

Itchy Fingers

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We're often asked why we don't make more changes to our strategies. It's a fair question. The fact is we haven't altered our core holdings in over a year.

To an outsider this might look like we're busy doing nothing. But our view is that a considered decision not to change holdings is in reality a valid judgment.

Nassim Taleb, the trader turned influential author has said that Warren Buffett's phenomenal returns are probably due to luck. Why? Because says Taleb, he made so few decisions over his investing career. The problem with this argument is that Taleb doesn't consider the decision not to trade as a decision in its own right.

Anyone who has read Buffett's biography would know that he literally scoured through the financials of thousands of companies before deciding to invest in a single one.

One could argue that Buffett's returns are so good because only a handful of companies out of the tens of thousands in the investable universe meets his threshold for investment. His success partly stems from a lot of inactivity and a few high conviction investments.

Constantly tweaking investment strategies and having a high portfolio turnover gives the illusion of having reasoned opinions. In other disciplines, engineering for example, constant tweaking can be very useful in achieving optimum performance of an engine or a computer program. In investing, the only certainty with constant tweaking is higher trading fees.

The other issue with regular strategy tinkering is that the conviction for each decision becomes lower. After all, why spend time thinking about a decision when you can just change it again in a few months?

Every decision not to make a change in our strategies is in itself a reasoned decision. This forces us to have stronger convictions about every action we take and also reduces trading fees for our clients.

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