

MONTHLY COMMENTARY | AUGUST 2022

“Denial ain’t just a river in Egypt.” - Mark Twain

In truth, I’m not a huge baseball fan. But great lessons can come from anywhere and, as in this case, occasionally from the diamond.

In 2013, Mark Appel was drafted as the number one pick by the Houston Astros. In his first 44 innings as a professional pitcher, he posted an abysmal 9.74 ERA (earned run average). The Astro’s brain trust tried to change his grip. Then his release point. But nothing helped. Over the next couple of years, Appel continued to struggle with his health, velocity, and control. Finally, the Astros gave up and traded him to Philadelphia where, unfortunately, the struggles continued. By 2018, labelled the biggest bust in major league baseball history, he quit.

Bruce Lee, the famous martial artist, once said, “Research your own experience. Absorb what is useful. Reject what is useless and add what is essentially your own.” Every investment style or process is fundamentally a product of time, experience, and of mistakes. While we tend to gravitate towards convenient cubicles like “value” or “growth”, a portfolio manager’s style is essentially his own.

As my grandson or granddaughter learns to speak, it has been an adventure trying to figure out what they are trying to say. Similarly, a young portfolio manager’s creation may tell a number of different stories, despite the contention they are either this style or that. We are poor evaluators of our own evaluations – as a wise person once said, you can’t read the label from inside the jar.

Our flaws and weaknesses are mostly opaque to us. By ourselves, if we believe something to be true, we quite naturally assume that those who think otherwise are the ones with the perception problem. Our beliefs are deemed to reflect reality, otherwise we wouldn’t believe them.

But as limited as our perceptions are, a collaborative team can provide greater perspective. Different experience and perception can, in the right environment, challenge and improve our bias blindness. The path of least resistance – believing in ourselves – is no longer the simple route. Healthy debate can minimize mistakes. Collectively, a harmonious investment team can be a composite of individual styles, much like a music ensemble, knitted together to produce stronger risk-adjusted returns.

In turbulent times, a team can be a solace. Current market price fluctuations can be hair-raising – every so often, this wild ride is exacerbated by outside emotion and noise. It means, in the absence of debate, portfolios can get out of tune – far from managing risk, they can be magnifying it. Nothing good or bad goes on forever, yet human nature tends to extrapolate current conditions into the indefinite future.

In fact, market pricing today offers a new generational opportunity. If one fully understands or can distinguish between a company’s fundamentals and the expectations of that company implied by its market price, great long-term decisions can be made. As we’ve said many, many times in the past – if your views solely reflect the consensus of the crowd, you are at best likely to achieve a mediocre result.

Earlier this year, Mark Appel returned to the game he loved. Philadelphia still owned his rights, and after a brief trial period, Appel was sent to their Triple-A club. He posted a 5-0 record and a 1.91 ERA whereupon the Phillies promoted him to the major league team in June. In an interview he reflected on the journey and finished with the following: “It’s been fun. It’s been hard. But I think that’s what makes it worth doing.”

We agree, Mr. Appel.