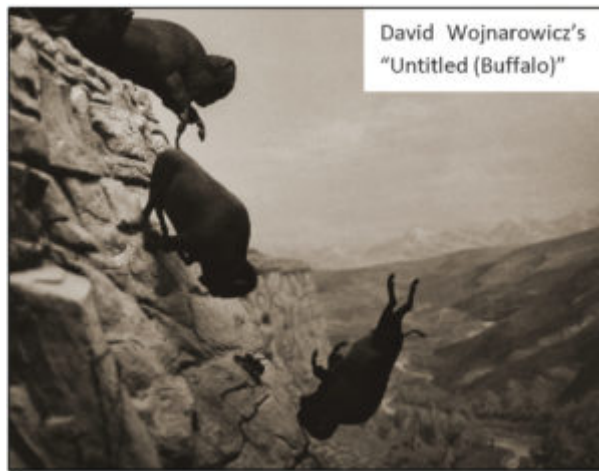


## The Danger of Crowds

*This article is authored by MOI Global instructor Steven Kiel, chief investment officer of Arquitos Capital Management.*

Thousands of years ago, before the use of horses, Native Americans utilized a hunting technique that preyed on animalistic instincts. This technique was called the buffalo jump. Hundreds of buffalo could be killed at a time without the use of weapons.



Tribesmen would set up a path lined with piles of rocks and tree stumps, creating a “road” towards the cliff. Hunters would then frighten a lead buffalo in a herd onto the path and cause a stampede.

Stampedes are not unique to buffalo and happen with humans as well, even today.

Psychological stampedes are more widespread than physical stampedes, though. The dot com bubble was a psychological stampede. The run-up in housing prices prior to 2008 was a psychological stampede. So were Beanie Babies, the Salem witch trials, tulips, the nifty-fifty, and too many more examples to list.

Stampedes (or bubbles or manias) are a staple of human nature. We have a fear of missing out. We are greedy and fearful. Like the buffalo, we feel safer in the crowd. As Keynes has said, “Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.”

Sometimes it takes courage simply to be a bystander. We don’t have to be Michael Burry betting against sub-prime mortgages. During the housing bubble, we could have succeeded by simply sitting it out, not investing in lenders, homebuilders, and other ancillary businesses, staying away from AIG, Lehman Brothers, Bear Stearns. If we can be the hunter, then great, but we can also win by not being the prey.

How does that apply to our portfolio? I avoid companies in industries that attract risk-takers. It is very difficult for a company to go bankrupt if they don’t have debt, so I avoid margin leverage in the portfolio, and I avoid companies that rely on debt.

As a passive owner in a business, we want the decision-maker at the company to like vanilla ice cream and The Andy Griffith Show, and we want him or her to drive a Toyota Corolla. The more boring the

better. Sure, we can get rich riding along with a daredevil, but how would we know when to get off the ride? We know compounding works in our favor, so why take the risk?

Ideal CEOs for us are people like Brian Moynihan at Bank of America and Mike Falcone at MMA Capital. Both are focused on creating long-term value for their shareholders and not taking unnecessary risks. Ironically, it can be unconventional to be a boring CEO!

There is both wisdom and madness in crowds. The point is to be thoughtful about who we follow, what companies we own, and how we go about making decisions. Without that thoughtfulness, we would have no chance of beating the markets.

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