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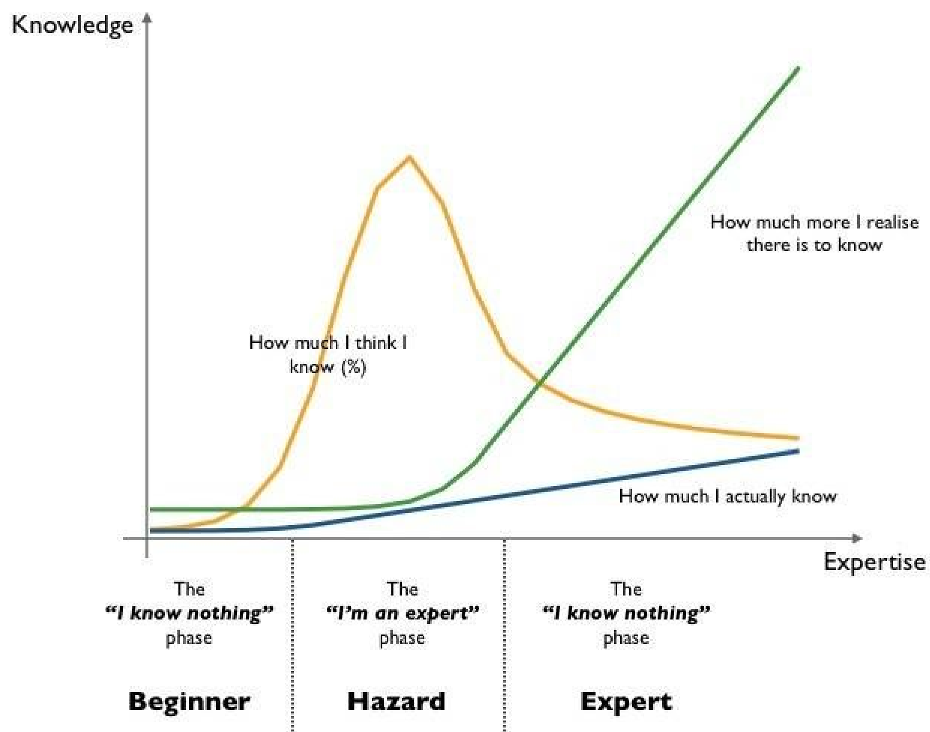
Fourth Quarter Letter
January 25th, 2017

Dear Clients and Friends,

I have one investing mantra: “don’t be stupid.” On the surface this sounds, well, pretty stupid, right? It's really not. Study the graph below (it’s relevant to any profession or hobby):



[Source]

That yellow notch in the middle of the graph is what we’ll refer to as the Stupid Notch. There’s a *whole* lot of stupid going on in that bubble when it comes to investors:

- There’s ample emotion-driven activity.
- Overconfidence is everywhere.
- CNBC is being watched as real education is shunned.
- Hunches are being acted on.
- Mobile app-enabled trades are fired off.
- Forecasts, predictions and prognostications are believed.
- Good luck perceived as skill, a most dangerous development.
- Bad choices are blamed on bad luck but then they stick around in the psyche.
- Conference calls *not* listened to, due diligence deemed a distraction.

Self-deception is everywhere in the Stupid Notch, caused by the separation of knowledge perception from knowledge reality.

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The counterintuitive, but *polar opposite* of my investing mantra is “try to be smart.” Repeat this mantra daily if you hate your money and your financial future. Nothing creates more damage in the investing world than trying to be smart. This is the equivalent of the Red Pill / Blue Pill dichotomy made famous in the movie The Matrix. Neo takes the Blue Pill, opting to live in the real world where he has a fighting chance at survival. The Red Pill returns its consumer to a false reality and we know those never end well, in the movies or in real life.

Taking the investing Blue Pill is embracing the minimization of mistakes, not the attempt at maximizing “smart ideas,” and this compounds gains over long periods of time. The investing Red Pill only occasionally provides temporary relief but the side effects are always fatal - always trying to be smart has a funny way of imploding fantastically. Every decision, every trade, every idea published represents the consumption of either pill. There is no purple. These are binary decisions every investor is faced with: Don’t be stupid or try to be smart.

Few emerge from the investing Stupid Notch. The dirty secret of the investing world is that The Stupid walk among us. They manage trillions of dollars professionally. They have long titles and products to sell. They lack the humility it takes to say “I know a good bit, but I don’t know it all, so I remain wary of this fact and I act accordingly.” The scary part is the damage isn’t done to their own portfolios -- it’s clients who pay this price. The scars of a perpetual quest to be smart, and never internalizing lessons, are typically long-lasting and they prevent a person from ever reaching escape velocity from the Stupid Notch.

It’s easier than ever to let the Notch wrap us up, individual investors or professionals alike, like a snuggly little Stupid Blanket. Information is ubiquitous and we have an endless supply of opinions competing for our attention. We can build our own Confirmation Bias Generators with social media, for example. It’s possible (and increasingly popular) to live in an echo chamber of tweets, posts and comments. A comforting constant stream of, you guessed it, stupid.

So, what’s my point here? 2016 was a very tough year to remain in the “don’t be stupid” camp and 2017 is looking like a repeat. Headline risk was, and continues to be, everywhere: plenty of “unprecedented” these and “never-before-seen” thats. (Hint: I’m trying to not talk about politics, wink wink)

For every investor, it’s so tempting to want to do something we personally perceive as “smart” right now. I am personally grounded by a sense of awe created by the fact that human progress continues to march forward, a process that has cascaded gains down to the “don’t be stupid” crowd for as long as markets have existed.

As long as the system still works, why try to be smart?

As always, thank you for your trust.

Sincerely,

Tyler