SYM FINANCIAL ADVISORS

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UNCOMMON INSIGHTS

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THE ULTRA MINDSET

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In his 2015 book "The Ultra Mindset," elite ultra-distance athlete Travis Macy describes eight core principles he believes led to an incredibly successful career. I picked the book up to sharpen my mental edge as an athlete and was pleasantly surprised to also find a helpful investment framework hidden within.

One chapter in particular struck me as a novel tool for people pursuing financial success: "Think about Your Thinking: What and Why." Here, Macy describes a pair of follies his team experienced during a five-day Adventure Racing World Championship, a grueling 800 kilometer course through the Arctic Circle regions of Sweden and Norway. Macy believes two mistakes derailed their chances of a podium finish.

In the first mistake, the team experienced what Macy calls a "river paddling screw-up." Handled differently, Macy says in retrospect, they likely could have overcome this problem. However, in the chaos and self doubt that sometimes follows mistakes, the racers lost focus on their task in their eagerness to make up lost time.

Macy explains, "…here's where we went astray… we should have been thinking about **what** we were doing, because the [river] navigation was surprisingly difficult and… unfamiliar. [But] by continuing to focus on **why** we were rushing around in the transition area (so fast that we failed to even keep the map out) - to beat the other teams to the water – we failed to even consider what we were doing. The price was great."

Later in the race came mistake number two. "On the final biking segment to the finish of the race, which was not difficult or unfamiliar, we finally shifted to focus on **what** we were doing. Unfortunately, when you are doing something boring, monotonous, and simple, and you focus on what, the journey becomes more dreadful and seemingly long. This was compounded by our sheer exhaustion at this point, which dragged us down even more, because inspiration was nonexistent. Here, an intentional focus on **why** (to… earn a high finishing place in the world championships) would have been more effective than [to focus on] what (pedal, stay awake, pedal, stay awake)."

The Ultra Mindset, Continued

We all know it's important to focus on **what** we're doing. We also realize the importance of knowing **why** we're doing something. However, it's not commonly understood that we must sometimes focus more in one way or the other – on **what** or on **why -** to triumph over different types of challenges.

In the investing realm, we see some parallels. For example, it's often helpful to find motivation during slow-moving times of little activity by focusing on **why** you're working toward investment success. After all, living on less than what you earn, passing the years with well-laid financial plans, and ignoring sensationalized headlines can, at times, feel like a sleep-deprived bike ride.

Per Macy's framework, these are the times to focus on **why** you are building for a better tomorrow. Perhaps your success will empower the philanthropies dear to you, make you more confident in retirement, allow you to assist friends and family, help you enjoy life, or aid in achieving other inspirational goals.

However, when it comes to the details of your financial plan and investing, it's crucial to focus on the **what**. Make well-calculated decisions concerning whether it's responsible to retire this year. Consider which investment mix is currently the most appropriate. Determine whether you should join your medical practice's ownership group, or what percentage of executive stock options you should exercise in 2019. These decisions deserve a factual look at the details.

It is sadly common that people fall into the poor practice of answering **what** questions with **why** answers. For example, "How do I retire safely?" Of all the levers one can pull, few things make a retirement financially safer than working forever and hoarding money. But that approach alone does not bring satisfaction; the decision is disconnected from important "**whats**" like your anticipated budget, health situation, account size, and the goals and dreams that make up a fulfilling retirement.

As another example, during bear markets or periodic periods of underperformance, it's a recognized phenomenon for investors to crave an investment overhaul to "speed things up for retirement" or to "stop the bleeding because I can't afford for this to go down any more."

These emotional pulls (connected to the **why**) are likely to cloud your decisions about what's best for you in the moment. Short term tactics like "swinging for the fences" to "win it back" or going to cash to "wait for things to normalize" contradict many of the lessons we've learned in academic programs and in practice.

Engaging the Ultra Mindset allows us to take encouragement from the galvanizing **why** when things are slow-moving. However, after refining SYM's investment processes over the last 50 years, we know that times of change require us to focus on **what** instead of **why.**

INVESTING, SPECULATION, AND A DIZZYING INTELLECT

"... Professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole; so that each competitor has to pick, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view. It is not a case of choosing those which, to the best of one's judgment, are really the prettiest, nor even those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practise the fourth, fifth and higher degrees."

Cambridge Professor John Maynard Keynes, 1935 (note that Keynes's reference to "professional investment" is characterized as "speculation" by later authors and ourselves in this article)

“In fact, psychological tests have shown that normal adults start making significant errors answering questions about the fifth-order theory of mind. Apparently, we’re only “rational up to four degrees of theory of mind. If most humans can only see four levels deep into the hall of mirrors of intention, what about chess grandmasters like Garry Kasparov? Even Kasparov, considered one of the greatest chess players of all time, would only look three to five moves ahead during a typical game…. It’s not very difficult to construct a scenario where the correct knowledge regarding another individual’s intentions five-levels removed has financial implications."

MIT Professor Andrew Lo, 2017

“Even after more than 66 years in this business, I have almost no idea how to forecast these short-term swings in investor emotions. (Footnote: I’m not alone. I don’t know anyone who has done so consistently, nor anyone who knows anyone who has done so.) But, largely because the arithmetic of investing is so basic, I have been able to forecast the long-term economics of investing with remarkably high odds of success…. To this crucial distinction, I would add that the expectations market is largely a product of the expectations of speculators, trying to guess what other investors will expect and how they will act as each bit of information finds its way into the marketplace. *The expectations market is about speculation. The real market is about investing. The stock market, then, is a giant distraction to the business of investing.”* [Emphasis original author’s]

John C. Bogle, Vanguard Group founder who was born in the Keynes era and whose career spanned enough years for him to write the back-cover praise for Professor Andrew Lo’s 2017 book.

Many investors use their early paychecks to dabble in individual stock purchases only to witness an odd sequence of events: The owned company issues a press release touting record levels of profitability, which is followed by a quick decline in stock price in subsequent trading hours. The wise mentor sweeps in to explain: “...but the rest of the investment world thought that profits would be even higher than that.”

After saving a bit more and learning the benefits of diversification, further oddities reveal themselves across broad baskets of stocks. Calendar year 2018 provided a diversified headscratcher for investors who expected businesses with growing sales and profits to gain in value. Companies domiciled in emerging market countries grew their sales by an average of 11.9 percent in that year and boosted profits by 6.2 percent. However, when focusing on the year’s stock market prices, the MSCI Emerging Market index declined by 14.57 percent in 2018. The case was at least as stark in the United States, where businesses’ sales grew almost as quickly as their emerging market counterparts at 8.6 percent and profits jumped by a whopping 24 percent for the year. That translated to a U.S. stock market decline of 4.38 percent, as measured by the S&P 500.

Enticed by the desire to speed investment growth and avoid painful declines, many investors will experiment with market timing schemes. These strategies attempt to own stocks during the good times and avoid stock ownership during turmoil. One such strategy involves “The January Effect,” a seasonality pattern published in a 1976 Journal of Financial Economics article, where two University of Iowa professors found the month of January to have abnormally high returns. In practice, attempting to trade on this pattern after it was published became very scary. After all, if everyone knows January will be a good month, everyone should buy in December. But if everyone knows that everyone will be buying in December to pursue the January effect, one should actually buy in November before the wave of buyers enters their purchase orders and drives up prices. Just as Keynes, Lo, and Bogle warn, just how many degrees one’s purchases should precede January itself requires an unknowable verdict on other investors’ expectations of other investors. In fact – after walking all the way through the calendar, one could eventually expect January 31st to be the best buying date to pursue the outsized January returns originally identified by the Iowa professors!

Of course, engaging in such guessing contests sounds totally unpalatable to us. Accordingly, it's a relief that even someone as sophisticated as Andrew Lo states that it is an impossibility for anyone to rationally navigate such short-term expectation games. Fortunately, we don't have to play them. As John Bogle points out, over the long haul (he highlights decades and we often use the same horizon), variance from short-term expectations tends to wash out (for those who don't repeatedly buy in times of euphoria and sell in times of panic). The more stable driver for diversified stock growth is the growth in businesses' profits and dividends. Business activity growth is much less volatile than the swings in investor emotions and expectations, which is a great source of comfort for those building wealth by investing for the long haul.

While yearly "bold calls" can be a way for some firms to seek buzz, we agree with Bogle that the foundation for long-run success can much more reliably be put in place via investment by owning diversified businesses for decade-long periods rather than speculating about who will win this year, or in which month returns will be most concentrated. We believe that by sticking to well-laid plans, our clients can ignore the short term noise that tempts so many, and reap the rewards that business ownership provides.

VIZZINI: But it's so simple. All I have to do is divine from what I know of you. Are you the sort of man who would put the poison into his own goblet, or his enemy's? [pauses to study the MAN IN BLACK] Now, a clever man would put the poison into his own goblet, because he would know that only a great fool would reach for what he was given. I'm not a great fool, so I can clearly not choose the wine in front of you. But you must have known I was not a great fool; you would have counted on it, so I can clearly not choose the wine in front of me.

MAN IN BLACK: You've made your decision then?

VIZZINI: Not remotely. Because iocaine comes from Australia, as everyone knows. And Australia is entirely peopled with criminals. And criminals are used to having people not trust them, as you are not trusted by me. So I can clearly not choose the wine in front of you.

MAN IN BLACK: Truly, you have a dizzying intellect.

The Princess Bride "Battle of Wits," 1987

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