

CIRCLE OF COMPETENCE

"Defining your **circle of competence** is the most important aspect of investing. Tom Watson senior who started IBM said 'I'm no genius, but I'm smart in spots and I stay around those spots'. That is the key" Warren Buffett

"It makes sense that if you **limit your investments** to those situations where you are knowledgeable and confident, and only those situations, your success rate will be very high." Joel Greenblatt

"If we have a strength, it is in recognizing when we are operating well within our **circle of competence** and when we are approaching the perimeter" Warren Buffett

"When I stray out of my **comfort zone** I usually get my head handed to me on a platter" Peter Cundill

"If you stray outside of your **circle of competence**, or if your **circle** has no boundaries, or if you don't know your boundaries - there will be some moment when the market takes you to the cleaners" Li Lu

"If you **know nothing about an area** and haven't studied the companies and the sector, stay away from it" Roy Neuberger

"The game of investing is one of making better predictions about the future than other people. How are you going to do that? One way is to limit your tries to areas of **competence**. If you try to predict the future of everything, you attempt too much." Charles Munger

"Dealing in a **circle of competence**, dealing with companies that you have the ability to understand, being able to come up with a good analysis of a company's value and earning power, is fundamental." Lou Simpson

If you have **competence**, you pretty much know it's boundaries already. To ask the question [of whether you are past the boundary] is to answer it." Charlie Munger

"You have to know what you know—your **circle of competence**." Joel Greenblatt

"Don't try to be a **jack of all investments**. Stick to the field you know best" Bernard Baruch

“A shoemaker makes shoes. You have to **stick with what you’re good at.**” Steve Cohen

“If we can’t find things within our **circle of competence**, we won’t expand the circle. We’ll wait” Warren Buffett

“In terms of investments you shouldn’t go away from the things **you know about it**” Glenn Greenberg

"The beauty of the stock market is that it gives us the luxury to avoid sectors and/or businesses that are outside our **circle of understanding.**" Francois Rochon

"Knowing you don’t know something is nearly as valuable as knowing it. The worst situation is thinking you know something when you don’t" Ray Dalio

"Respectful business evaluation in turn requires respect for the **boundaries of one’s fund of knowledge**, however dynamic the boundaries may be. Venturing cash-first into unfamiliar territory nearly always results in either losses appropriate for the bonehead move or successes borne of dumb luck. Be assured that neither do I employ dumb luck as an input into my investment process nor do I count on its sudden appearance by my side. Risk management need not be more complicated than this" Michael Burry

“Investors who confine themselves to **what they know**, as difficult as that may be, have a considerable advantage over everyone else” Seth Klarman

“Most businesses that I look at are typically rejected within two or three minutes or even less. They are rejected in two or three minutes for one of two reasons – they are either outside the **circle of competence** or the quick look at the price, market cap and such doesn’t make it interesting. They either are things that I don’t understand or they are things that don’t seem to be cheap by any measure that I would have an interest in.” Mohnish Pabrai

“You don’t have to be an expert on every company, or even many. You only have to be able to evaluate companies within your **circle of competence**. The size of that circle is not very important; knowing its boundaries, however, is vital.” Warren Buffett

"One of the lessons I took from Warren Buffett years ago was to define **areas you're comfortable** with and stick to them" Thomas Russo

"**Circle of competence** essentially comes down to whether we understand the business. There are several sub-questions under than; Do we know the right people in the industry? How well do we understand the products and customer decision making process? Are there unanalyzable things that could have a big impact?" James Chrichton

"The most important thing in terms of **circle of competence** is not how large it is but how well you define the parameter. If you know where your edges are, you are way better off than somebody who has a circle five times as large but is very fuzzy about the border" Warren Buffett

"It's not how big your **circle of competence** is - it's more about how well you know the stuff in your circle" Mohnish Pabrai

"Over the past 13+ years, I've built up a base of companies that I understand well and would like to own at the right price. We tend to stay within this **small circle** of companies, owning the same names multiple times. It's rare for us to buy a company we haven't researched for a number of years - we like to **stick to what we know**" Allan Mecham

"You have to be an **expert in what you invest in**. You need to understand why you are invested. If you don't understand why you are in a trade, you won't understand the right time to sell, which means you will only sell when the price action scares you. Most of the time when the price action scares you, it is a buying opportunity, not a sell indicator" Martin Taylor

"Investors stumble when they get bull-headed or when they shift to doing something that is **outside of their core competencies**" Sam Zell

"A policy judgement that was wrong for me engendered quite a different kind of mistake, and one which did cost a significant amount of dollars. My mistake was to project my skill **beyond the limits of experience**. I began investing outside the industries which I believe I thoroughly understood, in completely different spheres of activity; situations where **I did not have comparable background** information. An analyst must learn the **limits of his or her competence** and tend well the sheep at hand" Phil Fisher

"The beauty of the stock market is that it gives us the luxury to avoid sectors and/or businesses that are outside our **circle of understanding**" Mohnish Pabrai

"It's also important to never be satisfied with anything, including your **circle of competence**. One of the things you should always be doing with your **circles of competence** is see if you can push it a little bit more, because the world changes"
Thomas Gayner

"In his fifty years of practice, Buffett added one more principle; through unremitting hard work over a long period, investors can build up their own **circle of competence**. This can give them a deeper understanding than others of a company or industry, and allow them to make better judgements of future performance. Your unique strength lies within this **circle**" Li Lu

"To beat the market, focus on investments well within your knowledge and ability to evaluate, your '**Circle of Confidence**'". Ed Thorp

"We are not very good at very many things. We are very good at a few things. We stay within our **circle of competence** and know where that **circle** ends." CT Fitzpatrick

"The true insights a person can get in life is still very limited, so correct decision-making must necessarily be confined to your "**circle of competence**". A "competence" that has no defined borders cannot be called a true competence. How do you define your own **circle of competence**? Charlie [Munger] said, if I want to hold a view, if I cannot refute or disprove this view better than the smartest, most capable, most qualified person on Earth, then I'm not worthy of holding that view." Li Lu

"We don't want to be **everything to everyone** - and no other hedge fund should try to be either. It's just not what our industry is about. As Michael Jordan proved, just because you're a great basketball player doesn't mean you can be a great baseball player" Israel Englander

"I don't think it's difficult to figure out **competence**. If you're 5'2", say no to professional basketball. Ninety-two years old, you're not going to be the romantic lead in Hollywood. At 350 pounds, you don't dance the lead in the Bolshoi ballet..**competence** is a relative concept" Charlie Munger