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"Beliefs are like possessions…."

– Robert Abelson, Professor, Yale University

Facts without interpretation are useless.

For example, it is a fact that the S&P 500 Index was the top-performing market in the world for the five-year period ending November 2024. Or was it?

After removing the biggest seven stocks (aka the "Magnificent Seven") from the index return, the remaining 493 businesses provided investors a return of 7.8%, actually underperforming the US small cap market (which has been deemed by many to be in a "bear" market environment) return of 9.5%. Which means, if you did not have a full complement of these big seven, you (or your investment manager) significantly underperformed the market. The shame of it all.

We readily recognize that facts are not the same things as truth. Facts are true by definition (or they wouldn't be facts), but they require analysis, understanding and interpretation to become useful and actionable. Or to become truth. Logically, we should decide what the facts are as objectively as we can and then interpret those facts to come to a consistent set of beliefs about them.

Like US investing, your all-cap global investment manager likely also struggled over the same period. The MSCI World Index gained 12.4% - yet without the 17% weight in the Magnificent Seven, the return was only 7.5% which also underperformed the the MSCI World Small Cap Index. Not as big a differential as purely US, but still pretty significant.

Most of us want to achieve some element of success. We want to follow the instructions and get the desired result … put the money in the machine and get the soda in return. Everyone wants to take the puzzle pieces out of the box and have them all fit together perfectly to create a beautiful picture with none left over.

Unfortunately, investing – like much of life – combines elements of science and art, and is infinitely infuriating and interesting as a result. We must cobble together our investing beliefs in order to create meaning from whatever facts have been presented. But facts, without interpretation, are useless.

Evaluating US underperformance by looking backward is "recency bias". It's simple to look backward and say one should have owned the Magnificent Seven. But did those companies really look investible back then? If you were responsible for other people's funds, would you invest 35% of the total portfolio in those seven businesses? Or, at the time, would they have been considered speculative?

We are always compromised by cognitive and behavioral biases, noise, and the limits of our own abilities. We pay attention to the wrong information, evaluate the available evidence poorly, solve the wrong problems, and listen to the wrong people. We are human.

Markets are far more volatile today than ever before - the current standard deviation of the S&P 500 over the past five years is 33% higher than the five years ending December 1999. There is little information that isn't immediate and immediately disseminated. Information drive's opinion, which informs market hypotheses, economic predictions, and other guessing games which lead to speculation. We'd like to think that we're smarter than the "average bear," but vanishingly few of us have a consistently good track record of decision-making and none are as good as we think we are.

There was a wonderful line that C.S. Lewis wrote in *The Magician's Nephew*, "What you see and what you hear depends a great deal on where you are standing. It also depends on what sort of person you are."

Portfolio's demand benchmarks. These may include investment return targets but are usually better directed toward clear financial needs and goals. We all need accountability and thus benchmarks for our portfolios. But, as noted above, return differential is simply factual data requiring interpretation.