This article is excerpted from a letter by MOI Global instructor Daniel Gladiš, chief executive officer of Vltava Fund, based in the Czech Republic.

My recent letters to shareholders have been rather long and theoretical, so I thought that for a change I would write a shorter one and with a lighter tone.

I am writing these lines from the Swiss town of St. Moritz. This is where my favourite ski race, the Engadin Skimarathon, is held every year on the second Sunday of March. This year, I will have been standing at the start for the 14th time, and for many years I also have been spending here the week before the race. I always train in the mornings and work the rest of the day. That way, I can combine my favourite form of physical exercise (cross-country skiing) with my favourite form of mental exercise (investing in stocks). That means my body and mind can each indulge.

As I continuously switch from skiing to stocks and back again, I keep thinking about what cross-country skiing, or endurance sports generally, and investing in stocks have in common. There is actually quite a lot.

If a person wants to excel in a sport wherein races at a professional level commonly take 2–8 hours (cycling, cross-country skiing, triathlon), he or she needs to train for some 800–1200 hours annually. One can get to this level only gradually. At a junior age, one can manage approximately 400 hours per year, and only after several years of practice and gradual adaptation of the body may some people successfully achieve such levels of training as to have a shot at measuring up to the best. There is no way to leap over this gradual development, and it also is the reason why athletes in purely endurance sports rarely hit their peaks before 26 years of age and mostly after 30.

When we think about the everyday routine of an aspiring professional athlete, it may look approximately like this: Most of the day and effort is dedicated to training. At the end of the day, he or she may feel good about the work well done, but there is essentially no tangible or measurable result. An athlete’s performance does not change from one day to the next. Only if one trains every day for years and then looks back might he or she be surprised at how long the journey has been and what progress he or she has made.

The same is true of investing. A professional investor spends most of his or her time seeking good investments. This means reading, analysing, and thinking. At the end of a work day, he or she likewise cannot show a tangible result. One might find only a couple good investments per year. Nevertheless, each day worked in this way adds to a person’s own investment databank of knowledge and information. Just as an athlete subjects his or her body to exercise every day, an investor feeds information to his or her brain. Some things may be accelerated by expending greater effort but they cannot be skipped over. An athlete’s body needs years for the adaptive changes that are an organism’s response to exercise to sufficiently materialize. An investor, in turn, needs to experience various situations and processes in the markets in order to learn. These will not, however, occur any quicker just because he or she wants them to.

Long-term thinking, patience, and persistence are qualities which should pertain to investors and endurance athletes alike. Another feature the two activities have in common is a certain kind of individualism. Investing is not a collective sport. Most investment legends are strong and independent-thinking personalities who do not mind existing, thinking, and acting on their own. Most endurance athletes also train individually. What I like best about investing is the freedom of thought and action and the possibility to express my own opinions and ideas in practice. It has never bothered me that I had an investment opinion which put me substantially in a minority (whether it later turned out to be correct or not). I feel as comfortable in this thought-individualism as in training by myself. Counting back, there are no more than 15 training sessions per year that I do together with someone else. That is less than 5%. Sometimes it is pleasant for a change, but mostly I need to adjust my tempo or distance to others or they have to accommodate me. Very frequently it is to some one of the participants' detriment. This is why I do more than 95% of my training alone.

Another area sport and investing have in common is the role of chance. Chance, or bad luck, if you will, plays a large role in both activities. We all know plenty of examples from the world of sports where those who were better prepared, seemed to be better overall, and sacrificed more did not actually win. The same goes for investing. Especially in the short run, chance may produce almost any outcome. I know certain investors who keep wondering why they have poorer results than someone else who is by all measures less sophisticated, less educated, less experienced, and less hardworking. Things just work out that way sometimes. In investing, as in sport, higher qualification and greater effort do not always guarantee a better result. This is why one needs to approach both of these activities with a certain humility. On the other hand, it is true that evidence from sport and investing clearly shows that greater effort, better discipline, patience, and persistence do pay off and bring better results on average.

I have always been of the opinion that to be successful in a certain field, one has to be, in the positive sense of the word, a fanatic. This is even doubly true in sports and investing. A professional athlete, the same as a professional investor, must be competitive and yearn for a good result. The measurability of investment returns and immense competition in the field create excellent opportunity for those of a competitive nature to find fulfilment. When one pursues some sport, regardless of which sport it is and at what level, one must always expect to experience many losses. The same goes for investing. The art of dealing with losses, or even to use them to get ahead, is very valuable, and, to a certain degree, it is possible to transfer this from one activity to another.

Every second Sunday in March, when I stand at the start of the Engadin Skimarathon, I feel a mixture of strong emotions. As I will be skiing through the finish line an hour and forty-five minutes later, I want to know that I made no errors, that I stuck to my plan, and, above all, that I gave it my utmost. This race is the pinnacle of my winter season, and I am going to ski as if my very life depends upon it. In addition to these feelings fuelled by adrenalin and testosterone, however, I experience also other emotions. I must admit that ever since my age has started with the numeral five, these other, newer feelings have been getting progressively stronger. I realize that I very probably am in the second half of my life, and that I have, so to speak, exceeded my half-life.

When I look around at the beautiful snow- capped mountaintops over the Engadin Valley from the starting line on the frozen lake in Maloja among the other 14,000 participants, and I count down the final seconds to start amid the sounds of music, I feel very grateful. Grateful that I am able to stand at this place with the passage of another year and experience the joy of movement in such a magnificent environment. Racing is a splendid thing that brings unique experiences and emotions. If you have felt them as I have, then you know what I am talking about. Still, somehow I realize more and more strongly that even the chance to participate is something that is not guaranteed, but rather it is something granted to us for a limited time.

I perceive our investments with the same broader perspective. I want to be the very best and I am doing my utmost to be that. Successes and failures bring out similar emotions as in sports. Still, I always try to remember that momentary success is not all that matters. Also important is being able to continue participating. In investment, this broader perspective applies in the perception of risk. I let investment opportunities which are potentially very profitable but require undertaking too great risk pass by much more serenely than I once did. This is because I am driven not only by the effort to achieve a good result, but also by the concern to be able to stand, with our fund's portfolio, at the starting line for still many years to come.

Changes in the portfolio

We sold the last remaining bit of Pandora. We had first become interested in the stock of this Danish jewellery maker back in 2011. The company had a very solid and rapidly growing business and was just experiencing internal managerial problems. Because of these, the shares were priced for a long time at around 50 Danish krone. We came back to analyse the company several times during that year but repeatedly rejected it as an investment. We continued to follow the stock, though, and we watched Pandora grow and the share price soar to as high as 1000 krone in 2016. All of this without us owning a single share. We were watching the company closely for all this time, but the shares always seemed too expensive.

Then the trend reversed and the stock came down substantially. When the price was in the 600s, the stock got our attention again, and we believed our time had come. It seemed that Pandora's business was going well, and we were congratulating ourselves for having been patient and waiting for a good price. We gradually started to buy Pandora. At a seminar where we first made public that we were holding Pandora, some of you were questioning whether it really was a wise investment. We had argued that it was, mainly based upon the strength of its brand, a unique business model, and very high returns on invested capital. Today, we know you were right.

As could be seen later, Pandora's business had been gradually worsening even back then. That has not changed to this day and probably will not anytime soon. Originally a growth stock trading at more than 20 times earnings, it became a value trap for which even a P/E of 6 is not low enough. It took us some time to recognise our error, and then we started to liquidate our position. In the end, our investment into Pandora cost us approximately 2% of NAV over the years 2017 and 2018. At the end of last year, we still had a few shares left.

Early this year, we took advantage of the fact that the stock price had jumped up by approximately 30% and sold them. What is interesting is the fact that at the time we were holding Pandora, we had approximately 20 different stocks in our portfolio, among which only Pandora constituted a major loss. Still, it was almost always a main topic of conversation.

We classify the error of investing into Pandora in the base rate vs. case rate category. In searching for a good investment, it is always ideal when a company has some sort of sustainable advantage. For the following reasons, we believed Pandora had one: Among jewellery makers, Pandora is the world's most recognised brand, surpassing the likes of Tiffany, Cartier, and Swarovski. It has a unique business model with a centralized production that brings it an advantage in production costs and substantially shortens the path from design to the points of sale. All of this was also reflected in the numbers. Pandora had practically unmatched return on equity and return on invested capital, which indirectly confirmed the existence of a competitive advantage. All of this was supported by low debt and strong free cash flow. This is what our investment thesis was based upon (case rate).

In opposition to this thesis was our repeated experience from analysing and following other fashion-related companies. It happens very frequently that these companies do well for a long time, and then they suddenly stop doing well and no one knows exactly why and what to do about it. Such situation occurs again and again in fashion businesses. This would suggest that long-term sustainability of a competitive advantage in this field is very rare (base rate). In our consideration of Pandora, we gave preference to case rate over base rate, and that appears to have been a mistake.

Using the money freed up, we expanded our British portfolio by one position. Due to Brexit, the British market is still among the least favoured, and, to use a Wall Street expression, is perhaps currently "the most undercrowded trade". This makes it cheap and abundant in attractive investments. We managed to find a company that is a global leader in a relatively unknown field not correlated with the overall economic cycle. In fact, it has a tendency to profit from economic downturns. And it has nothing to do with fashion!

Disclaimer: This document expresses the opinion of the author as at the time it was written and is intended exclusively for educational purposes. Our projections and estimates are based on a thorough analysis. Yet they may be and sometimes will be wrong. Do not rely on them and take your own views into consideration when making your investment choices. Estimating the intrinsic value of the share necessarily contains elements of subjectivity and may prove to be too optimistic or too pessimistic. Long-term convergence of the stock price and its intrinsic value is likely, but not guaranteed. The information contained in this letter to shareholders may include statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of applicable foreign securities legislation. Forward- looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or financial performance, or the estimates underlying any of the foregoing. Any such forward-looking statements are based on assumptions and analyses made by the fund in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the given circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks, assumptions and uncertainties. In evaluating forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from those contained in such forward-looking statements. Unless otherwise required by applicable securities laws, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements to reflect subsequent information, events, results or circumstances or otherwise. This letter to shareholders does not constitute or form part of, and should not be construed as, any offer for sale or subscription of, or any invitation to offer to buy or subscribe for, the securities of the fund. Before subscribing, prospective investors are urged to seek independent professional advice as regards both Maltese and any foreign legislation applicable to the acquisition, holding and repurchase of shares in the fund as well as payments to the shareholders. The shares of the fund have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or under any state securities law. The fund is not a registered investment company under the United States Investment Company Act of 1940 (the "1940 Act"). The shares in the fund shall not be offered to investors in the Czech Republic on the basis of a public offer (veřejná nabídka) as defined in Section 34 (1) of Act No. 256/2004 Coll., on Capital Market Undertakings. The Fund is registered in the Czech National Bank´s list in the category Foreign AIFs authorised to offer only to qualified investors (without EuSF and EuVECA) managed by AIFM. Historical performance over any particular period will not necessarily be indicative of the results that may be expected in future periods. Returns for the individual investments are not audited, are stated in approximate amounts, and may include dividends and options.