

Identity Investing

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Identities create comfort and order in a messy world. Identity politics is the best example. Political affiliations shortcut thinking. As soon as we realize an idea is Republican or Democrat, our mind is made up without even evaluating the idea itself.

No need to consider the merits.

No need to examine the nuances.

No need to learn from the other side.

Just let the identity decide for you.

This happens in the investment world too. Investors form identities which hinder the ability to learn from opposing views. We are suckers for identities because it saves us time and energy. And it fuels our ego when we hear nothing but things we already agree with. But it also creates defensive rigidity, mindless groupthink, and destroys the ability to adapt. For example,

- Bullish investors dismiss all bears as doomsayers
- Bearish investors dismiss all bulls as naïve optimists
- Value investors dismiss all growth stocks as expensive/unsustainable
- Growth investors dismiss all value stocks as falling knives
- Fundamental investors dismiss quants as opaque black boxes
- Bottom-up investors scoff at the futility of a macro investor's economic views
- Active investors dismiss passive investing as lazy and boring
- Passive investors dismiss active strategies as paying high fees for underperformance
- Public market investors dismiss alternative investors paying 2 and 20
- And on and on...

It's easy to dismiss strategies that conflict with our identity. Why spend time on other strategies when our strategy is superior?

Because deep down, we know our ideas and strategies are not perfect. We're afraid of realizing that perhaps we don't have it all figured out. That we'll have to face the fact that what works in investing is a complicated gray area.

It's easier just to say we have our strategies and we're sticking with it. Otherwise, we'll have to accept it's a messy, confusing, and changing investment world. This is discomfoting for most investors – why can't we just stick with what we are doing so we don't have to live with this ambiguity?

So we cling to our identities to avoid the painful truth that we may not know what we think we know.

Identities create a comfort zone – comfort from seeing the world as it is.

The point is not to agree with nor chase every new strategy that comes across your desk. However, we do have the responsibility to be curious and open minded about challenging what we think works. And that means abandoning

whatever identity we cling to. As long as we view the “correct” method of investing in terms of what we have always done, we’ll never challenge our methods and improve. Because no one has it figured out.

It’s a simple task, but one that takes time. All I ask is to give considered and deliberate thought as you evaluate strategies you inherently don’t find attractive. If you do the work and realize there’s little substance, that’s great. You’ve done the work to earn that conclusion. But simply dismissing strategies without doing the work is a lazy shortcut.

Investors, like athletes, grow through feedback and challenge. Actively researching competing strategies does a couple things.

First, it exposes you to opposing, uncomfortable ideas. The worst thing that can happen to an investment organization is to become an isolated, fearful group afraid of outside ideas by prioritizing egos above growth.

Second, it builds critical thinking. Researching new strategies is like working out. It’s challenging. You grow from it. Yes, it takes time and hard work. But you become better. It’s practice. And one of the keys of practice is to challenge yourself with new ideas, not just ideas you already agree with.

Finally, it keeps you humble. A lot of investors think they have it figured out. The goal is not to overthrow your entire process and philosophy. Instead, it’s making marginal improvements at the edge. Picking up on a few ideas from competing strategies is meant to complement, not replace, what you do.

Every good investor understands they will look back and realize how much better their process could have been. So accept that fact today and get on with it. Drop the expectation of perfection and start learning where to improve. Don’t fear being wrong. Just fear staying wrong.

There is no one correct way to invest.

There’s no one method that always works.

There’s no one investor or firm that has it all figured out.

There are no investment laws, like there are in physics, that work with 100% certainty.

Investing is hard and complex, so keep challenging your beloved ideas and welcome dissent

Charlie Munger’s principle on earning the right to disagree comes to mind:

I never allow myself to have an opinion on anything that I don’t know the other side’s argument better than they do.

That’s a powerful tool to combat the urge to rely on identities. Instead, do the work so you earn the right to have an opinion.

Taking the time and earning the right to have an opinion seems radical in today’s short-term anecdote driven investment world. Everyone has opinions on everything. Just listen to CNBC or get on Twitter. Everyone abounds with confidence and hubris, ranting on whatever topic, but without doing any of the work. It’s all bullshit, but it sells.

Opinions are easy, understanding is hard. You can’t let the CNBC mentality creep into your investment organization. Demand rigor and don’t tolerate identity-driven thinking.

Identity investing leads to hero worship. Warren Buffett, Ray Dalio, George Soros, Ken Griffin, Steve Schwarzman, etc. All have earned their reputations as one of the greats. However, that doesn’t mean you start agreeing with everything they say without evaluating each argument separately.

Every claim needs to stand on its own regardless of their past success. Evaluate and judge each claim independently.

Even the best make mistakes and errors. Or speak on ideas outside of their circle of competence. Or have bad days. Or ulterior motives.

It's easy to dismiss those you disagree with without doing the homework. It provides comfort, confidence, and clarity. But it's a false sense of comfort because the investing world is complicated with no clear answer. The only way to untangle the complication is to move past identity.