It’s Not That Easy Being Green Or Not Stupid

Saturday’s With Jim

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Dear Friends,

Thanks to Shane Parrish in his *Farnam Street* blog, “How Not to Be Stupid,” for the inspiration for this post.

What does Kermit The Frog have to do with not being stupid? Kermit, a reporter for Sesame Street News, never got himself in the following situations which are precursors for “being stupid,” or making avoidable human errors:

- Being outside our circle of competence
- Stress, rushing or urgency
- Focusing on an outcome
- Information overload
- Being in the presence of authority
- Being in the presence of a group

Stupidity is not the opposite of intelligence according to Parrish in his interview with Adam Robinson cited above, it is overlooking or dismissing conspicuously crucial information. He goes on to say that stupidity is the cost of operating in a complex environment. But might we lessen the cost a bit?

Investing Invites “Stupidity”

Investing’s complexity lies in the multiplicity of choices, the constant feedback of much noise and little signal and a high level of uncertainty. The complexity of the investing environment is enhanced because we are investing for the future based on what we know from the past and because humans are super prone to behavioral biases which can torpedo sound investment processes. Beyond pure technical competence and discipline, though, lies the most common source of human error in investing – our emotions.

Stupidifiers and How We Alleviate Their Influence

Stress, rushing or emotion are almost always present in investing if we focus on an outcome amidst the information overload that we experience in daily market action. Basing portfolio decisions on a short-term (perhaps up to three years) performance outcome is another source of error (“stupidity”). The best recipe we have found for keeping our emotions from making us do something "stupid" includes diversification across several asset categories and periodically rebalancing back to our original plan. We diversify according to a specified degree of risk acceptance and desired eventual outcome. Our investments are seldom top winners, but they are never the biggest losers on an annual basis and will offer smoother, less volatile performance. Rebalancing adds to diversification's effect by trimming a bit from winners and giving to cheaper relative losers. Rebalancing captures the benefits of buying into out of favor asset groups while awaiting their eventual return to favor.

A solid, well executed investment process will take us a long way toward being "not stupid" investors.

For reference, *Farnam Street* is a blog that the author writes to share life-enriching knowledge with others. You can visit the blog at https://fs.blog/

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