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On Successful Investing: Start with the Simple Question, "Why?"

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Simon Sinek did a great TED Talk in 2009 (the third-most watched TED Talk ever, with over 50 million views) regarding WHY. While he applied the concept to leadership, I believe that this mental model has wider application, including to successful investing.

Why are you involved in investment management? Is it to make as much money as possible? Or, putting it less crudely, to generate as high a long-term compounded annual return as possible? Is it due to a competitive spirit to beat other participants in the biggest game there is, i.e. in financial markets? Perhaps you don't just focus on the scoreboard, and do it because of the intellectual challenge. Maybe it's your natural curiosity regarding a wide range of subjects, which manifests in learning about companies operating in various industries. Or, you might have an innate fascination about what makes some businesses succeed and others fail. For me, it's a combination of the above.

Whatever your *raison d'être* as investor, you must be able to articulate WHY. Your WHY will inform your HOW. If your primary motivation is to generate an above-average long-term return, you would necessarily study those who have done so in the past. While many of them have followed a similar approach, generally referred to as value investing, there have also been successful investors following approaches vastly different to what we understand value investing to be, traditionally speaking.

Charlie Munger describes value investing broadly enough to include all of these (supposedly) different approaches when he say it is "buying something for less than it is worth." One should keep an open mind regarding investment considerations that are not associated with traditional value investing. It is imperative to continuously evolve one's thinking and not to become dogmatic – the performance of large tech companies over the past decade has been instructive in this regard, as but one example of staying mentally flexible regarding the concept of value.

There is a second WHY imbedded in the study of other successful investors: why have their approaches been successful? Positive outcomes are generally due to a combination of skill and luck, which can be difficult to untangle, as explained in Michael Mauboussin's book, *The Success Equation*. If you decide to follow a specific approach that has led to a successful outcome for another investor, how sure are you that luck did not play a decisive role? Warren Buffett's famous article, *The Superinvestors of Graham-and-Doddsville*, addresses this in the context of value investing, but I would venture to say that there are other, more subtle attributes that these Superinvestors shared.

In a similar vein, there are countless investors who have (apparently) copied the same value investing approach as the Superinvestors and have not been successful. This is a dilemma still prevalent today: There are many investors who say all the 'right' things and expound on all the reasons why their approach is the 'right' one, but the outcome they seek (generating an above-average return over the long-term) remains elusive. In the absence of winning according to the scoreboard, it is difficult to enjoy the game. It is also difficult to stay in it.

Outside investors, who entrust their savings to an investment manager, generally do not care much for the investment manager's enjoyment. The outside investor's WHY is clear: backing the investment manager to generate an above-average return. This does not detract from the investment manager's own secondary motivations, but it does mean that generating above-average performance is of primary concern.

I remind myself of this often, that my primary responsibility is to keep on chasing the investment rabbit, and that I will be motivated to continue doing it if I enjoy it. It is an enjoyable endeavor when an investment manager can deliver on the WHY of outside investors and on the WHY of the manager at the same time. The active investment management industry would do well to keep this front of mind, especially in the context of the deserved criticism that we endure for perennially underperforming comparable passive investments, on average.

As a subset of the active investment management community, may the MOI Global community continue to help each other learn, improve and generate above-average returns, delivering on the WHY of both outside investors and on the WHY of investment managers themselves – enjoying the game while winning on the scoreboard too.