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

E14 The Anchor of Investing and Life

May 29, 2026

What will be the fate of a stock investor five years from now if they miss out on AI today?

Is it just a coincidence that "interest" means both curiosity and financial return, or is it a clue?

Why did Benjamin Franklin say that many people die at 25 but aren't buried until they are 75?

How can we truly live a good life?

This episode is an inward quest for a self-consistent person, and a message in a bottle thrown into the future by a father, hoping you might open it one day.

In fact, in *Frozen II*, the moment Elsa stops running away and cries out to her inner calling, "Show yourself!", she has already revealed the answer to us.

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Introduction: The Anchor of Investing and Life

Hello everyone, welcome back to *Slow is fast*. I am Patrick. I just came back from a morning walk feeling completely refreshed, so I decided to record this episode. Today, I want to talk about "the anchor of investing and life." It sounds like a grand, complex, and weighty topic, so I'm not entirely sure I can do it justice. But that's okay; its intrinsic value doesn't depend on how well I express it. Let’s dive right in.

Three Stories About Compounding

I'd like to start with a few short stories that most of you have probably heard before.

- The first story: Legend has it that a grand vizier in India invented chess, and the king wanted to reward him. The vizier asked for one grain of wheat on the first square of the chessboard, two on the second, four on the third, and so on—doubling the amount for each subsequent square. Initially, the king thought this reward was trivial, but by the 64th square, he realized that all the grain in India—even the entire world's harvest for centuries—would not be enough to fulfill it.
- The second example: A regular sheet of office paper is about 0.1 millimeters thick. If you could fold it in half 42 times, its thickness would exceed 430,000 kilometers. This distance is enough to take you from the Earth to the Moon.
- The third story: In 1626, the Dutch bought Manhattan Island from Native Americans for goods worth about $24, which seemed like an incredibly lucrative deal. However, if that $24 had been invested at an 8% annual return back then, it would be worth over $30 trillion today—enough to buy dozens of present-day Manhattans.

Yes, these are all stories about compounding. Our impression of compounding is often limited to the shocking results over long periods. However, these stories are easy to forget once the novelty wears off. In Chinese, compound interest is naturally distinct from simple interest (like regular bank interest). Simply put, compounding means "interest earning interest." The concept sounds straightforward; when I first encountered it, I thought it was just earning returns on your returns, nothing particularly magical. But over my years of studying investing, I’ve come to realize that compounding is actually highly counterintuitive and difficult to truly understand.

Four Counterintuitive Characteristics of Compounding

Let’s break it down. Suppose you have 100,000 RMB, and it earns a 15% return annually. After one year, it becomes 115,000; after two years, if your mental math is sharp, 132,000; after five years, the number reaches 201,000; after ten years, 405,000; and after 20 years, 1.64 million. So, if you leave it for 20 years, your 100,000 RMB will grow by 1.54 million, finally reaching 1.64 million.

There are several aspects here that are hard to grasp intuitively:

1. **Its true power lies far beyond intuition.** The numbers for the first couple of years are still within our intuitive reach. But once the timeframe extends past three years, the figures completely escape our natural grasp. Without pulling out a calculator or building an Excel sheet, you simply cannot make an accurate estimate.
2. **Most of the growth is compressed into the final stages.** Early gains are barely noticeable, but the later explosive power is staggering. In the example above, the second year only earns 17,000 more than the first, but the 20th year earns 210,000 more than the 19th. Clearly, most of the value creation is back-loaded, while early growth is quite modest. This is why the vast majority of people give up long before the explosive phase arrives.

3. **The X-axis (time) cannot be changed; the hardest part is "non-interruption."** We often see charts of compounding: the X-axis represents time, and the Y-axis tracks wealth accumulation. The critical element is the X-axis—the passage of time. The speed of time is a cosmic constant; we cannot alter it. When looking at such a chart, your first thought is that while the growth is massive, it's just too slow. "I'm already 40; I can't wait that long. Can we speed it up?" With a 15% return, your money doubles every five years. Many people look down on a 15% annual return. To move faster, they aim for a 20% return to double every four years, or 25% to double every three years. You always think: if my returns are higher, I can get there faster. In reality, most end up losing everything. Everyone wants a shortcut. Everyone complains that a 10 or 20-year horizon is too slow. Since we can't change the X-axis, people try to pump up the return rate to reach their goals faster. The truth is, whether you are 20, 30, or 40, someone will always say it's too slow and they'll be old before seeing results. However, what people easily overlook is that the key—and the hardest part—of compounding is never interrupting it. Once interrupted, you start back at zero, or even in debt. Many refuse to accept the constancy of time, try to be overly aggressive, and end up breaking the compounding chain. Therefore, whether your return rate is slightly higher or lower matters far less; once compounding is interrupted or frequently broken, time becomes your enemy. In reality, very few people truly respect and revere time.
4. **Initial accumulation alters psychological utility.** If we change the initial amount from 100,000 to 1 million RMB under the same 15% annual return, after one year it becomes 1.15 million; two years, 1.32 million; five years, 2.01 million; ten years, 4.05 million; and 20 years, 16.4 million. Over 20 years, it increases by 15.4 million. Compared to the 100,000 RMB starting point which grew by 1.54 million, the growth rate is exactly the same—15%. Mathematically, the essence is identical; only the starting point differs. Yet, how a person evaluates the utility of these two scenarios is vastly different. If you start with 1 million and achieve a 15% return, turning it into 16.4 million in 20 years makes you feel satisfied and financially free. But if you only have 100,000 turning into 1.64 million, you feel your goal is still miles away. Rationally speaking, if you only have 100,000 RMB, you should stick even more strictly to the compounding curve, rather than wiping out your modest initial accumulation, right? In reality, those with less capital are more tempted to take shortcuts. They want to skip the accumulation phase, viewing their money as "small change" they can gamble with to hit the jackpot. Consequently, they blindly chase higher returns, lose money more easily, and constantly disrupt their compounding. Thus, despite identical objective returns of 15%, different starting points can lead to entirely different destinies.

Why Is It So Hard for Humans to Truly Understand and Believe in Compounding?

To summarize, compounding is difficult to grasp because:

1. Our intuition fails to perceive its power over extended horizons.
2. Most people give up long before the explosive growth phase kicks in.
3. The most critical and difficult part of compounding is avoiding interruption, not trying to make the curve steeper.
4. Initial accumulation matters, but those with less capital often seek shortcuts through risky gambling.

So, a seemingly simple concept like "interest on interest" is actually quite difficult to deeply internalize. Even highly rational people struggle to understand and believe in it. It's a limitation of human nature and biology.

Why does our intuition fail after about three years? This is crucial. We know humans have fast and slow thinking—System 1 and System 2 in our brains. Most of our decisions rely on fast thinking, which is our intuitive perception. Once something falls outside our intuitive range, people stop using it to guide their choices. Because compounding is so counterintuitive, most people know the stories but fail to apply the principle to their daily decisions. Furthermore, humans are deeply wired for linear extrapolation. We assume the future will look just like the past: if it grew by 20% historically, it will grow by 20% going forward. Our brain's dopamine reward system reinforces this mechanism because it provides consistent, predictable gratification. More importantly, thinking and deciding linearly keeps you aligned with the "herd" in the tribe; not rocking the boat is always the safest route. If you are a fund manager and everyone is pouring money into AI, semiconductors, and memory chips, if you don't follow suit, you might be the first one sacrificed. If you run with the crowd, even if the bubble bursts later, your job remains secure. Going with the flow is always the safest bet. Human nature is inherently shortsighted, without a doubt. The early stage of compounding is flat and boring, and most people refuse to look that far ahead. Monkeys care only about their next meal, and humans chase instant gratification; the early positive feedback of compounding is incredibly weak. Therefore, truly understanding, applying, and believing in compounding requires deliberate cultivation.

Compounding: The Anchor of My Investing

Of course, this assumes it is worth cultivating. For me, compounding is paramount. First, it is the anchor that guides my investing. By "anchor," I mean a fundamental, first-principles rule of behavior. Compounding is my first principle in investing. Most people in the stock market are speculating, and many practice "value speculation." Very few actually have an anchor. For instance, technical analysts don't necessarily believe in their charts deep down; they just think it makes money. Even many who claim to be value investors are just using the vocabulary while speculating daily. Few possess a first principle to guide their actions, let alone make compounding that principle. But let's be clear: speculation offers no compounding. If your full-time job is guessing coin flips, is there any compounding in that? Granted, some people make fortunes speculating in stocks or crypto, multiplying their money in a month. But right now, someone in a casino somewhere is doing the exact same thing. Before speculating, ask yourself: what is the probability that the universe has uniquely chosen you as its favorite? If not, drop the illusion of "I'll just make a quick buck and pull out when things look bad." How many people in a casino walk away after multiplying their money? Speculation has zero compounding value. Only value compounds. Stock prices—which are just emotional fluctuations around value—do not compound. If you chase prices, you won't get compounding. The compounding charts we see reflect the trajectory of a value curve, not price fluctuations. A 15% annual return means the intrinsic value of the company is compounding at 15%, not the stock price.

Why does a company's value compound? It's simple to understand. The company we own keeps making money, and its intrinsic value keeps thickening. The primary source of this compounding is the business model, which we've discussed many times. The ultimate business model is a "compounding machine"—a high return on capital paired with a high reinvestment rate. This is the classic "thick snow and long hill," the ultimate compounder. The business model is the trunk of the company tree; everything else is just leaves and branches. What determines whether a tree becomes a giant is the strength of its trunk. Corporate culture is equally vital—it represents the roots of the tree. A good culture ensures the company avoids making fatal mistakes. Truly great cultures and teams are those that believe in compounding. They do everything possible to avoid interrupting the process, designing incentive systems that keep the organization from making wrong decisions. The managers I invest in are all believers in compounding. They build corporate cultures where compounding and similar ethos are written directly into the company's core values.

Compounding manifests in every facet of a great company, including operational efficiency. The key here is focus. Only by focusing on one thing can you achieve consistent, high-quality returns. The assets you accumulate can be fed back into the next input, helping the company continuously refine itself within its domain—this is operational compounding. We often hear investing giants talk about principles like "Fast is slow," being rational and long-term, respecting time and operations, doing the right thing, doing things right, and staying bounded. These are all practical applications of compounding in corporate management. They all point to the same truth: we must focus on doing the right thing, avoid interrupting our compounding, stay within our circle of competence, and let time do its work instead of constantly trying to scale up too fast. For investors to capture this compounding, besides finding these great companies, we must adhere to Buffett's rules: Rule No. 1 is never losing money; Rule No. 2 is never forgetting Rule No. 1. When making an investment decision, risk must be evaluated before return. Always consider whether there is a risk of losing principal, and ensure the potential upside outweighs the downside. If a company offers a potential 30% return but drops to 5% after risk adjustment, you are better off buying something else. This also highlights the importance of purchase price—it is our most critical margin of safety.

This is why compounding is the anchor of my investing. Whether I am selecting a company, evaluating its quality, or executing a trade, the ultimate anchor is always compounding. The hardest part of investing isn't the theories—those can be explained in half an hour. The real difficulty lies in truly believing in compounding, especially during a bull market. The US market is currently in a massive bull market. In a bull market, you will see self-proclaimed value investors start questioning whether value investing still works. That is a textbook sign of a bull market: when the very people who swear by value investing start doubting it. It's quite fascinating. Just a few months ago, many were debating whether AI was a bubble. If people are debating it, the bubble is nowhere near bursting. The wildest bubbles happen when even the most rational skeptics stop doubting. To me, the core distinction between speculation, value speculation, and true value investing is whether you genuinely understand, believe in, and anchor your analysis and decisions to compounding.

Compounding: The Anchor of My Life

What I really want to emphasize today is that compounding is not just the anchor of my investing; it is the anchor of my life. The compounding formula applies to far more than numbers or money. Life isn't just about making investments; compounding operates in every dimension of our existence:

- **Health:** To manage your health, the best approach is consistent, daily exercise, even if it's brief. In reality, most people don't exercise until they sense a medical issue, and then they work out intensely. Or they ignore their diet until their vitals look bad, triggering frantic weight loss. I fell into this trap myself when learning tennis; I wanted to improve so badly that I ignored my body's warning signs and kept hammering shots, resulting in an injury that sidelined me for months. These are classic examples of constantly interrupting the compounding of your health.

- **Education and Career:** We must consider compounding when studying and choosing a career. In school, are you scattered across random subjects, or have you found an area of true interest to pursue deeply? In your career, if you jump from job to job or switch roles without a clear purpose, you cannot compound your capabilities.
- **Hobbies:** Even daily hobbies require compounding. Learning the guitar or piano demands steady, cumulative practice over a long period.

It is crucial to find what interests you as early as possible because interest is the only thing that sustains effort. Compounding requires a 10 to 20-year horizon; you can only climb that curve if you stay the course. Interestingly, the words for curiosity and financial return are the same in English: *interest*. There is likely a profound connection there. Among all popular life philosophies, why does compounding stand out as a viable one, and why has it become my personal anchor? Here is my perspective:

Advantage 1: Life needs a main thread—letting today's output become tomorrow's input

First, life needs a main thread. This means having something you truly believe in, an area where you continuously refine yourself. Some people live without any main thread or core belief. I believe having a main thread is always superior. Even if you choose a path that long-term experience eventually proves wrong, it is still better than believing in nothing, or constantly switching your convictions. In the long run, the world rewards those with conviction. Many great figures found their main thread at a young age. Steve Jobs' early obsession with the intersection of technology and the liberal arts shaped his product taste, alongside his pursuit of Zen Buddhism. A closer example is Duan Yongping. His mantra is "Do the right thing, and do things right." He encountered this concept—likely from Peter Drucker—in a book during his undergraduate years. He felt it was profoundly right, and it became the main thread of his life. Finding your thread early and sticking to it is powerful. When he was running Subor and found the general manager went back on his word, he resolutely left to found BBK. Earlier, midway through his graduate school entrance exams, he realized it wasn't what he wanted, so he dropped out based on the principle of doing the right thing. The world rewards people with genuine conviction because they accumulate compound value.

What should we believe in? Most knowledge has a half-life, meaning it eventually becomes obsolete. Therefore, what we anchor ourselves to should ideally be a first principle—something inherently immutable and proven over time. To me, compounding is pure mathematics; it is a first principle. The probability of discovering that compounding is a flawed concept ten years from now is virtually zero, which is why I choose to believe in it. Anchoring yourself to a first principle like compounding yields two significant advantages. The first is that your output and learning from today become the input for tomorrow. It's no different from practicing the guitar or piano; it creates a cumulative effect, rolling like a snowball that grows thicker by the day. Over time, this daily accumulation produces outcomes you could never have anticipated. When Jay Chou first started practicing piano, he couldn't have foreseen writing so many pop classics. When Duan Yongping first embraced Drucker's words, he likely didn't imagine becoming a legendary investor. In hindsight, these achievements are unsurprising—they are the natural result of using each day's output as the next day's input to continuously learn and accumulate.

Advantage 2: Behavioral consistency makes it easier to build trust in society

The second advantage is that humans are social animals, and consistent behavior driven by compounding makes it much easier to build trust within a community. If a person's beliefs shift constantly, or if they have no beliefs at all, their actions become unpredictable. When someone lacks behavioral consistency, it is incredibly difficult for others to trust them. Warren Buffett's success is a prime example of a "trust snowball." His behavior is remarkably consistent; he never does anything wildly out of character. This is why he manages reputation as Berkshire Hathaway's most sacred asset. He tells his subsidiaries: "If you do something you'd be ashamed to see reported on the front page of the newspaper tomorrow, don't do it. You can lose money, but if you damage Berkshire's reputation, I will be ruthless." In society, trust is our most valuable currency for getting things done. Consistently reliable behavior gives you a massive advantage. In my own investment work, I rely heavily on the trust of my partners. If you work at an asset management firm and refuse to invest in AI or semiconductors, you will face intense scrutiny and risk losing your job. My ability to explain my positions to my partners ultimately rests on the baseline of trust I have built with them.

I know that in a cynical, dog-eat-dog world, trusting others is hard. I recently had a small experience on Xueqiu (an investment forum). I came across a user whose corporate analysis struck me as deeply insightful. Wanting to connect, I sent a private message: "Hi, I really appreciate your analysis. I host a podcast, and you can listen to it if you'd like to know more about me." Moments later, I received a notification that I had been banned for distributing promotional content. I don't blame anyone for not trusting me, as distrust is the default setting in this world. Who earns trust and who maintains it over time depends on whether their behavior is consistent. A major benefit of compounding is its focus on long-term consistency in decisions, actions, and speech. Such individuals naturally build trust and cultivate an excellent reputation. This is a massive hidden dividend of compounding. Therefore, I view compounding not just as a viable life philosophy, but as a first principle. I am willing to use it as the anchor for my life.

Easier Said Than Done: Overcoming Distractions in Life

Is living a compounding life difficult? Actually, it's not. As Charlie Munger said, "All I want to do is to be a little wiser today than I was yesterday." He dedicated his best hours to reading, simply trying to know a bit more each day. Duan Yongping's principle of "Do the right thing, and do things right" starts with choosing the right path and then executing it flawlessly to avoid foundational errors. He noted that doing things right requires continuous learning and trial-and-error—mistakes are permitted, but as long as you stay on the correct track, you will inevitably achieve excellent results. When Buffett and Munger teamed up for investing, they already foresaw that they would become immensely wealthy. They reasoned simply: "If we maintain this return rate and compound it over time, our future wealth is guaranteed." Conceptually, living a compounding life is straightforward.

Yet, we encounter endless distractions. The anchors of investing and life are fundamentally the same; they shouldn't be separated. Who you are determines how you invest. These two creeds must align. Believing in compounding in life while speculating in the market creates an internal rift. If you choose value investing, your lifestyle choices generally align automatically. If someone preaches value investing but shows no trace of compounding in their lifestyle, they are likely practicing value speculation. You cannot understand value investing without understanding compounding, and those who choose value investing will inevitably adopt compounding as their life's main thread. My podcast is called *Slow is fast*. Here, "richness" extends beyond financial wealth to intellectual and cognitive depth. I strive to be slightly wiser today than yesterday. *Slow is fast* means respecting compounding and respecting time. It encapsulates both my investment philosophy and my approach to life.

If believing in compounding is so vital, what notions must we reject, and what misconceptions disrupt this practice?

- **Flexibility and fickleness:** We are often urged to be opportunistic and flexible. While acceptable in micro-tactics, elevating this to a foundational principle is flawed. Life requires a main thread, and you should find a path you firmly believe in to get onto the compounding track quickly. Constantly shifting your fundamental beliefs to suit the moment repeatedly disrupts compounding.
- **Speed and instant gratification:** Chasing speed and instant gratification in a fast-paced society defies natural laws and objective timelines, running counter to compounding.
- **Chasing trends and information:** Chasing the latest trends or news rarely yields compound value. News and trends have an incredibly short half-life; you cannot extract deep, high-value insight from them. Reading timeless classics is far more effective for compounding knowledge and cognitive depth.
- **Blind long-termism:** The term "long-termism" can be misleading. We seek compounding, which requires a long-term horizon, but the prerequisite is *doing the right thing*. If you are on the wrong track, stubborn long-termism only accelerates your descent into the abyss. Long-termism alone is insufficient; doing the right thing is the core prerequisite.
- **Reversing cause and effect:** Major goals like wealth, health, and deep relationships, as well as smaller milestones like a great job or producing high-quality content, are the *natural consequences* of compounding. Compounding is the root cause you should pursue; do not put the cart before the horse. Never make your life's main thread simply "the pursuit of wealth" or "the pursuit of a good marriage." Pursuing wealth or health superficially without finding the root engine leads to unsustainable results, which explains why some strike it rich only to lose everything overnight.

Our society is full of philosophies that act as noise. For me, the solution is simple: just believe in compounding.

Conclusion: It's Best to Believe in Something

Ultimately, the real issue is not *which* anchor to choose, but that most people have no anchor at all. Those who reject compounding often refuse to believe in anything. Mention Buffett or value investing, and their immediate reflex is, "That doesn't work in China." Others remain perpetually undecided or opportunistic, wondering if they can speculate and invest at the same time. This fence-sitting happens because people see fortunes made across all styles—technical analysis, speculation, quantitative trading, venture capital, and various sects of value investing. It creates an illusion that any path can lead to success, making people question why they should commit to just one. My view is that if long-term data over 20 or 30 years proves a method works, commit to it. Find the approach that feels sustainable for you to achieve compounding, commit to it, and practice it. Another reason for wavering is the influence of media and loud voices. Speculators who hit the jackpot grab headlines, while those quietly compounding remain obscure in their early years. Yet, looking across a 20 or 50-year horizon, who stands as the true master? Too many people lack an anchor and doubt everything.

This makes me wonder: what gives a person the capacity to believe? Belief involves trusting others, trusting oneself, or trusting a concept like value investing or compounding. Why are some people willing to believe while others remain cynical or vacillate? Perhaps they were burned in the past, or they tried a concept for a month and gave up, remaining trapped in a cycle of searching. Culturally, this is amplified in China. Unlike religious societies, China is largely secular, and our culture leans toward pragmatism, focusing heavily on wealth acquisition. While pragmatism has its place, the capacity to believe remains a critical skill. The earlier you commit to something substantive, the higher your chances of stepping onto a compounding path. A life spent doubting everything guarantees you will never capture cumulative growth, which is a profound waste.

To be clear, believing does not mean blind dogmatism or memorizing scriptures like Buffett's or Munger's quotes. Believing does not require closing your mind. For example, if you believe Pinduoduo lacks fundamental integrity and Duan Yongping is wrong about it, you can choose not to invest in it. That doesn't conflict with believing in compounding, which is pure mathematics. Your opinion on Pinduoduo is irrelevant to whether you believe in math. Similarly, you don't have to view the investment landscape as a binary choice between the "new world of AI" and "old-school dinosaurs." If you understand and enjoy growth stocks, go invest in them; that doesn't violate compounding. We must distinguish first-principles truths from the various branches and leaves that grow from them. Belief is neither blind nor rigid. Furthermore, framing it as "forcing yourself to stick to compounding" is incorrect. True belief requires no forced effort; if you have to force it, you don't actually believe it deep down. Sometimes I suspect the capacity to believe is hardwired into our DNA, though perhaps it can be nurtured.

To close this episode: you don't have to believe in Buffett, Duan Yongping, or me, but in life, it's best to believe in something. Everyone goes through an exploration phase, long or short. For Duan Yongping, it happened in his 20s; for others, clarity arrives at 40. An exploration phase is natural, but spending a lifetime doubting and wavering guarantees you will miss out on compounding. Have the courage to believe. Even if you choose wrong, failing early allows you to wake up early. Begin your exploration by anchoring to first principles—things proven correct over long timelines. Respect time, and don't declare something useless after just six months. If you can find your life's main thread early and step onto the compounding track, you will live a good life. If my children ever listen to this podcast, out of everything I have recorded, this is the one sentence I most hope they take to heart. That’s all for today’s episode. See you next time, bye-bye!