and selling or profiting and losing; it's simply a changing of the guard among shareholders. Therefore, the game of speculation is a game of guessing the crowd's short-term voting results.

If one wants to play this speculative game, is there any comparative advantage to be had? Let's imagine a scenario: suppose 300 million people play a coin-flipping game, guessing heads or tails. If you guess wrong, you pay one dollar; if you guess right, you split the money from those who guessed wrong. This is a very simple game determined entirely by math and probability.

Through simple calculation, we can see that if 300 million people play this game together, the probability of guessing correctly 10 times in a row leaves about 290,000 people. These 290,000 people would each make about 1,000 RMB. If such a national tournament actually

existed, these 290,000 people would definitely take to social media to share their "success stories," explaining how they defeated opponents and guessed correctly 10 times consecutively. Some might even organize gatherings for these winners to exchange tips, and many would eagerly share their so-called "secrets to the game."

If this game continued, assuming we only guessed once a day, how many people would remain after 20 days—meaning they guessed correctly 20 times in a row? Probability tells us there would be about 286 people who could guess the coin flip correctly 20 consecutive times. You can imagine how the public would perceive the prowess of these 286 individuals after a 20-day competition. They'd likely all start writing books, teaching others how to beat the market and guess the next outcome correctly. Because as the elite who guessed correctly 20 times in a row, each averaging 10 million RMB in winnings, people would definitely buy their books. Everyone would feel they deserve worship and that their experience is worth buying to study.

This is the speculation game. It might sound a bit absurd, but in reality, China currently has 360 million open stock accounts. If we say 300 million of them are participating in speculation (about 83% of the total), this claim doesn't seem outrageous at all; in fact, the real number of speculators is likely even higher.

In this stock market speculation game, with so many people playing, someone will always get lucky repeatedly and guess correctly consecutively. There will even be cases of people guessing correctly 20 times in a row and making a fortune. But does this involve any true "comparative advantage"? Should we buy their books to learn their speculative techniques? Clearly, this is logically absurd. For a rational person, we must steer clear of speculation because it is a zero-sum game with no comparative advantage whatsoever.

If you want to achieve a long-term comparative advantage, you must first ensure you are on the right path of investing, not speculating. If you are still entrenched in the speculative game played by those 300 million people, then my podcast content is utterly meaningless to you. If you say, "Alright, I won't participate in the speculation game, I want to invest, and I'm already on the investing path." Then how should I proceed to gain my own comparative advantage on the path of investing? Let's delve into the main topic now.

## **The True Purpose and Underlying Logic of Investing**

I think the first crucial question is understanding why we invest. Everyone will say "to make money," which sounds like a given. But if we dig a little deeper, more precisely, the act of investing is a choice to defer your current consumption. Instead of spending that money on enjoyment now, you invest to maintain or enhance your future purchasing power; this is our true purpose in investing. We don't invest just to see higher numbers on paper tomorrow; we hope to preserve and ideally boost our purchasing power in the future, and the more we boost it, the better.

What ways are there to enhance future purchasing power? We are combating inflation caused by money printing or other factors, and we are combating premature consumption (if you spend all the money you make, you have no capital left to invest). Our focus should be on acquiring exceptional assets that can generate very robust future cash flows. Through the continuous cash flow generation and value appreciation capabilities of these assets, we ensure our future purchasing power is maintained or enhanced. Therefore, it is absolutely vital to

profoundly understand the concept of an asset. I won't elaborate on it today because I repeatedly discussed why we invest in the first and third episodes of my podcast. But this matter is truly crucial, because if you don't grasp the underlying purpose of investing and merely think you're in it to make quick money in the short term, you're highly likely to occasionally veer back onto the wrong path.

### **Book Recommendations on Wealth and Underlying Logic**

On this topic, I can recommend a few books that really opened my eyes and shifted my cognition after reading them:

The first is *Rich Dad Poor Dad*. I'm sure many have heard of it, though I read it quite late in the game. I didn't memorize many exact phrases from it, but I profoundly remember the fundamental difference between the "rich person's balance sheet" and the "poor person's balance sheet." It helps clarify why the rich get richer and the poor get poorer, and why some things that look like assets are actually liabilities draining your cash flow.

On this topic, I also recommend a duology by Morgan Housel: the first is *The Psychology of Money*, and the second is *Same as Ever*. Morgan has exceptionally profound thoughts on the issues of money and wealth. He also has a podcast you can check out if interested. His most famous book is *The Psychology of Money*, which teaches people how to correctly view money and wealth. However, his recent second book, *Same as Ever*, left a much deeper impression on me.

I couldn't put this book down once I started because it's exactly the kind of book I had been searching for. We've said before that investing isn't about blindly chasing trends, because new trends relentlessly roll forward, leaving you exhausted trying to catch up from behind. Rather than chasing these constantly shifting things without grasping their essence, it's better to quietly reflect: in this business world and investment game, what remains constant over the long term? Amazon's Jeff Bezos also said that in e-commerce and business, everyone racks their brains asking "What's the next trend?" But he thinks much more about "What will absolutely not change in the next ten or twenty years?" For example, in e-commerce, consumers will always demand lower prices, more choices, and faster shipping; these demands will never change. Instead of worrying daily about how to catch the next unknowable wave, anchor your energy on these unchanging things and figure out how to do them better. When you look at the world now, you'll find that external technologies change, but because human nature remains constant, many underlying commercial phenomena actually never change either. This book left a great impression on me, and I highly recommend it.

The fourth book is *The Almanack of Naval Ravikant*, which folks in the internet industry might be familiar with, as it's been very popular in those circles recently. This book is actually a scattered collection of Naval's wise quotes posted on Twitter (X). However, I think it offers an excellent explanation of wealth, especially on how individuals can use leverage and accumulate specific knowledge (so-called comparative advantages) to achieve commercial success.

So, regarding "what investing is for and what true wealth is," I recommend these four books. At the end of this episode, I'll also include a complete book list in the Show Notes for easy reference.



## **The Three Major Comparative Advantages of an Investor**

Now we have completed our check, understood the definition of wealth, and ensured we are on the right path of investing. China has 360 million retail stock accounts. If we assume only 5% of them are truly investing rather than speculating, that still leaves a pool of 18 million people. How do I gain my tiny sliver of competitive advantage among these 18 million people?

I believe an investor seeking a true comparative advantage can fiercely pursue it across three dimensions: the first is an informational advantage, the second is an analytical advantage, and the third is a psychological advantage.

### **Dimension 1: Informational Advantage**

Simply put, an informational advantage means leveraging information asymmetry to gain a massive early-mover dividend. In those old-school finance TV shows we used to watch, people often relied on things like insider information—knowing core intel that others didn't position themselves early and gain an edge. But in modern society, insider trading has long been illegal. Moreover, with the immense development of the internet, ordinary people can easily access any compliant public information about a public company online. Therefore, in this era, relying solely on information asymmetry to achieve a massive, absolute competitive advantage is practically impossible in reality.

However, conversely, although information is public, many people investing in the market haven't even met the most basic requirements for informational fundamentals. Investing demands only two fundamental words regarding information: comprehensive and accurate.

First, you need to acquire relatively comprehensive fundamental information about a company; you absolutely cannot miss critical blind spots. For example, if a company is facing a massive potential lawsuit or hiding a huge explosive risk, and you miss it, your entire risk assessment of the company is completely incomplete.

The other point is accuracy. Because we live in an era of information explosion, many news sources we encounter daily are often not primary, first-hand sources; they might be secondary, tertiary, or even quintic information that has been refined and processed. People often see a piece of news in a forum or group and, without verifying its authenticity, directly use it for analysis and judgment, even letting it guide their trading decisions. Often, the information you get is not accurate; it is pseudo-information taken out of context or tainted with a massive amount of emotional noise. Investing based on inaccurate information is actually incredibly dangerous. So on this point, the so-called informational comparative advantage is no longer about sniffing out rumors, but seeing if you can basically ensure you are "not at an informational disadvantage" compared to the majority.

Can you basically, comprehensively, and accurately acquire primary underlying information about a company? In today's fast-food era, many actually can't. Human instinct craves spoon-fed, simply processed fast-food information; scrolling through a one-minute short video makes people think they completely understand a company. Everyone else has analyzed and summarized it for me, so I just need to listen—very few are willing to truly settle down and spend the time reading through a company's thick original annual report. This is why I

specifically bring this up: many people fail at the most basic level of informational comprehensiveness and accuracy.

On this topic, I often ponder an interesting phenomenon: who possesses the most unique advantage when it comes to the comprehensiveness, accuracy, and depth of information? It must be frontline business and financial journalists. They spend all day researching these companies, securing first-hand interviews with executives, grassroots employees, former staff, and even industry titans. Logically, they should be the group closest to primary, accurate information and the most deeply comprehensive. So why do we rarely hear of highly successful, top-tier investors emerging from the ranks of journalists? (Of course, this might be a false premise; there may be many successful investors who were once journalists, but within my informational scope, I haven't seen many typical cases).

It's quite interesting to ponder this phenomenon occasionally. They write deep-dive business cases on public companies all day. If you read long-form articles from financial WeChat accounts or media, their dissection of companies is indeed exceptionally thorough. So why can they rarely translate this informational advantage into massive investment returns? I think this is actually related to the inherent inertia of the profession. The core job of a journalist is to constantly capture the most explosive "new depths" and latest trends in the business world. They often cover an extremely broad range of industries and must chase every latest era trend extremely closely. They flock to whatever the current hot topic is, grab first-hand material, and strive to publish articles or videos as quickly as possible. Often, right after analyzing one article, due to timeliness requirements, they must immediately rush non-stop to the next hot topic or business story. They rarely have the time to truly sit down, let a company they've understood settle for three to five years, and quietly wait for compounding to happen. Because their job is chasing "change," while investing is about sticking to the "unchanging." Perhaps this is why it's so hard for journalists to become great investors.

## **Dimension 2: Analytical Advantage**

Once we have obtained comprehensive and accurate information, the next step is to conduct a rational analysis of the company based on our own knowledge system and investment framework, ultimately making a commercial judgment. At the analytical level, everyone's perspective and knowledge reserves are certainly different. But on the righteous path of investing, mastering and understanding the most basic investment analysis framework is actually not that difficult.

I explained in detail in episodes two and four that the core skeleton of value investing is actually incredibly pure—it's simply "five principles, three criteria." Buying a stock is buying a company; correctly understanding Mr. Market; clearly defining the boundaries of your circle of competence; prioritizing a margin of safety when buying; and fishing where the fish are. A good company is nothing more than a good business model, a good culture and team, and a good price; all business deconstruction falls within the realm of this common sense.

To help annotate this basic investment framework, I recommend the following orthodox bibles of value investing:

The absolute first is *The Essays of Warren Buffett*; this is the most orthodox text of value investing and an unquestionable must-read. The second is *Poor Charlie's Almanack*, which comprehensively collects the interactive Q&As from decades of shareholder meetings where

Charlie Munger served as chairman of Wesco Financial and the *Daily Journal*. It is filled with the top-tier insights of this wise man and is extremely brilliant.

The third is *Mastering the Market Cycle* by Oaktree Capital partner Howard Marks. He has proven his prowess with perfect performance across multiple bull and bear cycles. His description of the essence of cycles forces you to extend your perspective from immediate fluctuations to a grand timeline of decades or even centuries when viewing the market—this is an incredibly precious analytical perspective. His historical investment memos, publicly available on the Oaktree Capital website, are also priceless treasures that you must find time to read.

The fourth is a highly down-to-earth booklet: *Duan Yongping's Investment Q&A (Investment Logic Edition)*. It systematically compiles the real Q&As regarding investment logic from Duan's exchanges with netizens on Xueqiu over the years. Additionally, I highly recommend searching Bilibili for public university lecture videos by Buffett or Li Lu. There's one classic Buffett speech that Duan Yongping said he watched repeatedly over a dozen times, benefiting greatly every time; you should find it and watch it.

Lastly, I recommend *Civilization, Value Investing, and China* written by Hillhouse Capital's Li Lu. In it, his speeches at Columbia University and Peking University's Guanghua School of Management are incredibly grand and self-consistent, making it an excellent localized read for value investing.

The core purpose of reading these books is not to learn obscure mathematical formulas, but to help us truly build a "commercial faith" deep within our hearts. Seeing how these masters practiced these simple principles amidst decades of storms allows you to make an ultimate logical judgment: are these principles truly worth entrusting your lifelong wealth to and believing in?

Once you've established your basic value investing framework, the most crucial element that sets you apart is your "understanding of commercial essence." At a fundamental level, good investment decisions and good commercial decisions are completely synonymous. An excellent investor must learn to engage in first-principles commercial thinking like a company CEO.

Take the most current real-world commercial example: recently, a bloody war has broken out in China's local services and instant retail sector. Giants like Meituan, Alibaba, and JD.com are engaging in fierce, close-quarters combat in instant retail food delivery and grocery shopping. If you were a shareholder or potential investor in one of these companies, how would you evaluate their latest strategic moves? I see countless people posting lengthy analyses on Xueqiu every day. Some say JD.com's aggressive entry is a defensive move against Meituan eating into its traditional 3C (Computer, Communication, Consumer Electronics) base; others say it's to drive traffic and boost the high-frequency open rate of its main app; still others argue fiercely whether continuing massive subsidies in this stagnant-growth era is right or wrong... If you cannot act like a top-level CEO, piercing through these complex superficialities to see the essence of commercial competition and supply chains, you will definitely be extremely panicked and utterly incapable of making high-conviction decisions when facing such investment targets. Therefore, the theoretical framework of value investing only accounts for 20% of your analytical ability; the remaining 80% depends entirely on your understanding of real-world commercial operations.

To enhance this commercial understanding, reading is an excellent auxiliary tool. Look at how historical commercial empires made decisions at critical junctures. What actions by which people led to the collapse of empires? In business analysis, studying failure cases is often far more valuable than studying success cases. Because the path to success might contain too many irreplicable coincidences of epochal luck, but the ways companies die in commercial history are often highly repetitive. By seeing clearly the minefields you must not step on, you can avoid the vast majority of disasters when investing.

For improving macro-commercial cognition and deconstructing business models, I also recommend a few great books:

Jim Collins' *Built to Last* and *Good to Great* series. As a business school professor, he uses detailed historical data to statistically summarize what the great companies that survive long-term did right, and how ordinary companies can move toward excellence through organizational and talent optimization. Duan Yongping highly esteems these two books because many of the commercial truths inside (like the cohesion of corporate culture, focus on core actions, getting the right people on the bus) highly align with and perfectly mirror Duan's own decades of top-tier commercial practices at BBK, OPPO, and vivo. Although these books are a bit older, by serving as a historical mirror, they still help you build the macro-skeleton for analyzing corporate organizations.

More crucially, I strongly recommend two books that profoundly influenced my personal understanding of business models: One is *Duan Yongping's Investment Q&A (Commercial Logic Edition)*. This is a collection of the great commercial wisdom Duan gained from decades of firsthand combat in the trenches of industry—about integrity (benfen), consumer orientation, and knowing what *not* to do. It helps you realize that the seemingly chaotic, variable-filled business world actually operates on extremely rigorous, first-principle-aligned common sense.

The other is *True Demand (真需求)* by Liang Ning. When I first saw the words "True Demand," it instantly grabbed my attention. Because for anyone running a company or doing business, accurately grasping the user's truest rigid demand is the starting point for any business to survive. After reading it, I marveled at the author's powerful attribution and summarization skills. For example, she precisely deconstructs the complete value of a commodity as: Functional Value + Emotional Value + Asset Value. This clear formula instantly helps you understand many seemingly absurd, high-premium commercial phenomena (like Moutai or high-end luxury goods). This is an incredibly rare, top-tier book among Chinese commercial literature that helps you pierce through appearances to reach the essence.

To beat the index and reap staggering excess returns like Buffett in investing, your ultimate goal must be to find "Correct Non-consensus" in the market. If a business's excellence has become the absolute consensus of the entire market, its stock price will have long been sky-high, making it very hard to get excess returns if you buy in. You must, within your circle of competence, find an opportunity that is currently unrecognized by the majority of the market, but which you can deduce via underlying common sense will definitely be "absolutely correct" in the future. Only then can you buy top-tier assets at an extreme discount to earn truly massive wealth.

And to possess the confidence to see through non-consensus, your depth of thought must go one layer deeper than ordinary people, reaching directly to the first principles of things. Because only when you reach the level of underlying foundational sciences like math, physics, and biology is the common sense you deduce absolutely correct and irrefutable. This is also why, when Charlie Munger and Buffett read extensively, they rarely read popular commercial bestsellers; they spend most of their time widely exploring interdisciplinary foundational sciences like history, physics, anthropology, and biological evolution. Because they are using these disciplines to grope for the unchanging laws operating at the deepest, most hardcore levels of the business world.

At the mathematical level, the core training required for investing is probability and statistical thinking. Human genes are naturally not adept at thinking about problems in terms of probability, just as we naturally struggle to intuitively grasp the exponentially terrifying nuclear explosion of compound interest.

We can look at two very interesting classic probability tests:

**Test 1 (Disease Probability):** Assume the prevalence of a rare disease in a population is 1%. A friend of yours goes to the hospital for a screening test, and this test has an accuracy rate of 99%. Unfortunately, your friend receives a "positive" report. Under intuitive thinking, many people seeing a 99% accuracy rate and a positive result might feel this friend is completely doomed, that having the disease is a near certainty. But if you actually use conditional probability (Bayes' Theorem) to calculate it on scratch paper, you'll be shocked—after receiving the positive report, your friend's actual, true probability of having the disease is less than 10% (roughly 1/11). Things are far less desperate than imagined.

**Test 2 (The Monty Hall Problem):** This is a classic British TV game show problem my son asked me about recently, which almost tripped me up at first. Three closed doors stand before the contestant. Behind one is the key to an expensive sports car; guess right, and you drive it home. Behind the other two doors are goats. The rule is: you first blind-pick a door (say, Door 1). Then, the host, who knows what's behind the doors, intentionally opens one of the remaining two doors that contains a goat (say, Door 3). At this point, the host looks at you and poses a soul-searching question: "Now only Doors 1 and 2 remain. I'll allow you to change your initial choice. Do you want to switch to Door 2?"

Under intuitive thinking, most people feel it doesn't matter whether they switch; since there are two doors left, the probability of the car key being behind either is 50%. But the true mathematical probability answer is: as long as you choose to switch, your probability of guessing the sports car instantly surges from the initial 1/3 to 2/3! I strongly suggest listeners who are confused by this phenomenon search for the "Monty Hall problem" online; it will massively upend your common-sense cognition.

Investing is essentially betting on highly unequal games with extreme payoffs, under the premise of extremely high winning probabilities. Because investing is always facing an unknown tomorrow, there is no 100% absolute certainty; you must use probability to evaluate future cash flows and use a margin of safety to combat Black Swan risks within those probabilities.

This is why Buffett and Munger are crazily passionate about playing bridge, and why many top value investors are also extremely proficient at Texas Hold'em. Because in these games,

to win steadily over a long cycle relying on consistent decision-making, you must become an extremely cold, mathematical probability-calculating machine. You must calculate probabilities and odds extremely rationally based on the known cards on the table and your opponents' betting behavior, only placing heavy bets when the win rate heavily favors you. This probabilistic thinking is the sharpest scalpel in your analytical advantage.

In physics and biology, cross-disciplinary reading can likewise bring you massive epiphanies about commercial essence. I previously read *Six Easy Pieces* by quantum mechanics master Richard Feynman, and *Seven Brief Lessons on Physics* by Carlo Rovelli. The biggest shock these ultimate physical wisdoms gave me was: using extremely rigorous underlying laws, they built perfect causal explanatory models for an originally chaotic, seemingly inexplicable physical world, proving the ultimate power of rationality.

For example, the Second Law of Thermodynamics tells us that an isolated system lacking external work applied to it will inevitably head toward "entropy increase" at its core, ultimately sliding into chaos and collapse. This perfectly explains why enterprises in the business world, once they grow large, inevitably see their organizations become bureaucratic, bloated, and corrupt. It explains why evergreen, great enterprises are so scarce—because combating entropy increase requires the organization to expend massive bandwidth and internal strength to undergo self-mutilating institutional remodeling.

In biological evolution, Darwin's *On the Origin of Species* is a must-read bible. There is an excellently written cross-border, cross-disciplinary book in Chinese called *What I Learned About Investing from Darwin*, authored by a top fund manager who is extremely successful in the Indian market. He perfectly integrates biological concepts like environmental evolution, species mutation, survival of the fittest, and genetic diversity defense mechanisms into business analysis. It systematically articulates the evolutionary logic of why enterprises must remain restrained when facing an unknown commercial future, and why investors must prefer missing an opportunity over making a mistake. It is extraordinarily brilliant.

In the historical and political dimensions, to see clearly the current tide of bubbles, the most essential history book to read is *Engines That Move Markets*. It's incredibly regrettable that this book has no Chinese translation, but its value is immense. It deeply reviews every epic technological revolution humanity has experienced over the past two hundred years (the railway boom, the spread of electric light, telephones, cars, and later computers and the internet). It doesn't talk about how great the technology is, but coldly focuses on the early stages of technological upheaval: what kind of irrational frenzy was generated in the capital markets? What fatal mistakes did investors make back then? How was massive wealth ultimately vaporized when the bubbles burst? This book can provide the clearest historical mirror for all investors currently caught in the massive wave of AI frenzy.

For observing geopolitics and macro landscapes, the top-tier read is *One Man's View of the World* by Lee Kuan Yew. When reading, you must seek out the absolute top authorities in the field. Listening to Lee Kuan Yew—a top-tier politician who truly, personally steered a nation's rise and navigated games between major powers—sit down with you to deconstruct global dynamics, geopolitical trends, and the national weaknesses of various countries offers a purity and depth of cognition that is far superior to listening to the nonsense spewed daily by various keyboard-warrior influencer analysts chasing traffic online.

### **Dimension 3: Psychological Advantage (Temperament)**

Now we have complete, accurate information, and we have built a deep business analysis framework through cross-disciplinary reading. But what I want to say is: the combined weight of informational advantage and analytical advantage in determining final investment success or failure doesn't even amount to half of "psychological advantage" (temperament)!

Psychological advantage is the absolute core deciding factor for a top-tier investor who wants to remain evergreen in the market. If it were purely about competing on intelligence, comprehensiveness of information, and mathematical calculation models, then the most successful investors in the world should be a group of high-IQ genius economists and physicists, right? But history offers countless counterexamples. Sir Isaac Newton, a mythological figure in physics, when faced with the British South Sea Bubble, was unable to restrain his inner jealousy and frenzied herd mentality; he blew up his account at the peak, losing almost his entire fortune. This absolute genius who could precisely calculate the orbits of celestial bodies could only lament in despair: "I can calculate the motions of heavenly bodies, but I cannot calculate the madness of men."

Most basic principles of value investing are actually extremely simple, even obvious common sense at the "tactical" level. The reason they manifest as "easy to understand, hard to do" in final execution is purely because an abyss of human nature stands in between. For an investor to gain the ultimate psychological advantage, they must first thoroughly see through human nature, and secondly, possess an almost anatomically deep self-awareness. The fluctuations of the capital market look like red and green numbers on the surface, but their true underlying driving forces are entirely woven from deep-rooted genetic weaknesses within the human heart: greed, panic, jealousy, and blind conformity.

To help us rebuild this rational, restrained temperament internally, I strongly recommend three must-read spiritual and psychological works:

The first is *Why Buddhism is True* by Robert Wright. The title sounds a bit mystical and Buddhist, but it's actually an extremely rigorous modern scientific work grounded in modern evolutionary psychology and brain science. It uses scientific experiments to tell us: our brains, the vast majority of the time, are actually primitive machines operating on multi-module autopilot. Various irrational emotions and impulses coded by ancient genes (like the extreme jealousy upon seeing others make money) can hijack your body in an instant, making you execute disastrous decisions you mistakenly believe are rational but are actually extremely short-sighted and foolish. You are absolutely not the CEO of your own brain. The core purpose of the scientific mindfulness and meditation practices recommended in this book is to train you to develop a "detached, objective perspective" internally. It enables you to stand calmly by the highway of thought like an outsider, watching the "vehicles" of anxiety, jealousy, and frenzied impulses triggered by human weaknesses roar past your eyes, while you remain as steady as a mountain, absolutely refusing to blindly jump on any car and run with the herd. This steadfastness to sit quietly alone amidst stormy seas is the ultimate defensive line in investing.

The second is, of course, the required bible for value investors: Charlie Munger's *Poor Charlie's Almanack*. Everyone must repeatedly read the chapter on the *Psychology of Human Misjudgment* until you can recite it. Munger extremely precisely summarized 25 of the most deep-rooted psychological blind spots in human genes. For example, his number one rule, "Reward and Punishment Superresponse Tendency," explained in plain terms, is what I often call "where you sit determines what you think." The underlying driving force behind the

massive volume of behaviors in the financial and business worlds is never moral or rational planning; it is entirely determined by the "incentive mechanisms" behind them. Once you see the incentive mechanisms clearly, you can instantly see the inevitable causality behind many commercial hyper-competitive traps and schemes designed to harvest the naive.

The third is the thick tome I'm currently digesting: *The Laws of Human Nature* by Robert Greene. This book is epic in scope. Grounded in history, philosophy, and psychology, it profoundly dissects and summarizes 18 ironclad underlying laws of human nature that dictate our destinies. For example, the very first one it mentions is the "Law of Irrationality," pointing out that humans are inherently irrational animals. Our entire lives are a prolonged tug-of-war with the primitive fight-or-flight emotional instincts in our hypothalamus. Only through the arduous, deep-thinking work of our brain's prefrontal cortex can we painstakingly establish a glimmer of rationality.

The book also deeply analyzes humanity's deep-rooted "self-absorption," "short-sightedness," "grandiosity," "conformity instinct," and the most fatal "confirmation bias to avoid cognitive dissonance." The human brain, in search of comfort, once it has publicly expressed or made an investment decision in the past, will subconsciously and desperately seek out all sorts of positive evidence to defend its original viewpoint, while selectively blinding itself to and ignoring truly fatal opposing evidence. This is also why I always firmly emphasize: value investors must absolutely not frequently discuss or recommend their stock holdings to others in public settings. At its core, every frequent discussion is injecting strong self-defense toxins into your brain, causing you to engage in ruinous steadfastness when a company's fundamentals deteriorate because you are unable to objectively admit a mistake.

### **Conclusion: Unity of Knowledge and Action; Reflection on the Real Economy is the Wellspring of Investing**

Today, we systematically sorted through the three major comparative advantages of an investor and recommended a comprehensive booklist spanning wealth, psychology, and foundational sciences. But finally, I want to tell you the most honest truth: what is learned on paper always feels shallow; to truly understand, one must practice it oneself.

If you naively believe that by finding a cushy job or returning to your hometown to be a relaxed civil servant, locking yourself in a study with plenty of time every day to read these dozens of books in isolation, you will suddenly achieve enlightenment and become a top-tier investment master—that is a completely unrealistic fantasy.

Good investment decisions and good real-world commercial decisions share the exact same umbilical cord at their core. If you are not personally situated in the roaring, real business world; if you don't personally witness how a product is researched, developed, and sold; if you don't deeply experience how money circulates and churns within a supply chain; if you don't personally experience or observe how commercial decisions distort and lead to failure in reality due to human weaknesses, then no matter how many books you read, you are purely engaging in numerical speculation as an armchair strategist. You must have the tangible, real-world sensation of fighting with real swords and spears in the commercial world. Only after taking losses, paying your "tuition fees," and perhaps even personally experiencing commercial failures, when you look back and read these books again, will the seemingly simple common sense within them truly resonate profoundly with your life and blood, truly solidifying into your own indestructible investment mastery.



Buffett and Munger are absolutely not the old pedants sitting in a study their whole lives that people imagine them to be. From his teens, Buffett hired people to sell newspapers, ran pinball and weighing scale businesses, and in later decades, personally operated a textile mill, managed and rescued the failing *Buffalo Evening News*, and stepped into Salomon Brothers investment bank. They are, first and foremost, the top masters of real-economy operations and business decision-making in the US, and only secondly are they investment masters.

Conversely, if a person's practical business experience and reflective mastery are deep enough, even if, like Duan Yongping, they haven't spent their life reading the countless complex finance books recommended by Wall Street, it completely won't stop them from achieving top-tier success on the path of investing using profound business intuition. Because humans do not simply learn anything automatically from experience. A person can only truly acquire wisdom through extremely profound, rational reflection (Unlearn & Rethink) on the pain and failures they have experienced.

The main road of investing is extremely simple, but the people walking this road will always be the most scarce. I hope everyone can use the most rational self-awareness to illuminate the boundaries of their circle of competence, avoid all the noisy predictions and clamor of the market, and not be hijacked by inner envy and jealousy. Let us, in this uncertain world, through the ultimate application of common sense and rationality, slowly read good books together and slowly get rich together.

Alright, that's all for today. See you next time, bye-bye!