



CV SPOTLIGHT *(Process)*

(Release #46, Year 2022)

5 MANTRAS OF ACTIVE INVESTING

AN UNCOMMON COMMITMENT...

...TO...

...UNCOMMON UNDERSTANDING

July 27, 2022

(with a response from Morris Pickens)

WORKING DEFINITION:

INSIGHT

An uncommon understanding

QUESTION FOR MANAGEMENT:

"If there is one ongoing structural 'arbitrage' of sorts in your industry that you deeply believe in, that you will always be able to exploit in some fashion year-after-year, what do you think it is? What do you specifically attempt to do to onboard everyone in your organization such that the collective consciousness is exceptionally high relative to understanding and working together to exploit this arbitrage?"

FIVE MANTRAS OF ACTIVE INVESTING

Every once in a while I think it is powerful to remember why we are here. What do we implicitly believe in as we start our work every single day? What is at the core of how we wisely expend our energy? Perhaps when I write "every once in a while" I actually mean "each and every day". And perhaps by being in sync with this core we can far better add activities that are advancing and eliminate activity that is counter-productive or serves a separate and distracting purpose. The five mantras below are meant to build logically on one another.

MANTRA #1 We believe the stock market is filled with hundreds of ongoing structural arbitrages that are available to be exploited. We believe most every active investor is benefitted in clearly identifying 3-4 of these structural arbitrages to focus on and become skilled at exploiting.

Implication #1: The word structural is vital. Zigging and zagging and attempting to use dozens of arbitrages and changing the ones we exploited year after year seems really really hard to do well.

MANTRA #2 We believe our task is to generate insight-filled portfolios. We charge fees consistent with accomplishing insight generation. We charge fees above passive investors who openly admit to possessing zero insight. It is our responsibility to generate insight.

Implication #1: It should be easy for us to drop a column in a spreadsheet next to each portfolio company and list concisely the 2-3 pivotal insights we have that most others do not.

MANTRA #3 We use the following working definition of "Insight": Insight = "an uncommon understanding".

Implication #1: Insights do not have to be "unique" or even "rare" but they must be "uncommon".

Implication #2: "Uncommon" can be (1) something most others don't understand/see or "uncommon" can be (2) a depth of understanding.

Implication #3: It is extremely helpful to be crystal clear about what we think our "uncommon understandings" are and to (1) test their validity and (2) check that they are not actually common understandings. It is vital to test and reality-check what we think is our "insight".

Implication #4: These uncommon understandings can involve business analysis,

valuation analysis or market psychology.

MANTRA #4 We believe that common inputs and common processes will systematically fail in creating “Uncommon Understanding”. We believe common inputs and common processing is a trap leading mainly only to common understanding.

Implication #1: We must develop uncommon inputs and uncommon processes in this highly competitive arena of active investing. The stock market is filled with smart, hardworking, motivated participants so we won't systematically generate “uncommon understanding” because we think we are smarter, harder working or more motivated than our investment peers. We will want to choose different paths than the norm.

Implication #2: We are fortunate that in the so-called “professionalization” of our industry so many of these smart, hardworking, motivated investors lean heavily toward common practices, many of which lead only to common understanding. This industry “professionalization”, in itself, allows a process arbitrage amplification as we pursue our focus market arbitrages.

Implication #3: We are extremely benefitted by actively considering thoughtful ways to increase uncommon inputs and uncommon processes while thoughtfully eliminating many common inputs and common processes.

MANTRA. #5 We believe investing is an activity which invites lifelong improvement. We can always get significantly better at what we do as individuals and as teams.

Implication #1: In an activity where being “great” is sometimes considered as being right 60% of the time, what we are aiming to (1) create is even a 3-7% advancement of the amount of time in being right and to (2) become exquisite in reducing self-inflicted the punishment in the instances of being wrong.

FINAL THOUGHT: Our friend Morris Pickens -- as many of you know -- is a sports psychologist and especially works with golfers. He is known by golfers for repeating three simple mantras I thought apply wonderfully for us:

#1 Morris Mantra “Stop doing that.”

#2 Morris Mantra “Keep doing that.”

#3 Morris Mantra “Stay where your feet are.”

The Morris Mantras #1 + #2 above help remind about increasing and eliminating specific activity that helps or hurts. Morris Mantra #3 is all about us as investors remembering our implicit core beliefs and to get our feet in the right place metaphorically and keep them there.

WILDCARD COMMENT

FROM MORRIS PICKENS

(PIP LEAD IN: I knew I would love Morris a mere 16 pages into the first book of his

as I dug into it. Morris – as most of you know – is a sports psychologist and especially works with golfers. He is all in on process process process. But then I realized the depth of his uncommon thinking when I learned of just one of his methods. He has players do a set of push-ups or short wind sprints so as to increase their heart rate before hitting shots on the practice range in order to mimic what occurs when someone is anxious during the actual competition. Morris has no end to creative uncommon useful practical processes.)

#1 It is illogical to think that one can pursue an activity common to others and achieve a goal uncommon to them. (You can't practice like "every other Tour player" and expect to win Majors)

#2 Getting significantly better at an activity that changes the bottom line on a consistent basis is worth pursuing. (Putting will always account for more of your score than your bunker game no matter how poor your bunker game may feel at any given time) Some courses don't even have bunkers. Every course has 18 greens (where putting happens). Putting will ALWAYS remain more important than your bunker game.

#3 If insight = uncommon understanding, uncommon understanding = being able to grasp the nature, spirit, or significance of something in a way others can't see.

Hope these are different/unique in a way that helps the group!

...Mo

"Just like a good golf swing, a good routine has a nice rhythm to it. It is not jerky or discombobulated. All the parts go together smoothly so that it just seems to flow. This starts with a smooth walk into the ball from behind..."
...Dr. Morris Pickens

