As We See It

"When all men think alike, no one thinks very much."
–Walter Lippman

We are in a business at a time when little of that which crosses our desks is original thought or research. Many analysts and economic pundits seem merely to parrot what they have heard from others. This tribal aspect of our business often leads to trends which, if followed, can lead to costly mistakes. John Maynard Keynes used to compare investors to schools of fish that all swam in one direction and then, for no apparent reason, all headed off another way. One must be on constant guard against falling into the trap of doing what everyone else is doing.

Periodically, it is important for us to step back, take a fresh look at things, and rethink our position. The Contrary Opinion Forum, sponsored by Fraser Management Associates in Burlington, Vermont, presented this opportunity. This is an annual fall conference which presents a diverse group of speakers who challenge conventional wisdom. It was refreshing.

The following, not necessarily logically connected, are several of the thoughts presented which seem worth passing on.

•The investment business is characterized by information overload. We have too much information available to us and worst of all, for most of us, confidence in our decision-making ability increases with information or data. Yet, a mass of data does not help make better decisions as the human mind cannot handle more than seven or eight pieces of information effectively. While increasing amounts of information heighten confidence, that actually may make one more vulnerable to bad decisions.

•Stocks are no longer valued for what they are but for how they act. Equities have taken on commodity characteristics as the result of index arbitrage and program trading. Investors have become increasingly disillusioned by the apparently irrational moves the market makes. To many investors, fundamental analysis has become less relevant and consequently there is less being done.

•Analysts of today do not believe in long-term investing. Little attention is given to the underlying strengths and weaknesses of a company and how it may fare in the long term. Rather, analysts have become essentially quantification oriented. Numbers are put into the computer and numbers come out with relatively little thought given to what those numbers mean.

•Investor sentiment today seems largely oriented to minimizing the potential for loss. According to the Sindlinger Household Money Supply Report, 53 million families owned common stock in August of 1987–just prior to the Crash. As of August, 1988, that number had declined to 28 million. The public is bearish and has high cash reserves. This characteristic is also true of professional investment managers.

Contrary thinking is an exercise in disciplined skepticism. The logic of contrary opinion is that it opens up the mind and, hopefully, allows one to be more flexible. We will be better investors if we are skeptical of the popular opinion of the day and look for the opportunities for profit which naturally develop from the excesses of extreme or popular positions.

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