Thoughts that count

Confidently Humble

Long ago there lived a girl in ancient Greece who was an exceptional weaver and spinner of thread. She could weave all sorts of beautiful pictures and people came from all over to see her beautiful tapestries. This girl was so impressed with her own talents she began telling people she could spin and weave better than the goddess Athena, a well known spinner and weaver herself.

Angry that a mortal would make such a claim, Athena challenged the girl to a weaving competition. The two of them set up their looms and wove all day and night. Athena wove a beautiful cloth showing the gods and goddesses sitting together on Mount Olympus doing good deeds for people. The girl, thinking she was clever, wove a scene on her cloth making fun of the gods and goddesses; showing them falling down and making a mess of things. Athena was enraged at the girl's contempt and declared "You want to spin, then you shall do so without spindle or loom" and turned the girl into a spider. So goes the Greek mythology of Arachne; a moral warning against hubris and excessive pride.

There has always been a healthy debate inside my head about what is more important when considering an investment idea; quantitative data or qualitative insight. That is, is it more important to have data that is measurable (e.g. numbers, statistics, figures) or information that cannot be measured (e.g. opinions, theories, gut feelings)? If you were buying a car what would be more important; kilometers per gallon, horsepower and finance rates (all quantitative data) or how fun the car is to drive, the image it projects and how cool the car makes you feel (all qualitative information). Most people include both types of information when evaluating something, but we all have our natural biases.

When most people evaluate an investment idea or strategy they rely heavily on quantitative information. Things like historical returns (especially recent history), dividend yield and cost are all very popular measures for three simple reasons; they are straightforward to compute, they are easy to find and can be used as the basis for clear-cut comparison. I too use these types of data points when considering an investment idea and agree they provide some important information. However, the longer I am a professional investor the more I am convinced that qualitative insight is the stronger determinate of investment success.

The biggest challenge in utilizing qualitative information is that much of it can be subjective. Often one person's hunch is the opposite of someone else's gut feeling. Unlike quantitative data, most qualitative information is ascertained by communicating with another human and taking some sort of action. I can look up the dividend yield (or kilometers per gallon) on the internet in two seconds but I can't understand why a portfolio manager currently dislikes Technology stocks (or how cool the car actually makes me feel) without communicating with them (or taking the car for a drive). All that quantitative research requires is an ability to read figures. Qualitative information demands action. This makes it more labour intensive and more difficult to ascertain, but it also makes the richness of the information much more valuable than 'just the numbers'.

The primary source of qualitative information comes from other humans (authors, columnists, analysts, portfolio managers, industry leaders, etc) and thus it is essential to determine the quality of the individual who is espousing the information before evaluating what it is they are saying. Who they are comes before what they say. In other words, you only want to eat fruit from healthy trees.

If you can successfully identify a valuable source of qualitative data or eliminate a poor one, the job of evaluating their information is much easier. This is why I dedicate a large amount of time to speaking with portfolio managers from around the world. To aid in my evaluation of people I have developed a filter based on the work of two political scientists from The University of Chicago and MIT called *The Hubris-Humility Index*. The idea behind this model is that strong and successful thinkers have large quantities of both hubris and humility.

We can define hubris as excessive pride and humility as having a low view of one's own importance. While these two characteristics may seem as polar opposites, the spirit of the *Hubris-Humility Index* is that high levels of both are ideal. To quote from the authors of this theory: "*To get a high score on the Hubris-Humility index, which is desirable, it is essential to have large quotients of both hubris and humility. If an individual has an abundance of one quality, but a shortage of the other, then he or she gets a low score. A lot of hubris cannot compensate for a lack of humility, and vice versa. In short, you need hubris and humility if you are to be a first-rate thinker.*

When I am evaluating the merits of a professional source of qualitative information, I first try to determine their levels of both hubris and humility. If they don't have sufficient levels of both I call into question the value of their information. Professional sources that rank high solely on the hubris side are typically made up of arrogant people who are terrible listeners and do not take counter-opinions seriously. Those who only rank high on humility are all too ready to change their views so as not to offend anyone and are afraid to stick to their convictions. In between there is a small minority, in my experience less than 20% of professional sources, who have the right mix; *they are bold enough to push their ideas and believe in them deeply, while at the same time being good listeners and putting in the time and effort to incorporate criticism in a thoughtful way.*

People who get very excited about their own opinions are often one dimensional; and people who are great at incorporating criticism often feel they lose their own voice and feel defeated. The *Hubris-Humility Index* captures one's ability to have *both* these crucial features at once. Over the years I have developed a reasonably successful list of those who score high on this Index and these tend to be the people who provide our portfolios with the greatest ideas. Similarly, I have an even longer list of those who score poorly on this index, and their information I tend to heavily discount.

Utilizing this helpful filter allows me to identify who is a worthy professional source and extract the appropriate qualitative information from them. It also allows me to evaluate who I should not be listening to and should consider their opinions as less relevant. When combining this approach with effective quantitative data, we have better information which ultimately leads to better investment decisions.

Your *hoping the warm weather lasts well into the autumn* investment advisor,

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