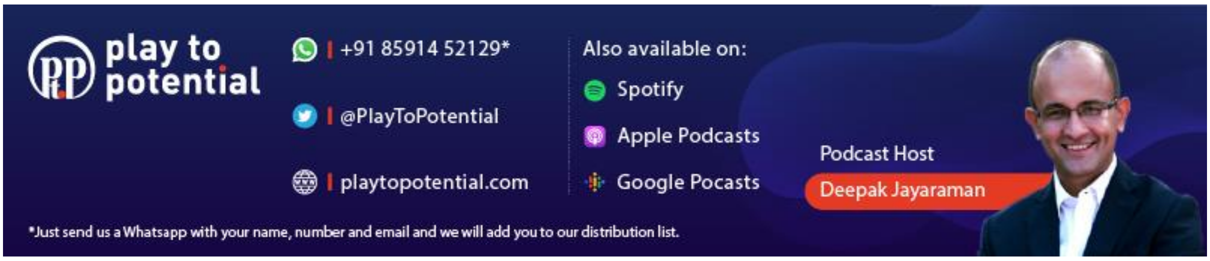

Context to the nugget

Ashish speaks about a few elements of an effective PE investor. 1) Having the conviction and independence of opinion yet have your ears to the ground 2) Being an effective macroeconomist and a historian 3) Being street smart and having your own Intel (developing your own polygraph) 4) Staying the course. He speaks about how his education in liberal arts prepared him well for a career in Private Equity.

Transcription

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Deepak Jayaraman (DJ): And moving forward on the journey of building a PE fund, Ashish, what's having done this for a while? What's your take on some of the intrinsic required to be an effective PE investor? And the reason I ask is, you know, as we think about career choices, one is sort of the skill level hygiene, right, what's your educational background required, but every profession has a certain DNA to be successful. If you had to decode the DNA of a successful PE investor now that there is one archetype, but what are the 2-3 must-haves at a deeper level for somebody to flourish in this space?

Ashish Dhawan (AD): Yeah, so, I think, there are a few and I would say by the way I think Liberal Arts education is good training for a PE business because I don't think you can be unidimensional. A lot of people think to be a PE investor you got to be good at say economics and analysis, just data crunching, reading balance sheets, etc., etc. But I think it's much more than that. I think at different levels you need to be fairly skilled. The first is I think at an emotional level and psychological level. I think a deep ability to somewhere be a critical thinker, to have confidence in your own thinking but yet keeping an ear to the ground and being able to listen but being able to filter out what you are hearing and to be able to control your emotions I think is absolutely critical. When you are an investor, you are surrounded by a lot of market noise, and I think the easiest thing to do is to be wallowing in other people's thoughts or dancing to the rhythm of the market. And in fact, the best investors are contrarians. Be a contrarian, you have to have that in your DNA to be able to think independently, to almost stand up to the crowd. But in this case, you can't do it, you can't remove yourself from the crowd because then you stop listening because you can get things wrong and sometimes do need to pivot. So, I think that's one essential trait is know thyself and think deeply about yourself, be a little bit of a psychologist also at one level. I think at a second level you have to be a big picture person, almost a macroeconomist and a historian. Macro because you got to understand how the economy works, different sectors, what the drivers are and at a very fundamental level have a sense of that. But historian because you have to understand how industries have developed over time, how market cycles have played out, having that perspective of how it has happened before, how bubbles were created, what were the best times to invest. So, I think having historical perspective I believe is absolutely critical and being a little bit of a big picture thinker is important. You can't just say oh, I am looking at this company and doing due diligence, you get too narrow and you are… you lose the forest for the trees in a sense. So, I think, having that trait is important. And I think a third is just to be sort of being shrewd or street-smart I think is critical particularly when you are in India, I mean, I think there is a lot of governance issues with companies, there are always people running after you to get your money, but then they are not going to deliver returns. So, I think being able to just be really street-smart and shrewd and not let people take you for a ride, which means I think just having being sceptical, having sort of informal networks to suss people out, looking for signals, body language, I mean, I have always believed being able to read body language is very, very critical, being able to ask questions in the certain way and see how people fidget or react gives you a sense of whether they are honest or dishonest, or almost developing your own polygraph in a sense is critical to being able to figure people out. So, I think, that third dimension is also very, very critical, being street-smart, being grounded, being able to read people, being able to suss out the bad apples in a sense, which no textbook, no analyst who writes research reports is going to be able to tell you; I think those are very important traits. And then the fourth one I think it is just staying the course, I think, it is very easy as an investor to want to either drink the Kool-Aid and it happened with the emerging markets and just believe in your investments and stay with them forever, right? And at every level you kind of think your company has gotten better. And then at the same time there is the danger of being too myopic. At the first sign of trouble you want to just bolt. I think finding that halfway house, you stay the course but at the same time because there are market cycles you play the market cycles well, that you zig when other people are zagging, you know, when people are fundamentally at the top of the market, getting excited, you are actually existing companies and at the bottom of a market you are actually vesting quite a bit of money. So, I think, having that makeup I think is very, very critical.

DJ: Got it. Just going back to one of the things you mentioned, Ashish, filtering out the signal from the noise. If you had to maybe just expand on that, you know, you need to have your own conviction but at the same time you need to listen enough what's happening in the market. If you had to sort of peel that, any thoughts there on how one could walk the tight rope?

AD: Yeah, so I think firstly not all noise should even be paid attention. I mean like as an investor I just wouldn't watch CNBC, it was a waste of time and that's noise that is just absolutely distracting. The noise I am referring to is the view of even smart participants in the market. So, research analysts who write on companies, I would want to read their reports even though over time you figure out who the better ones and you prioritize your time reading the better ones, to understand market cycles, there are great investors out there and great thinkers, you know, Buffett himself, Howard Marks, people like that. And so, you read them to stay attuned to market cycles. So, I think, to be a good investor, you have to read a lot, I mean, Buffett is 89 and still reads more than 500 pages a day. And so, I think, just have to be that curious individual who reads a lot but I think figuring out what you are reading, being able to filter out the crap very quickly, so you are reading better stuff. And even when you read there are contrarian views, you've got to cull out the fact from opinion and then be able to create the opinions for yourself. But when I say keep your ear to the ground because other people will have access to facts that you don't, they have garnered something, they have done some research on comparable from elsewhere, they have found out something about the company and connections with other companies, they have analysed the balance sheet the way you haven't, so you can't ignore that. So, I think, being able to cull out facts from different places, but being having that… I almost feel being away from the noise centre makes you better and so one of the reasons I moved to Delhi was partly personal, my parents, my wife's parents… but partly I had this belief that Bombay is the noise centre with regards to the markets and being away from Bombay would make me a better investor. And I think that's true if you look at even people like Pulak Prasad, who was at McKinsey, who I think is a good investor. He lives in Singapore and he is away from the noise, he is not talking to the Bombay people every day. Buffett lives in Omaha and not in New York.

I think just being away from the noise helps you as well because your friends then are not people from that world, they are from another world, so it's you are not consumed by the noise in a sense.

DJ: That's a great insight. I was talking to Dr. Ramachandra Guha in a different context on the podcast as well and he made a very similar point saying, since I don't sit in Delhi, it's much easier for me to be independent with my views as compared to when I am in Delhi. So, a similar point he made in a different context.

Reflections from Deepak Jayaraman

DJ: It's interesting to hear Ashish speak about his background in Liberal Arts helping him with PE investing. I am reminded of a conversation I had with a young Business Analyst when I was with McKinsey in New Jersey. He was a graduate in Political Science from one of the Ivy League universities. And I remember asking him, why Management Consulting after a degree in Political Science. He went onto say that Political Science was the most preferred degree for consulting firms in his college. That really got my attention and I went onto ask him why so given Consulting firms, PE and VC firms in India go after analytic and numeric horsepower that one gets trained in a place like IIT. He went onto say that while the analytical tools helped you to solve tough closed ended problems; political science gave him the tools to make sense of complex patterns and situations. And to be candid, it made a lot of sense. Dan Pink has written about this in the book – A Whole new mind - Why the right brainers will rule the future.

If you liked this nugget, you might specifically be interested in the playlist "Insights on career paths" and Private Equity. You could find that in the Curated Playlists section at www.playtopotential.com

End of nugget transcription

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Ashish Dhawan - Nuggets

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- 65.02 Ashish Dhawan - Taking the entrepreneurial plunge
- 65.03 Ashish Dhawan - What it takes to be a good PE Investor
- 65.04 Ashish Dhawan - From PE to Philanthropy
- 65.05 Ashish Dhawan - Potential pathways post ChrysCapital
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About Deepak Jayaraman

Deepak seeks to unlock human potential of senior executive's / leadership teams by working with them as an Executive Coach / Sounding Board / Transition Advisor. You can know more about his work here.

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