

# Marks of Distinction

OVERLOOKED SKILLS CAN HELP AN INVESTMENT MANAGER STAND OUT FROM THE CROWD

By Jason Voss, CFA

Some of the skills most investment managers look for are obvious, such as a love and vast knowledge of economics, business, and finance; high drive; confidence; and persistence. You probably recognize these skills as necessary because they permeate the mythology of the investment business. Yet many of the critical skills needed for a successful investment management career are not taught in business schools, discussed in the business press, or understood by most firms doing the hiring.

Having hired research analyst interns, research analysts, a portfolio manager, and even my own successor when I retired from investment management in 2005, I have gained a fair amount of knowledge about which skills separate you as an investment manager. Distinctive skills include such attributes as introspection, creativity, intuition, decisiveness, absolute versus relative decision making, and discernment. If you would like to separate yourself from the crowd of highly motivated and highly intelligent candidates, try adding these to your arsenal of skills. In the first part of this series, I will focus on the first three: introspection, creativity, and intuition.

## INTROSPECTION

If you do not have self-knowledge about yourself, you cannot know which of your weaknesses need to be addressed with personal forgiveness, thoughtfulness, a well-crafted plan, and discipline. Consequently, you are doomed to repeat your mistakes over and over. Few fund management firms have patience for damaging mistakes being repeated. In fact, my personal goal during my career was never to repeat the same mistake twice. Although I made many mistakes in my investment career, I only repeated one of my mistakes.

Furthermore, if you do not know yourself, then your intellectual tools

are likely to be out of accord with your innate talents. For example, if you objectively perform best when your adrenaline is coursing through your veins and critical decisions need to be made immediately, then it makes little sense for you to deploy tools like deliberate financial statement analysis and discounted cash flow analysis. Perhaps the better match for your tool kit is a piece of software that helps you comb Twitter for actionable information. It should be obvious that knowing this about yourself would mean you likely want to work on a trading desk rather than a value investment shop.

**REMEDY.** Take up practicing meditation or mindfulness. When you start practicing meditation, you are gaining a skill set that humanity has found useful for more than 3,000 years to get to know yourself.

**APPLICATION.** My very first purchase as a portfolio manager was International Rectifier (IRF). As a research analyst, I spent months trying to understand and model this company, and I bought its shares shortly after my promotion to the role of portfolio manager from analyst. My model suggested fair value for the company was \$45 conservatively. The market price at the time was right around \$45. International Rectifier proceeded to trade far down from my estimate of fair value.

Not until I engaged in careful introspection did I realize that I had ignored my preferred rule of buying only a stock in which there was a margin of safety (i.e., a current price at least 15% below my fair value estimate) in a company's

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share price. Unfortunately, I could not wait to make an imprint on the fund I was promoted to co-manage. Engaging in meditation ahead of time would have prevented the loss of capital endured by the fund's shareholders.

## CREATIVITY

One of the questions I used to ask aspiring investor candidates was, "What do you do that is creative?" In all of my years of asking this question, I only ever got two coherent answers. One was so superior that I insisted on hiring the candidate on the spot.

Why is the answer to this question so important? There are two reasons. First, it measures whether or not you know how your mind works, and two, it reveals whether or not you are conscious about using your entire mind to think and to solve problems.

In reality, every time we cross the street we are taking in lots of data about the situation and inventing an on-the-spot solution to the various factors at play: icy road, fast-moving traffic, number of lanes to cross, your health, your footwear, and so forth. The solution is a *creative* solution. People are using their creativity all the time to solve problems, but most have zero awareness of how they think.

Many people who are conscious of creativity as a part of their mental framework still get it wrong because they have made an archetype of creativity, meaning that they define creative things as drawing, painting, sculpting, or playing music. But a true creative practice is just being aware that you are creative and doing things to cultivate that part of your mental apparatus.

**REMEDY.** Gaining creativity has two major accelerants. First, constantly be aware of your boundaries and your firm's boundaries. Creativity is about pushing past boundaries into new territory—doing what no one else is doing.

If you do what you have always done, then you will get what you have always gotten. Second, creativity is about awareness. The remedy has two parts: meditating and challenging orthodoxy by taking mental leaps of faith.

**APPLICATION.** Creativity is such a generalized skill that it can be deployed in almost any situation. The most obvious application, however, is in generating new investment ideas. After all, to outperform your investment management competition, you must be doing something that they are not doing. Creativity is the skill that helps you to identify what no one else is doing.

In my investment management career, I developed an important thesis

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early on: a sneaky way to inexpensively own the technology boom. Via my creativity practice, I recognized technology as both a breadth and a depth story. That is, more and more people globally would be buying technological gadgets and more and more gadgets would benefit from new technology (such as refrigerators, toothbrushes, and so forth).

Unfortunately, it was almost impossible to buy the technology leaders at discounted prices. But through creativity I recognized that all of these devices required electricity and that electricity was also therefore a depth and breadth story. This insight led me to look for a global power company so I could capture the upside benefits of technological growth but experience the growth through a very stable, established business. As a result of creativity, I purchased shares in AES Corporation (AES)—a decision that was among the best I made as an investment manager.

## **INTUITION**

I think Daniel Kahneman sets intuition up as a straw man for his behavioral economics theories. In his well-received book *Thinking, Fast and Slow*, of which I am a fan, he associates intuition with “System 1” thinking, which he calls “fast thinking,” characterized by snap assessments of situations, subconscious thinking, and thoughts processed in the brain’s amygdala. Kahneman holds up “System 2” thinking as the opposite. It is “slow thinking,” characterized by deep analysis and processed in the prefrontal cortex.

I submit, however, that he associates the wrong word with System 1 thinking. It should not be intuition but

Maurice Dirac as scientists who experienced immediate apprehensions and flashes of noninferential knowledge that advanced science in meaningful ways. These flashes of brilliance stand in stark contrast to both System 1 and System 2 thinking as depicted by Kahneman.

My book *The Intuitive Investor* describes intuition as tuning into the cosmic radio station. Using similar language, Derman says of intuition, “The observer becomes so close to the object (or person) observed that he begins to experience their existence from both outside and inside them. Intuition is a merging of the observer with the observed.” In both cases, intuition requires deliberation, despite the ultimate “eureka moment.”

But why is any of this important to investment management?

One of the conditions of intuitive insight is an unbiased, unattached mind—one free from the preferences, prejudices, and emotional constraints associated with the amygdala. It turns out that the ability to apprehend, comprehend, and resonate with the truth of the universe as closely as possible is exactly the discounting process that every analyst is charged with fulfilling.

**REMEDY.** The key to developing intuition is stripping away autonomic emotional responses and attuning oneself to a state of no-mind. Again, these are the very fruits of healthy introspection and mindfulness/meditation practice.

**APPLICATION.** Intuition is a skill with endless applications. It was my intuition that led me to publicly call the 9 March 2009 S&P 500 market low on 12 March 2009. Using meditation, I felt that most market participants were no longer anxious to the point of nausea and instead were exhausted and spent. This was at a time of high emotional paranoia and forecasts of the end times. But using the power of intuition, I was able to strip away the autonomic emotional responses of the amygdala and see the world differently, enabling me to make a very different call from many other market participants.

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