Investing without a framework is financial suicide

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At my home we have a basic framework with which we view life and make decisions. This framework helps us to make sensible decisions without letting our emotions get in the way. Here is an example of two of the principles in the framework that my wife and I have developed over the course of our marriage.

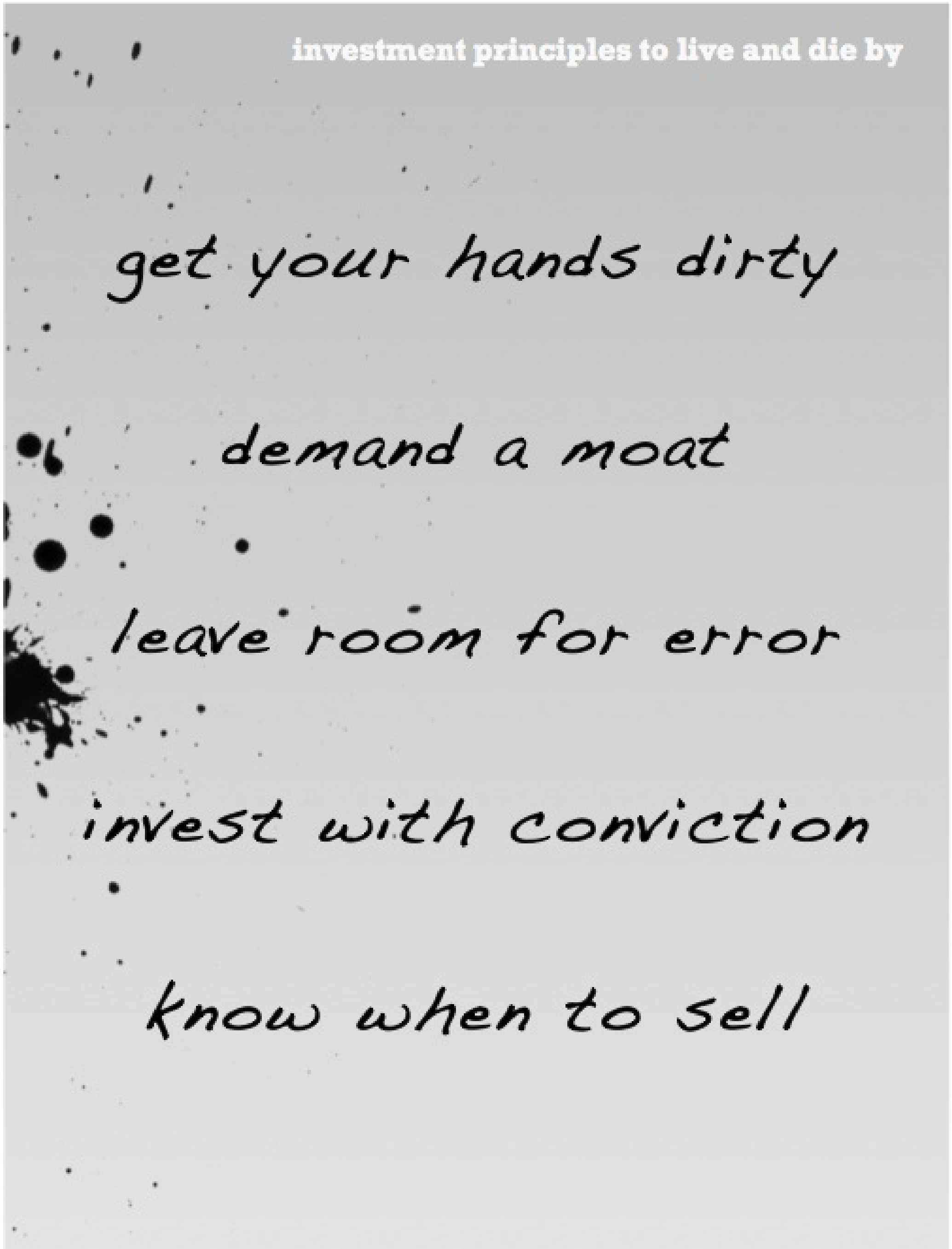
1. **Time is precious.** This means that I don't have time to sit around and cut coupons to save a few dollars. This time is better spent enjoying moments with my family. At our house there is no dollar value that will take me away from spending quality time with my family.
2. **Face-to-face communication is valuable**. We don't play with our smart phones at the dinner table. We don't answer calls when we are spending quality time with each other or with friends. We put our gadgets away when it is time to spend time together.

These principles guide decisions we make every day in my family. Similarly, a framework should be developed for investing.

Pat Dorsey, author of The Five Rules for Successful Stock Investing, claims,

> *Before you start investing you need to have a framework from which you make investment decisions. Without a solid framework it is easy to fall victim to psychological biases. (p. 1)*

The first step to creating an investing framework is to develop a set of investing principles. I think every investor should take the time to develop a set of principles that are core to his or her investment strategy–principles they are proud enough to frame and put on their office wall. So after spending some time brainstorming, re-writing, re-wording, and re-thinking, I've finally came up with foundational principles for my investing framework:



These principles set the framework for every investment decision I make. If an investment doesn't fit into this framework then there is no room for it in my portfolio, plain and simple.

I like to break rules, but even for rule breakers, a foundation is needed. Let's define each principle.

1. **Get your hands dirty**: thoroughly research each investment before making an investment decision.
2. **Demand a moat**: Ensure the business has a durable competitive advantage
3. **Leave room for error:** Demand a large margin of safety. In other words, buy the business at a discount to its fair value.
4. **Invest with conviction**: Don't make an investment unless you have a deep conviction about the investment potential.
5. **Know when to sell**: Decide at what point you would sell this investment and stick with your

decision.

I encourage you to develop your own set of principles. Put them somewhere where you can see them. Make it look important. As Pat Dorsey said, this will save you from psychological biases. Who knows how many thousands of dollars something as simple as this could save you?

What are your investing principle? What makes up your framework? If your not sure, think about it like I did, write it down, and share it with us!

(This is a guest article by fellow value investor Daniel from ValueFolio.com. If you want me to post an article, contact me.)