LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

"Consensus is the security blanket of the insecure."
–Pierre Rinfret, Economist

An important aspect of our investment approach is that of contrary opinion. James L. Fraser, president and founder of Fraser Management, defines a Contrarian as one who ". . .is early though he is not a forecaster and rather works toward thought-out conclusions. We have to think through a given problem before we gain a fresh and different approach to a solution." He further states, "The object of contrary thinking is to challenge generally accepted viewpoints on the prevailing trends in politics, socioeconomics, business, and the stock market."

Essentially, the theory of contrary investing is to avoid that which is popular or to avoid the crowd. The power of the crowd and the influence of the crowd on one's emotions can be a dangerous element in investing as crowd behavior leads to extremes. Following the crowd can be rewarding for a time. However, the crowd or majority will be wrong at turning points when it matters the most, as hopes and fears often run ahead of reality. Contrary thinking is one of the best ways to stay aloof from the psychology of the crowd.

The classic *Extraordinary Popular Delusions and the Madness of Crowds* by Charles MacKay, originally published in 1841, reviews a broad range of scams, manias, and the tulipomania of 17th Century Holland. History is replete with examples of rational individuals succumbing to the irrationality of the crowd. As MacKay points out, "Men it has been said, think in herds, it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one." It is fascinating to be reminded of how little human nature has changed and how the pattern of events repeats itself over and over. The objects of speculation change, but greed and fear are always there.

One key to success in securities investments, especially stocks, is to be where others want to be later. As reported in the January 20, 1987, issue of *The Wall Street Journal*, new studies by Avner Arbel and Steven Carvell at Cornell University indicate neglect is the key characteristic in identifying securities likely to outperform. They defined neglected stocks as those generally ignored by analysts and institutional investors. This is true contrarian investing. Fraser supports this view when he states, "It continues to be stocks that have lower expectations that will prove rewarding in the market place."

It is far easier to explain the contrarian approach than it is to apply it consistently. The difficulty is that contrary thinking goes against human nature. It is only natural to feel more comfortable with your position if it is reinforced by others. Yet, to win, one must at critical times do the opposite of what seems to be the sensible thing that everyone else is doing. Contrary investing is not infallible, but one's chances for success are greatly enhanced by doing what seems to be contrary.

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