

Behaviour, History and (Investment) Decision-Making

Jack Gray

Private Wealth Network
Investment Forum

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Helping investors challenge convention



‘Truel’ decision-making

2

The ‘good’: Blondie



The ‘ugly’: Tuco

The ‘bad’: Angel Eyes

What can you earn from an urn?

3

Urn 1

100 Balls
Red & **Blue**

Urn 2

50 **Blue** balls
50 **Red** balls

Choose an Urn and then a ball from that Urn.

Payoff: \$100 for **Blue**, \$0 for **Red**

What can you earn from an urn?

4

Urn 1

100 Balls
Red & **Blue**

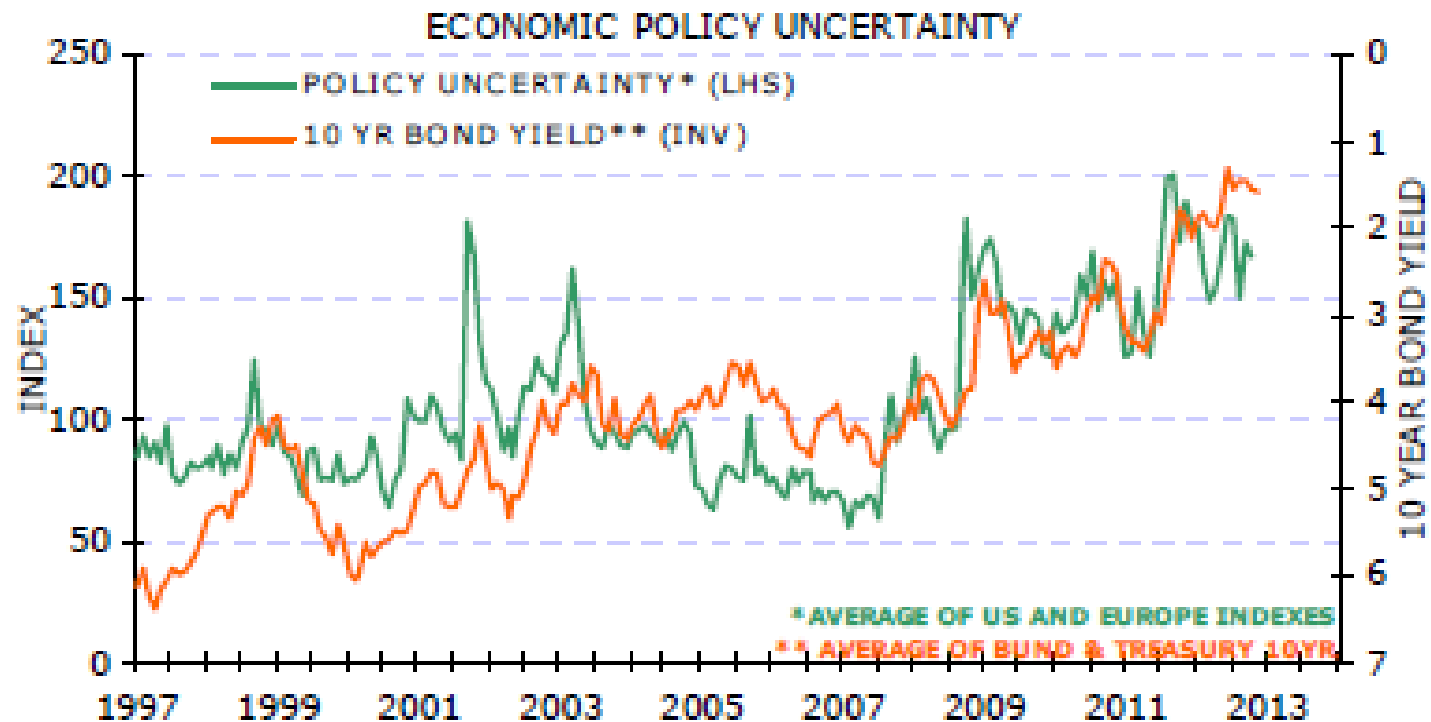
Urn 2

50 **Blue** balls
50 **Red** balls

Choose an Urn and then a ball from that Urn.

Payoff: \$100 for **Red**, \$0 for **Blue**

Rising Uncertainty, Rising Safe Havens



Source: Bloomberg, Measuring Economic Policy Uncertainty, Baker, Bloom & Davis, Morgan Stanley Research

“People are so hungry for certainty they readily subordinate consciousness and conscience to it.”

Friedrich Hegel, c.1800

“Today’s obsession with risk management focuses too intently on the *measurement* of risk. All too often, reason cannot answer ... what matters is the quality of our decisions in the face of uncertainty.”

Peter Bernstein, 2000

“We think [our decisions are] guided by reason; in fact they're guided by intuition. ... *We're not made for this world.* We're built in such a way that we systematically misunderstand and underestimate the uncertainty of the world.”

Danny Kahneman

Thinking, Fast & Slow, 2012

Decisions, fast or slow?

8

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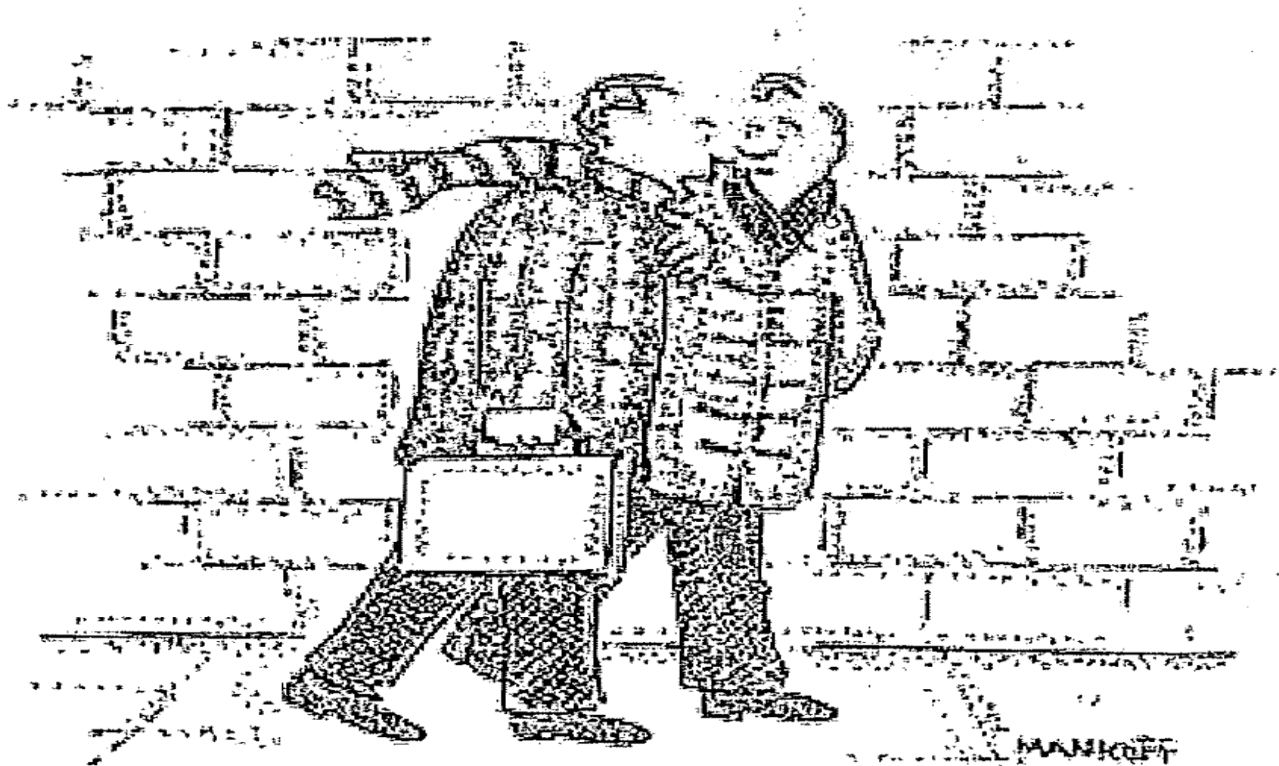
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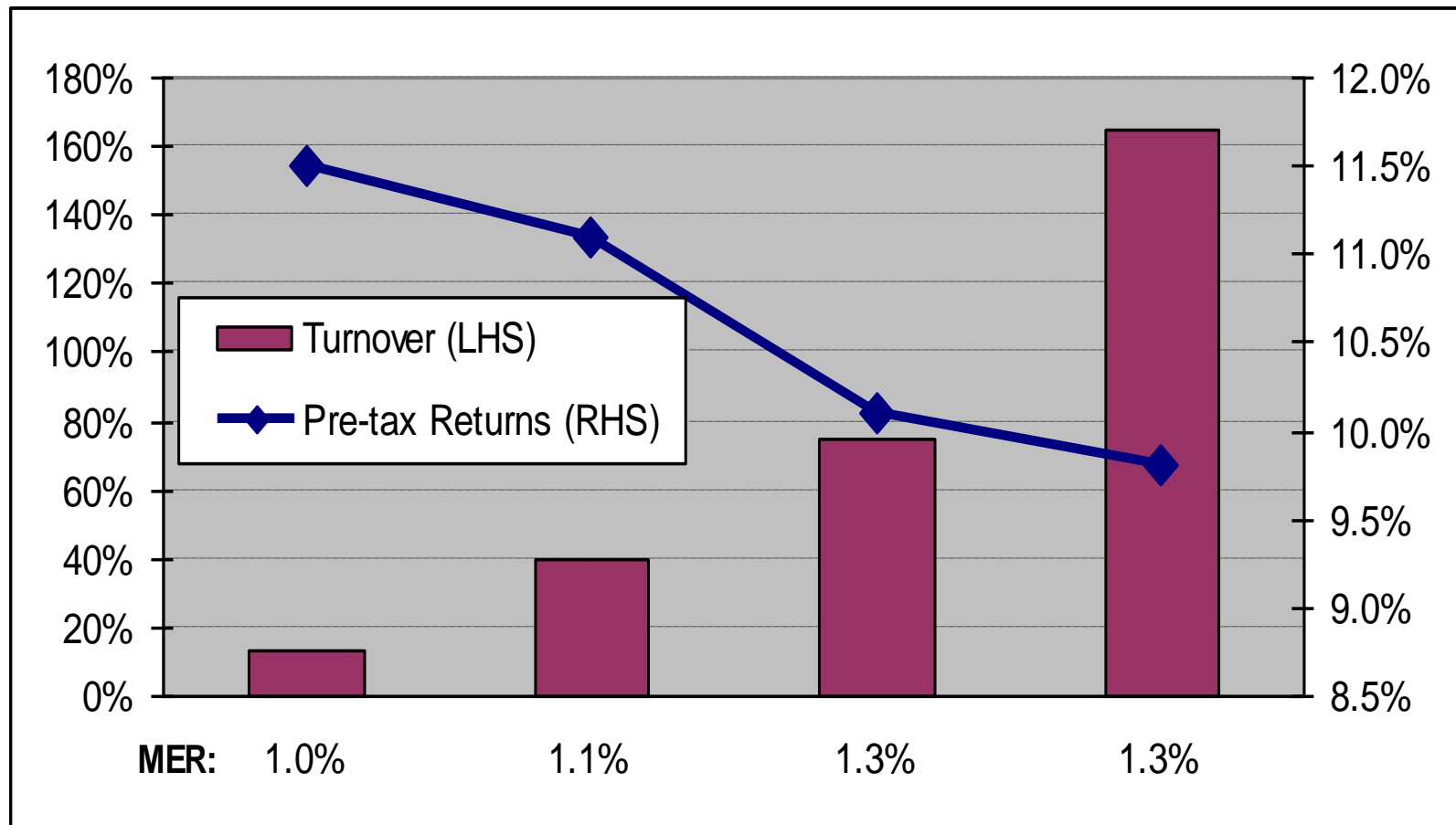


*“Long term I’m worried about global warming –
short term about freezing my ass off.”*

No contest: turnover vs returns

10

942 US Equity Mutual Funds: 10 Years to Feb 2005



'Looking at long term will put Sachin at ease'

Sanjeev Karan Samyal

■ sportsdesk@hindustantimes.com

BIRMINGHAM: Every time India's second wicket has gone down, the crowd has greeted Sachin Tendulkar to the wicket with a standing ovation. It is said, it's an honour only Sir Donald Bradman received from crick-



■ **Sachin Tendulkar.**

Hick, who got his first T hundred at Tendulkar's home turf, the Wankhede Stadium 1993, believes it hasn't been easy for the batsman given the force of the England bowlers. "The England bowlers have been bowling very well. Tendulkar would have been more disappointed if he would have walked out and England didn't have

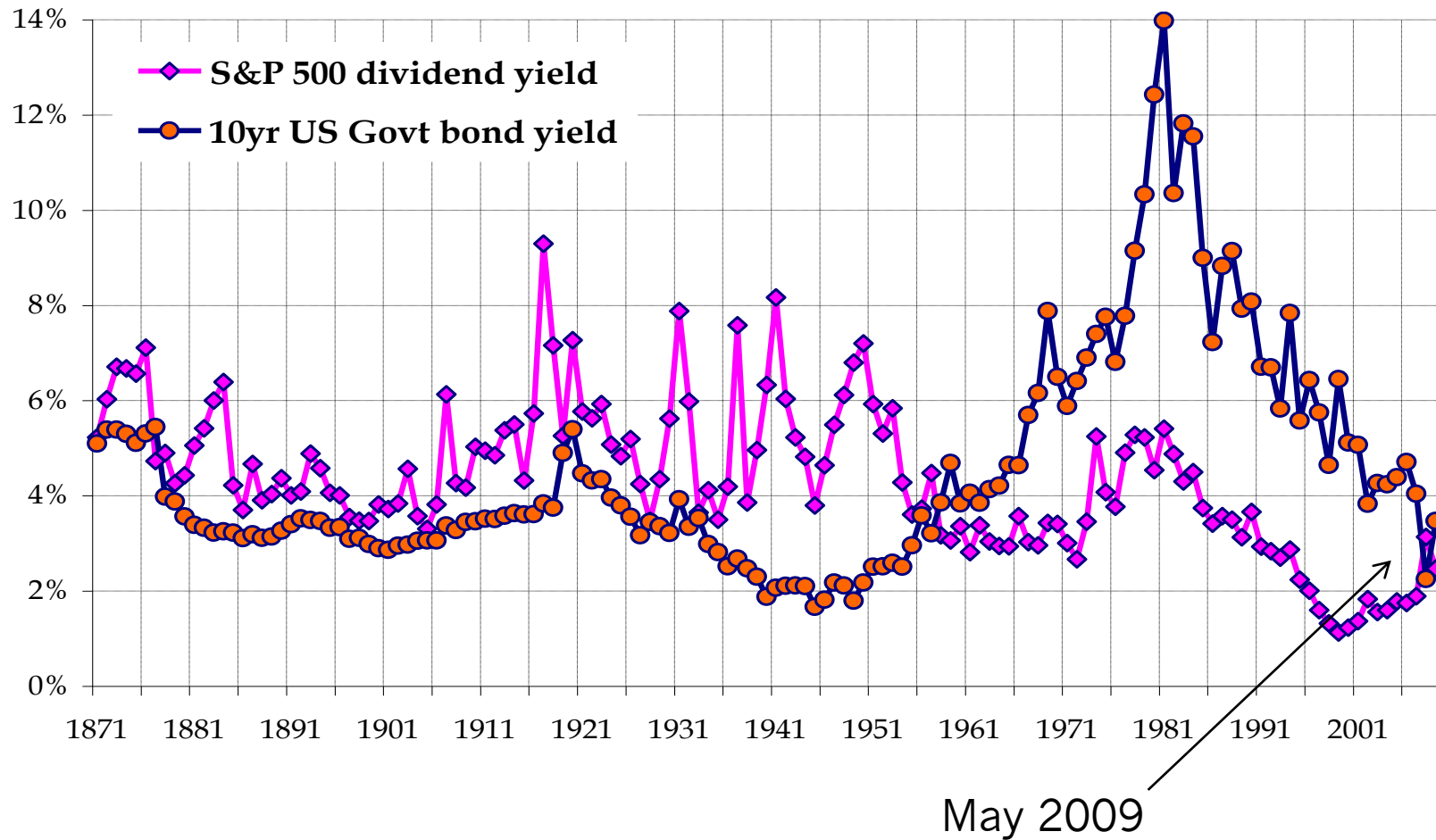
Hindustan Times, August 2011

Six *difficult* steps to improving decision-making

12

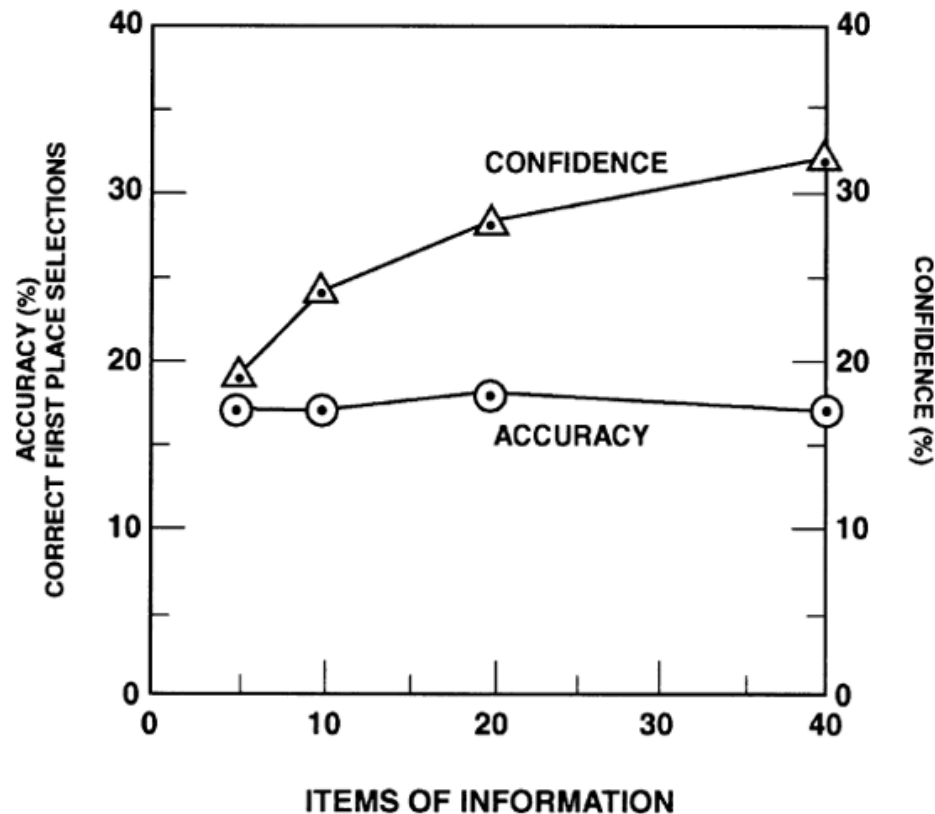
1. Accept our “slight predictive powers”

13



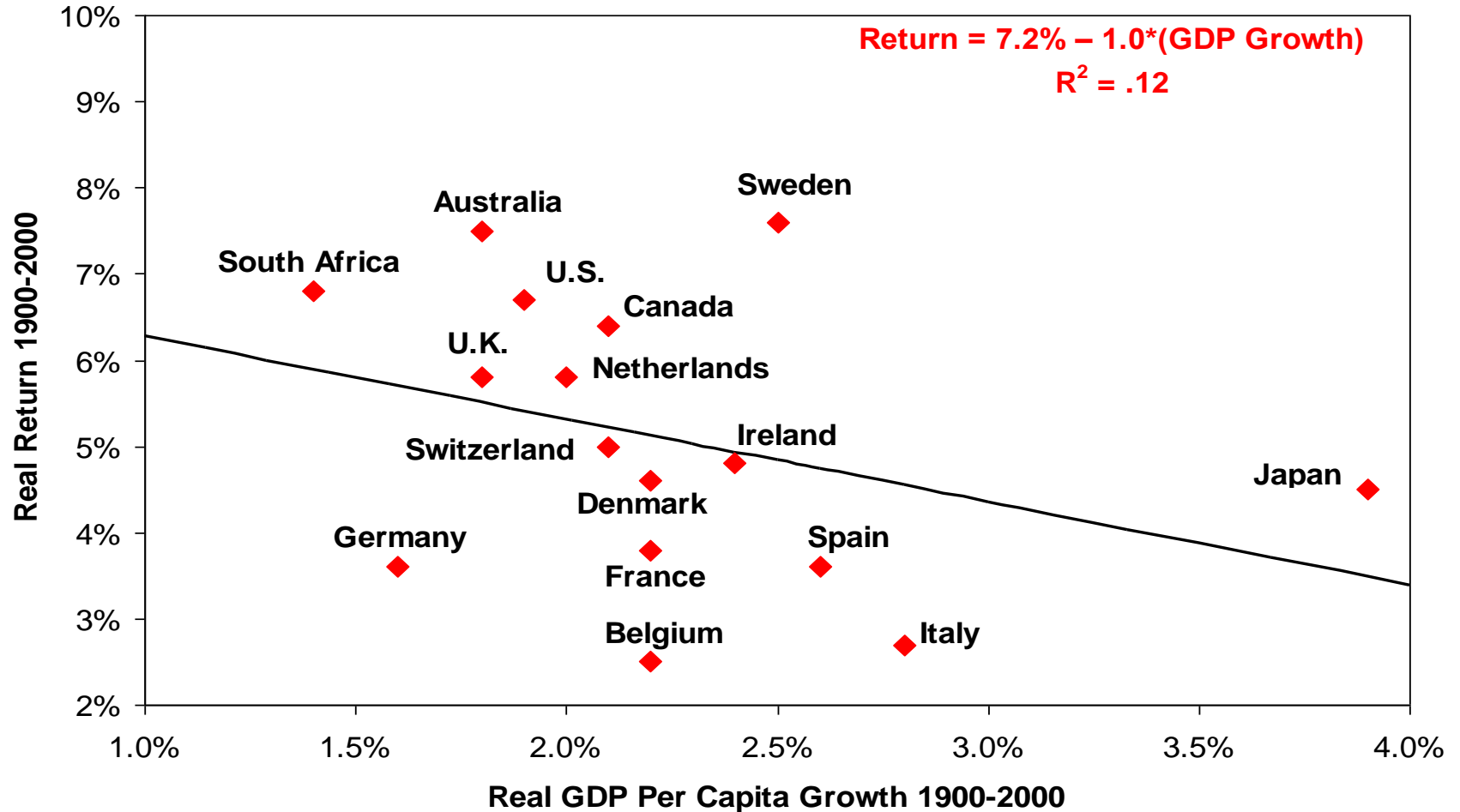
2. Emphasise Beliefs; Avoid Noise

14



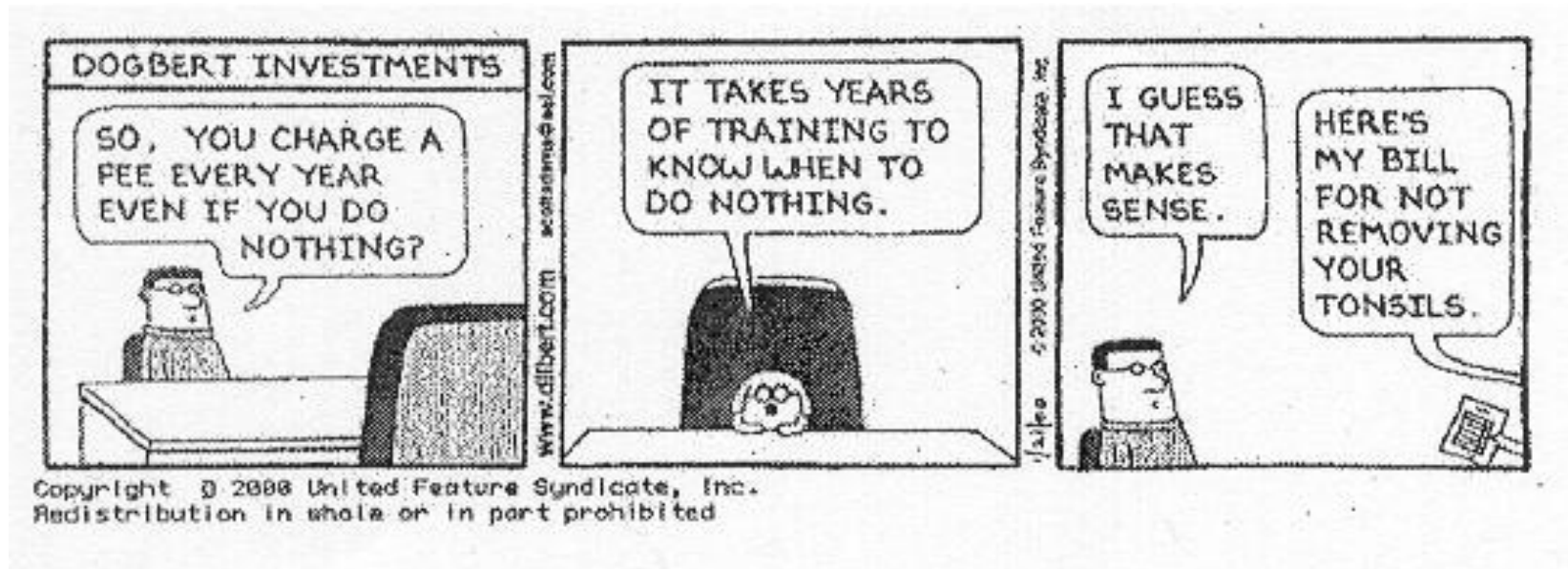
Pity about the strong economy

15



3. Practice thoughtful inertia

16



- Don't just do something Sit there

“Assessments are based, not on whether decisions are any good, but on whether they were made in accordance with ... an appropriate process.

We assume that ... *the ability to articulate the (process)* is the key to good outcomes.”

John Kay, 2012
UK Review of Long-term Decision-Making

- Secret ballots
- Designated 'bastard'
- Respect differences
- Create a 'market' for ideas
- Encourage & manage dissent

“I take it we are in complete agreement on the decision. Then I propose we postpone further discussion to give ourselves time to *develop disagreement* and gain some understanding of what the decision is all about.”

Alfred Sloan, c.1930

- To what extent are decisions (in)consistent with IBs? Where have they diverged? Why?
- How far are the views from the market consensus? Should they be closer/further?
- How would decisions differ without constraints? Are they influenced by what our organisation/clients find palatable? What opportunities were rejected or moderated because of that?

6. Use the prompts

20

- Are enough 'appropriate' risks being taken?
- What paths were travelled to get to the decision?
- On what issues were there disagreements? How was dissent handled?
- How will emerging success/failure be recognised and over what time periods?

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