The Seven Virtues of Great Investors

"We all are learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. You must force yourself to consider arguments on the other side." — Charles T. Munger

"I'll be back later, Marge. I'm going out to build some humility."

CartoonStock.com

This past year was a good one for investors. Aside from the Spring tariff correction, markets put in solid returns and exhibited tame levels of volatility.

We will take it where we can get it, however I'd like to highlight durable long-term market performance is ultimately realized through difficult economic and political periods, in which investors stick to their well thought out plans, in the face of uncertainty.

Below is a previous newsletter written in 2023 on the Virtues of Great Investors. This could have been written in 1823 or even 2223 and in each case the conclusion would be the same. Successful Investing requires courage, independence and humility. All attributes, in my opinion much more valuable than having top tier quantitative skills.
*****

I spent the first sixteen years of my career in the financial markets working as a bond and interest rate derivatives trader for various Wall Street banks. At first, I was easily impressed by the various academic credentials many of my peers possessed. Trading floors are frequently sprinkled with graduates from all the top universities, who in many cases hold post graduate degrees in a variety of challenging disciplines.

Wall Street is a competitive place, which attracts some of the most competitive people, who understand the opportunity they are sitting on represents a chance to get rich working as an employee, in contrast to an entrepreneur who may risk his/her hard earned capital. There are real issues with the way certain functions on Wall Street are compensated and how this relates to the overall stability of the industry, however that is a subject for another day.

Today, I'd like to highlight the most important personal traits investors should consider for themselves or seek in an investment manager and adviser. Spoiler alert, it has little to do with traditional intelligence and much more to do with an individual's character and temperament.

Jason Zweig wrote the foreword to the late Benjamin Graham's seminal value investing book, The Intelligent Investor. As many people know, he also writes regularly for The Wall Street Journal. His latest blog post, "The Seven Virtues of Great Investors" caught my attention. I thought it made sense to pass this piece along to both clients and friends as the financial media often times markets both the hype and emotions to all of our detriment.
*****

THE SEVEN VIRTUES OF GREAT INVESTORS

By Jason Zweig
April 4, 2023

Last year, in my *Wall Street Journal* newsletter (and in my columns), I wrote a series about the essential attributes that all great investors seem to share.

The series was inspired partly by Benjamin Graham's declaration, in *The Intelligent Investor,* that intelligence is "a trait more of the character than of the brain." It also is rooted in Warren Buffett and Charlie Munger's constant emphasis on "temperament" and their repeated observations that the investors with the highest IQs often don't earn the highest returns. Finally, it's based on my own decades of watching and interviewing the world's leading investors.

As Ralph Waldo Emerson wrote in his essay "Experience":

Temperament is the iron wire on which the beads are strung.

I keep getting requests from readers who'd like to have all these posts collected in the same place. Someday, I might turn the series into a book, but for now, I'll post links to them all here, along with an extremely brief summary of each.

You'll find a lot more detail, including practical suggestions on how to cultivate these virtues yourself, if you follow the links below.

The seven virtues of great investors are:

Curiosity. As I wrote in my newsletter on Jan. 19, 2022:
Curiosity is the first investing virtue. It's what enables you to find and develop all the others…. Ordinary investors are afraid of what they don't know, as if they are navigating the world with those antique maps that labeled uncharted waters with the warning "here be dragons." Great investors are afraid of what they **do** *know, because they realize it might be biased, incomplete or wrong. So they never deviate from their lifelong, relentless quest to learn more.*

Skepticism. I argued that…
…the main product of the financial industry isn't portfolios; it's propaganda.

And propaganda with numbers, cloaked in jargon, can hit investors like general anesthesia: You just drift off to sleep while financial professionals surgically remove your money….

Numbing investors with numbers is a standard marketing tactic in the financial industry. That's why skepticism is one of the seven virtues of great investors.
I then listed my favorite techniques for sharpening your skepticism, which you can find here.

Independence. As I wrote in February 2022:
…without independence, investors are doomed to mediocrity.

What's your single most valuable asset as an investor? **Your mind!**

If you let other people do your thinking for you, you've traded away your greatest asset — and made your results and your emotions hostage to the whims of millions of strangers. And those strangers can do the strangest things.

Humility. I warned in my newsletter that humility is a…
…paradoxical blessing that you can possess if, and only if, you believe to the marrow of your bones you do not possess it. The harder you work at achieving and retaining humility, the more you will need to remind yourself that you still don't have it, lest you puff up with pride at being humble.

Then I suggested three mental exercises that might help you cultivate authentic humility.

Discipline. In my newsletter for Jan. 11, 2022, I highlighted a couple of examples:

Warren Buffett moved from the buzz and bustle of New York City back to Omaha in 1956, where he began managing money in his house on a placid street.

The late global investor Sir John Templeton relocated from New York to the Bahamas where, he told me decades ago, The Wall Street Journal *arrived days late. By reading the news a week later, Templeton told me, he could put it in perspective and prevent himself from over-reacting.*

Patience. In March 2022 I wrote that patience is often measured not in months or years but in decades. Readers added their own keen suggestions for how to extend your time horizons and look past short-term disappointments.

Finally, **Courage**.
My column, "The Secret to Braving a Wild Market," pointed out that none of these virtues will get you through the worst of markets unless you can muster courage:

Making a courageous investment "gives you that awful feeling you get in the pit of the stomach when you're afraid you're throwing good money after bad," says investor and financial historian William Bernstein of Efficient Frontier Advisors in Eastford, Conn.

You can be pretty sure you're manifesting courage as an investor when you listen to what your gut tells you—and then do the opposite.
*****

ASSET CLASS & SECTOR OPINIONS		
OVERWEIGHT	**NEUTRAL**	**UNDERWEIGHT**
Cash & Money Markets	International Developed Market Equities	Mortgage-Backed Securities
U.S. Treasury Notes & Bonds	Consumer Discretionary Sector	Investment Grade Corporate Bonds
Large Capitalization Technology	Communication Services Sector	Leverage Loans (Floating Rate Debt)
Utilities	Materials Sector	Treasury Inflation Protection Securities
Financial Services Sector	Energy Related Equities	High Yield Corporate Bonds
Healthcare	Aerospace & Defense	Local Currency EMG Bonds
Precious Metals	Consumer Staples	Small Capitalization Stocks
	U.S. Real Estate & Related Equities	Emerging Markets Equities
		Leisure & Hospitality

Sincerely,
Justin Kobe, CFA
Founder, Portfolio Manager & Adviser
Pacificus Capital Management

Advisory services through Cambridge Investment Research Advisors, Inc., a Registered Investment Adviser. Securities offered through Registered Representatives of Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Cambridge and Pacificus Capital Management are not affiliated.
Material discussed is meant for general illustration and/or informational purposes only, and it is not to be construed as investment, tax, or legal advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. These are the opinions of Justin Kobe and not necessarily those of Cambridge Investment Research, are for informational purposes only, and should not be construed or acted upon as individualized investment advice. Investing in the bond market is subject to risks, including market, interest rate, issuer credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies is impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Diversification and asset allocation strategies do not assure profit or protect against loss.