

As We See It

I keep six honest serving men,
They taught me all I knew,
Their names are what and why and when,
And how and where and who.

–Kipling

We are often asked where we get our investment ideas and how we stay on top of developments. This is an excellent question which any prospective client should ask when interviewing money managers. The answer to the question reveals interesting insights which aid in the manager selection process.

Many firms respond to the source of ideas question by relating a list of the Wall Street firms from which they receive material called brokerage research. Unfortunately, Wall Street tends to report information rather than interpret new developments. Such information is of limited value to the investment manager who wishes to invest in anticipation of rather than in response to change. Relying on this traditional source of information may actually be detrimental to the judgment process. It consumes valuable thinking time and may dangerously reinforce the conventional wisdom, resulting in portfolios which look and perform like everyone else's.

In *Leaders*, MacArthur commented that a commander's single most important function is to separate the five percent of intelligence that is crucial from the ninety-five percent that is not important. This is precisely the problem of the investment manager. This thought is clearly presented by the following quote from Bennett W. Goodspeed's article "The World's Smartest Man Syndrome" which originally appeared in *The Journal of Portfolio Management* and was reprinted in the recently published *CLASSICS An Investor's Anthology*:

History shows that the Titanic's captain was concerned about icebergs, for during the night he stationed two seamen on the bow as lookouts. A few hours before the accident the Titanic received a telegram warning about heavy pack-ice from the Carpathian, a freighter steaming towards the Titanic. Unfortunately this important report became lost among the many telegrams of the passengers and thus never reached the captain.

The important telegram about the pack-ice did not get to the captain; thus a contributing factor in the ship's demise was an overload of information. Key information became lost within all of the passenger's incoming and outgoing messages. Likewise, portfolio managers have to constantly deal with an overload of information.

So how do we "get our ideas"? There is no precise formula or simple explanation of the process. We read, listen, and observe. We measure new information against our accumulated investment knowledge and experience. Of course, much of our information comes from brokerage house analysts and company investor relations departments. Our function is to be critical, even a bit cynical, of these sources. And we work at this process full time. We think this gives us an edge over the typical investment manager. So far the results have been promising.

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