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MONTHLY COMMENT

04
2017

"I realized technical analysis didn't work when I turned the charts upside down and didn't get a different answer."

Quote attributed to Warren Buffett

The new issue of Research magazine is now available and its theme is evidence-based investing. The issue included a great article from Bob Seawright (CIO of a San Diego advisory firm). We can't fit the entire article here and recommend you take a look at the magazine in its entirety. Our extraction is shown in italics below.

Evidence-based investing is the idea that no investment should be made unless and until it is adequately supported by good evidence. Thus, "evidence-based" involves life-long, self-directed learning and faithfully caring for client needs. Of course, there are alternatives to being an evidence-based advisor (note: an abbreviated list*):*

The eminence-based advisor
This (usually older) advisor wants you to believe that the more senior the practitioner, the less importance needs to be placed on anything so trivial as mere evidence. Apparent experience, it seems, is worth more than any amount of evidence.

These advisors have a touching faith in personal experience, which can be defined as "making the same mistakes with increasing confidence over an impressive number of years." Such an advisor's white hair and balding pate are often called the "halo" effect and act to trump substantive knowledge. His (rarely her) well-appointed suite of offices featuring fine views and paneled wood are usually seen as the best available evidence of quality.

The fear-based advisor
This sort of advisor keeps on shouting from the rooftops that "the end is nigh," over and over and over again, no matter what actually happens, in order to get you to respond. The idea is that if clients and prospects are sufficiently scared, they will run to the fear-monger for refuge. In other words, quite simply, fear sells.

The novelty-based advisor
This specimen emphasizes what's new and unique, the less transparent the better. They always have the latest and the greatest.

Black boxes and hedge funds are prominent in this space — because he (again, rarely she, as is true in most other advisor categories) is so smart, don't cha know?

The providence-based advisor
An advisor who lacks convincing evidence will often claim that the advice he is giving comes straight from God. Sometimes the claim is implicit, sometimes explicit. Sometimes the motivator is guilt, sometimes it alleged brotherhood. But the results are usually hellish.

The publicity based advisor
This category sets out to convince clients of his bona fides via media appearances, publicity shots and name recognition rather than real client service. That's because he had to become so well known for a reason, right?

As British journalist Robin Powell puts it, "All too often we base our investment decisions on industry marketing and advertising or on what we read and hear in the media" or on something else altogether.

There were a baker's dozen worth of these in Seawright's piece from which we've pulled these few. He confesses many were adapted liberally from a piece on evidence-based medicine written by Dr. David Isaacs and Dr. Dominic Fitzgerald for the "British Medical Journal" in 1999. He goes on to say:

Investing successfully is really hard. Adding a client component makes it harder still. Even the best advisors are going to be wrong far more often than they would like.

If you want to do right by your clients, keep checking and re-checking your work, your assumptions and your conclusions. The evidence demands no less.

Well said Mr. Seawright.