Less is More

The human mind is naturally drawn to action. We convince ourselves that activity and movement equal progress. Activity often conceals more beneficial decisions by projecting an illusion of progress. Investors are particularly vulnerable in a field where higher activity generally produces lower long-term returns.

Our tendency to act is exploited in the hazardous atmosphere that surrounds financial markets. The investment industry feeds on activity, emotion, and chaos. Media outlets foster intense optimism or extreme fear that fuels a fire of activity. Modern brokerage apps provide market access from any location with cellular service. Users can instantly move from decision to execution with minimal friction and zero fees.

Investors often overlook the most rational action is to take no action at all. In a 1974 Fortune interview, Warren Buffett said "there are no called strikes in the investment game. All day you wait for the pitch you like, then when the fielders are asleep, you step up and hit it."

The investment ecosystem is designed to provoke our compulsion to act. Trivial analyst forecasts and price targets sit front and center, while practical data is relegated to the nosebleed section. Brokerage firms softly chant, "swing batter batter…swing" as they provide minute by minute updates on asset prices Monday through Friday. Their high-volume low margin business model has visible incentive to drive action and trading activity.

Average trading volumes have nearly doubled over the past 5 years according to SIFMA. Volumes increased from 6.5 billion shares per day in 2017, to 12 billion shares per day in 2022. Pre-tax net income for FINRA-registered firms rose from $37 billion to $92 billion for the same period (FINRA, 2022). Investors are swinging more and thinking less.

In 2014, social psychologist Timothy D. Wilson made an alarming discovery related to our psychological need to act. A series of studies revealed that **people would rather perform a harmful action than do nothing.**

> *"Simply being alone with their own thoughts for 15 minutes was apparently so aversive that it drove many participants to self-administer an electric shock that they had earlier said they would pay to avoid." (Timothy D. Wilson, 2014)*

Few things are more dangerous for investors than consciously making a harmful decision. Action for the sake of action is a proven method to produce below average investment returns over time. Fortunately, the great investment thinkers of our time have provided valuable wisdom to help avoid this folly.

> *"People calculate too much and think too little. Thinking is a surprisingly underrated activity in investing. People who cannot be alone with their own thoughts for a long time are terrible candidates to become successful investors."*

> *"We both (Warren Buffett) insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business. We read and think."*
> *-Charlie Munger*

Investors who think more and act less will produce higher quality actions in aggregate. The concept is simple to understand but difficult to implement with consistency. Today's hyper stimulative environment can overwhelm even a well-trained investors mind. Patience, discipline, and rational thought are enduring tools that require honing to keep their blades sharp. It may benefit investors to invert the old saying, "Don't just stand there, do something" to "Don't just do something, stand there."

> *"The big money is not in buying or selling, but in the waiting."*
> *-Charlie Munger*

The "20-slot" rule is an exercise Warren Buffet employs during lectures with business school students. He tells students the following scenario. "I could improve your ultimate financial welfare by giving you a ticket with only 20 slots in it so that you had 20 punches – representing all the investments that you could make in your lifetime. Once you punched through the card you couldn't make any more investments at all. Under those rules you'd really have to think carefully about what you did."

Buffett's "20-slot" rule is a simple yet effective exercise to help avoid acting on mediocre ideas. Ask yourself - is this investment worthy to occupy one of the 20 slots in your lifetime investment punch card? If it fails to meet that criterion remember…there are no called strikes in investing.

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