

# IMPROVING MENTAL MARGINS: THE BEST INVESTMENT DECISION I'VE MADE

Zain Jaffer - Mar 5, 2021, 2:24 pm



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Investors use the words 'opportunity cost' to describe a loss of potential, of missing out on a benefit that could have otherwise been enjoyed. It's a term often used when investors watch underdog **stocks** soar, or when the flaws in their own portfolios remind them of the myriad other strategies, allocations, and selections they could have made.



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But for those who spend a lot of time in the investment space, opportunity cost begins to mean something different. It represents the time that's taken away from other passions, career focuses, or personal goals due to the extensive mental bandwidth that active investing requires.

## Michael van Biema And Allen Benello On Concentrated Investing

| Name             | Company   | Name            | Company   | Name          | Company   |
|------------------|-----------|-----------------|-----------|---------------|-----------|
| Richard Denton   | 1200 (08) | George Jones    | 2000 (10) | Alan Johnson  | 2013 (12) |
| Michael Hester   | 1076 (07) | Edith Lambert   | 2005 (05) | Bill Scherer  | 2005 (05) |
| Jeffrey Woodard  | 1000 (02) | P. Taylor Jones | 2015 (05) | R. C. Perry   | 2010 (10) |
| Bruce Kestner    | 1076 (07) | Gene Manning    | 1519 (09) | R. Seltzer    | 2006 (06) |
| Kevin McKay      | 1005 (05) | Paul Rubin      | 2015 (15) | Sam Kozmin    | 2005 (05) |
| V. Sperandio     | 1076 (07) | Mathias Zwarg   | 2000 (00) | Edward Tracy  | 1010 (10) |
| Ed Searles       | 1076 (07) | J. Robinson     | 2010 (10) | R. S. Sherman | 1010 (10) |
| W. Eckhardt      | 1004 (04) | P. Stewart      | 2017 (17) | D. Entous     | 1010 (10) |
| Vol. 1000        | 1076 (07) | C. Bennett      | 2005 (05) | Steve Galt    | 1010 (10) |
| L. Greenblatt    | 2010 (10) | Tom Vitch       | 2010 (10) | C. Hecox      | 1010 (10) |
| William O'Neil   | 1005 (05) | Lee Cheval      | 2017 (17) | Bill Bantz    | 1010 (10) |
| Tim Bane         | 1076 (07) | Thomas Bellini  | 1010 (10) | C. Greenberg  | 1010 (10) |
| John Rogers      | 1006 (06) | Bruce Karsh     | 1010 (10) | Jack Douglas  | 1010 (10) |
| T. D. Cunningham | 1076 (07) | D. Penninger    | 1010 (10) | Daniel Cook   | 1010 (10) |
| Robert Whinn     | 1010 (10) | P. Spiller      | 2010 (10) | J. Whitman    | 1010 (10) |
| James Linn       | 1010 (10) | R. C. Partridge | 1010 (10) | A. Vandenberg | 1010 (10) |
| Bill G. Smith    | 1010 (10) | Henry Parker    | 1010 (10) | T. Harman     | 1010 (10) |
| Jeff Voss        | 1010 (10) | David Davis     | 1010 (10) | T. Brown      | 1010 (10) |
| Louis Bacon      | 1010 (10) | Mathias Taylor  | 1010 (10) | Tom Russo     | 1010 (10) |
| David Greenbaum  | 1010 (10) | A. Mahajan      | 1010 (10) | Paul Corbett  | 1010 (10) |
| R. D. Swanson    | 1010 (10) | Tom Grogan      | 1010 (10) | J. Sampson    | 1010 (10) |
| Tom Stanko       | 1010 (10) | R. Gifford      | 1010 (10) | Steve Neff    | 1010 (10) |

Michael van Biema And Allen Benello On Concentrated Investing [Part One] This is part one of a three-part interview with Michael van Biema and Allen Benello, two of the three authors of the forthcoming book, Concentrated Investing: Strategies of the World's Greatest Concentrated Value Investors. The interview is part of



Investors are bound to the emotional fluctuations that come with placing bets on emerging consumer needs, or watching for shifts in regulatory activity that will make or break a company's bottom line. Those investors are in a never-ending state of **FOMO** (fear of missing out). Some days feel like an echo chamber, full of thoughts that are unsolvable but persistent none-the-less: Should I make a play for bitcoin? Is this company a fad? What am I missing, and where have I been misled?

Luckily, there's another way to operate; a streamlined approach that minimizes the mental cost of maintaining an active portfolio.

## Enter Cathie Wood

Named by Bloomberg as 'the best stock picker of 2020,' Cathie Wood founded **ARK Invest** in 2014. ARK uses themed investment strategies to focus on the companies they expect to be the leaders, enablers, and beneficiaries of disruptive innovation. In other words, with anywhere from \$25B to \$50B in assets under management, they find companies that are set to change the world.

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Also referred to as 'the next [Warren Buffett](#),' Wood takes a venture-capital style approach to public stock trading. Cathie Wood created ARK while looking for a way to package active stock portfolios in an ETF format. Since the company's inception, it's seen an average annual return of almost 40%.

Alongside her team of analysts, Cathie Wood runs five of ARK's ETF funds, investing in companies like [Tesla](#), Square, Roku, Alibaba, Pinterest, DocuSign, Snapchat, Paypal, and Netflix. Of particular interest to [Wood](#) is [Tesla](#); she's predicted the value of the company will one day surpass \$1 trillion. While there would still be a long way to go, it's becoming hard to argue. Tesla's valuation rose by \$500 billion last year, making it worth as much as the nine largest car companies on the planet, combined.

## A Passive, Active Approach

For [investors](#) looking to recover some of their time and [energy](#) from the stock market buzz, it's important that they partner with firms that reflect their core values, teams that echo the fundamentals of their long-term strategy.

Cathie Wood and the ARK team follow a strategy that expects the unexpected. They think about change on a global scale. Investors have a tendency to develop tunnel vision, to focus on certain sectors, industries, or markets and neglect the larger picture. ARK looks at

convergence, potential, and impact, and disruption to develop an approach that leaves nothing behind.

Investors don't need to understand the breakthrough technologies or game changing moves across every sector. They just need to make one smart decision: work with smart people who think the way you do. ARK takes a 20-30 year view, offering their investors VC-type returns without the stomach-churn of having to sit in the driver's seat, or even having to come along for the ride.

## A Future-First Philosophy: What We're Looking For

This January, ARK published their annual 'Big Ideas' report, a comprehensive document in which they review the latest developments in groundbreaking innovations across multiple sectors. Meant for informational purposes only, it's a beautiful 100+ document that gives the reader a tangible sense of how the world is moving forward at an incredible pace. Whether or not the report is read through an investment lens, it's a thought-provoking, refreshing read after four at-home quarters; our lives might feel like they're on pause, but the show certainly goes on. Below are some areas I found particularly interesting.

### Virtual Worlds

A much-needed source of inspiration amid the [COVID-19](#) lockdown, the next chapter of virtual world development is unfolding, and it's looking as promising as anyone could expect. The fast-expanding, computer-simulated environment is becoming a primary space of interaction. Used across sales, corporate training, gaming, and consumer-facing market places, ARK's research suggests that the revenue of the virtual world sector will rise to roughly \$390 billion by 2025. Experts across multiple industries have been talking about the 'meta verse,' the convergence of our disparate worlds into one inter-operable, virtual space. Whether or not that's possible, or however far away it remains, it seems clear that wherever people spend their time, there's money to be made. Such is the case in the virtual world space.

## Electric Vehicles and Drones and Robots, Oh My!

Speaking of virtual worlds, enhanced smart technologies are transforming almost everything, from our roads to our skylines. Electric vehicles have entered the mainstream as battery design improves and costs have consistently dropped. Wood and her team believe over the next four years, the volume of units sold will increase twenty-fold—from 2.2 million units today to 40 million units in 2025.

It seems the sky is the limit for innovative technology, as the widespread use of drones becomes more and more common. Already, drone units are used for the delivery of food and packages, proving effective in decreasing the cost of transporting goods significantly. ARK expects that by 2030, revenue in the sector will reach \$274B from drone delivery, plus \$50B from hardware sales and roughly \$12 billion in mapping revenue. Perhaps more interestingly, they expect drones to be able to deliver *people* to destinations in the very near future—more efficiently than ever before.

Last, ARK noticed that industrial demand for robots has hit an inflection point. They expect automation to add \$1.2 trillion to the US GDP in the next five years. Further, the ARK team expects automation

to *create* jobs, despite widespread fear, by shifting unpaid labor to paid labor. The washing machine, they explain, monetized the unpaid time that was once spent cleaning, as [manufacturers](#) and laundromat operators quickly entered the market. Certainly, similar examples await in our near-future, offering transformations we can't yet imagine, and capabilities that we'll one day wonder how we ever did without.

Big thinking is fun, but it's more fun when your money is in good hands. Wood and her analysts have their eyes wide open toward the progress of today and the solutions of tomorrow. As a lifelong investor, I've realized that time away from my business or my family has been more expensive than any selection mistake. I'm glad to be working with Cathie Wood and her team and ARK, and I encourage everyone, investors or otherwise, to read more about their Big Ideas—even if only for some COVID-era relief.

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Zain Jaffer is the Founder and CEO of Zain Ventures (<https://zain-ventures.com/>), a global investment firm with over \$100 million in assets under management. Zain Ventures invests in start-ups, real estate, stocks, fixed income, hedge funds, and private equity.

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