Information Is Not Insight Without The Application Of Wisdom

Saturday's With Jim

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
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Dear Friends,

Some of the vast information flow which surrounds us is surely valuable as building blocks for insight. Yet, without a general and strong infrastructure born of years of learning and experience, we will likely fail to select information that has a half-life longer than a millisecond or be unable to synthesize it into something that furthers our knowledge. As investors, we are constantly pummeled with information and opinions from the media and the punditry – and factual stuff like statements and reports. How do we, as your investment advisors, separate the wheat from the chaff and, perhaps more importantly, how do you process and use the input you receive from your daily lives and from statements and reports to give you a sense of the progress you are making? Let's start with us.

We Have a Strategy and a Plan

We think there are many ways to the top of the investment mountain, so to speak. That mountain's peak should be our objective – and yours. Reaching that peak will realize the hopes and dreams you have put into taking a bit of risk to get the funds for whatever you want to do… retire, give away money as a foundation would, take extra vacations, supplement income, or whatever. Our discipline and strategy, then, should be aimed at getting you to your destination with a minimum of angst and doubt on your part.

Our strategy is simple. We want to get you to your investment peak by holding quality securities from a diversified set of geographies, industries and asset types in your accounts. Through diversification, we will always be in the hottest area, while at the same time holding some securities that are out of favor. If we are not diversified, we will need to hop around to whatever has momentum at the moment – not a fool's game, but surely a hard one to get right enough to make good money without anxiety and fear of falling. It only remains for us to employ our strategy in an intelligent and consistent manner, for consistency wins the day over momentary flashes of brilliance which are usually replaced by failure when the moment passes.

Because we have chosen the benefits of diversification over concentration, we will occasionally be passed up when markets get so selective that only a slice is doing well while the rest goes wanting (like the late 90's).

And you?

We think that your greatest trials come when your account doesn't make as much as some other strategy is making or when we outright lose money from statement to statement. The standard medicine for handling short-term (maybe up to 2-3 years) disappointment is to focus on the long-term while asking, "Has there been a sea change?" But if past performance is not a guide to future performance, how can we feel confident that the long-term will end in us reaching our investment peaks, not crashing and burning in the process?

First, we don't know that a short-term event will have long-term consequences until we reach the long term. Sure, there are indicators that have greater predictive power than others, but there is no silver bullet or philosopher's stone for investors. If you're looking at your investment peak at the bottom of a bear (down) market, it looks unattainable. Conversely, at times like now (after eight years of generally good growth), you may have a tendency to see your goal as nigh if the good times but continue.

Taking the Long View

First, what is your benchmark? Selecting a benchmark that is in sync with your needs and tolerances is a useful tool if you are going to be quantitative. Comparing our work with that of another is often a fool's game – especially if it's done over only one, two or three years. All strategies rise and fall in favor over cyclical periods, so knowing longer-term outcomes is impossible with short-term comparisons. Knowing how well we hone to our discipline is probably a good measure. But how will you know when we are executing well and when we are not? How can anyone distinguish skill from luck without somewhat sophisticated analytical tools that are objective?

Adjusting investment returns for investment volatility (commonly called risk) provides an apples to apples comparison with other strategies and benchmarks. RARs, as they are called, judge each investment return by the risk taken to get it. Without going into the math, we can say that a high risk, high gain investment is surely not stable and not only is it liable to disappoint in the future it may actually make less money than an investment which grows less frenetically. DALBAR's (a research analysis firm) annual report, comparing investor actual returns with those made if their investments had been bought on day one of the analysis and held throughout to the end, notes that the more volatile the investment, the worse the investors did compared to a simple buy and hold strategy. RARs, then, add greater clarity to the raw figure of percent return.

We are grateful that you chose us to facilitate your financial journey. Thank you for investing with us.