3 lessons for investors from Jeff Bezos

The Guardian recently likened Amazon to a fast and lethal predator that has disrupted an ever-expanding range of industries.

Among its 15 leadership principles, 'Think Big' has been implemented literally.

Credit goes to Amazon's CEO Jeff Bezos who is responsible for creating this behemoth that is feared by all competitors. He has fundamentally changed the way millions of people around the world shop. Here we look at three lessons investors can derive from his vision.

I. Sometimes, it pays to be contrarian.

In a controversial move in 2013, Jeff Bezos purchased The Washington Post, for $250 million. At a time when the newspaper landscape was marked by declining readership and advertising. It is now one of the few success stories in media – growing staff, increased readership, and even lucrative. Bezos' silver bullet? Deep pockets; a sincere commitment to improve content; and a vision of the direction of the media business which led to the creation of an enterprise that is both, a technology business and a journalism institution. Bezos did not abandon the "written world" as the pendulum swung in the other direction. Instead, he viewed print, video, audio, and the entire gamut as a package that complimented each other, rather than one replacing the other.

If you want to pick bargains in the market, you have to see when the crowd's thinking is off. If you think like the crowd you can't know when the crowd is off. Neither is it enough to bet against the crowd for the sake of it. That's stupidity. The potentially profitable recognition of divergences from consensus thinking must be based on reason and analysis. You must do things not just because they're the opposite of what the crowd is doing, but because you know why the crowd is wrong. Only then will you be able to hold firmly to your views and perhaps buy more as your positions take on the appearance of mistakes and as losses accrue rather than gains.

II. Have a clear philosophy.

Bezos believes that there are two ways to build a successful company. Both work. Neither is superior to the other.

One, work extremely hard to convince customers to pay high margins.

Second, work extremely hard to be able to offer low margins. This is the business model that he subscribes to.

His aim for Amazon has always been to have a very large customer base with low margins, rather than a small customer base and higher margins.

If you want to be a successful investor, you should approach investing with such clarity and focus. You need to narrow down on an investing philosophy that works for you.

Contrarian. Value. Growth.

Bill Ackman considers himself an activist investor.

Seth Klarman believes in a long-term orientation and patience.

Howard Marks buys assets that are out of favour and his style is embodied by the motto "if we avoid losers, the winners will take care of themselves".

Marc Andreessen bets on change and says that Warren Buffett bets on things that won't change.

Philip Fisher believed in holding a concentrated portfolio of outstanding companies over the long term. (Outstanding meant superbly managed companies with compelling growth prospects that he understood well). Others are much more comfortable with a diversified strategy.

III. Take the plunge only after weighing the pros and cons.

Bezos was working with David Shaw at the hedge fund D.E. Shaw. Bezos was tasked with researching new business opportunities on the rapidly growing Internet.

Two large book manufacturers (Ingram and Baker & Taylor) were amongst the first to utilize digitized inventory lists. Up until that point, if a person went into a bookstore and a particular book wasn't in stock, they had to make a request to the manufacturer to find a storage facility that had the title in question.

Bezos realised that one could build an online store that simply could not exist in any other way, by cutting out the middlemen and provide titles direct-to-consumer. He also saw that internet usage had grown 2,300% between 1993 and 1994.

His boss told him it was a pretty good idea but that it was "a better idea for someone who didn't have a good job." Jeff took a few days and projected his life forward to age 80. He and his wife created a "regret-minimization framework" to weigh the pros and cons of going out on his own and attempting to cultivate new ground. He figured that at 80 he did not want to be "cataloguing regrets." So he walked away from his 1994 bonus in the middle of the year and Amazon was born.

The buck stops with you. You decide what sort of an investor you are, what sort of risks you are comfortable with, and the time frame for your investments.

In The Reasonable Formation of Unreasonable Things, the writer throws an interesting question to the reader: How much should you have paid for Yahoo! stock in 1999?

At that time, Yahoo! was an iconic brand that ruled the internet. On April 12, 1996, Yahoo! traded publicly for the first time. At the end of its first day of trading, its stock closed at a (split-adjusted) price of $1.38. On January 3, 2000, it closed at an all-time high of $118.75. In less than 4 years, Yahoo!'s stock price increased by 8,505%.

How much you should have paid for Yahoo! stock would depend on your investing philosophy.

30-year horizon: the smart price to pay was an analysis of Yahoo!'s discounted cash flows over the subsequent 30-years.

10-year horizon: some analysis about the industry's potential over the next decade and whether management could execute on its vision.

1-year time horizon: an analysis of current product sales cycles and whether a bear market was looming.

Day trader: the question would not even arise because you're just trying to squeeze a few basis points out of whatever happens between now and lunchtime, which can be accomplished at any price. A day trader could accomplish what he needed whether the stock was at $5 a share or $500 a share, as long as it moved in the right direction.

Do your homework. Take your unique situation and goals into account. Be aware of the risk potential you are comfortable with. Stick to your investment philosophy. Stay focused.