



**PACIFICUS**  
CAPITAL MANAGEMENT

INVESTMENT OUTLOOK – JUNE 2022

## Sound Judgement Over Pedigree

*"If you need to invoke your academic pedigree or job title for people to believe what you say, then you need a better argument." — Neil deGrasse Tyson*



*"I'M A MAN OF MY WORD... ONCE I'VE MADE  
—A WRONG DECISION, I STICK TO IT!"*

CartoonStock.com

I started my career in the financial markets in the late 90's and was initially impressed by the high level of educational pedigree many of my peers possessed. A large number graduated from top Ivy League schools, majored in difficult subjects, and interned at the biggest and best-known financial firms. The competition to get your foot in the door was fierce.

Over the years, it became apparent to me educational attainment was used as a filtering mechanism by human resource departments to weed out the large number of candidates lining up for a shot at working on Wall Street. There is some logic to this, as Wall Street believes the highly competitive types are more likely to succeed in a cut-throat environment of kill or be killed. However, I'm not so sure this can predict investing success.

Based on my experience, I would encourage investors who are seeking advisers and investment managers to focus less on a candidate's pedigree and more on his/her honesty, emotional stability, inquisitive nature, and sound judgment.

Morgan Housel works for Collaborative Fund and regularly writes thought provoking blog posts. In his latest, "Different Kinds of BS," he highlights one of the main things successful investment managers must do daily – make judgements and call out the bullshit.

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## **Different Kinds of BS**

By Morgan Housel  
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June 1, 2022

There are three important facts about bullshit: It's everywhere, it's influential, and it's dangerous.

The amount of publicly accessible information today would have seemed unfathomable 10 or 20 years ago. What used to be hidden is now free and abundant, from financial information to global news to insight into how millions of people live on social media. But are we actually better informed? Are we making decisions? Less susceptible to bad ones? Sometimes yes. But often the answer is no, or we've gone backwards, and part of the reason is that information turns into bullshit as easily as ice turns into water.

Bullshit can go unnoticed because people are more concerned with lies. Lies, once spotted, are unmistakable and their damage is obvious. But bullshit stops just short of a lie, mixing the integrity of the truth with the deceit of a lie in a way that leaves both the bullshitter and his recipient feeling satisfied.

If a company tells investors it has \$20 million in the bank when it actually only has \$10 million, that's a lie. But if a company tells investors that it's profitable if you ignore half its expenses, that's bullshit. And that kind of thing is everywhere, in every industry, every corner of society.

Jeff Bezos once said there are different kinds of smart. Distinguishing the various flavors is important because if you think smarts comes in just one form, you'll miss dozens of other nuanced varieties.

Bullshit is the same. It comes in countless forms, some harder to spot than others. False modesty, projecting, double standards, hypocrisy, tugging at heartstrings – these aren't lies; they're subtle forms of bullshit, which is why they're so prevalent.

A few others that come to mind:

### **1. Predicting things that are impossible to know.**

The book *The Beginning of Infinity* writes:

*Beware the difference between prediction and prophecy. Prophecy purports to know things which cannot be known.*

The most egregious of the latter is predicting stock prices within precise periods of time.

Stocks (or any investment) are valued by taking a number from today and multiplying it by a story about tomorrow. The numbers are easy to find – take revenue or earnings or dividends. You can then make a reasonable prediction of how those numbers might grow in the future. Easy enough.

But then you must multiply those figures by a story – a story about optimism, or pessimism, or how angry investors are with politicians, or how smart they feel, or how persuasive their advisor has been. That's the multiple on how much investors are willing to pay for the numbers. And that multiple is impossible to know, because it's a reflection of people's moods at a moment in time. How could anyone know what kind of mood a bunch of strangers will be in a year from now? I don't know what kind of mood I'll be in tonight.

That's why a lot of people trading on insider information still lose money. Even if you know what data is about to come out, you often have no idea how other investors will react to it.

In the same sense, if I say, "The stock market is forecast to return 16% over the next 12 months," it sounds reasonable. But if I said, "I think people will be in a 10% better mood next June," it sounds like ... bullshit. And it is. But those two lines are practically saying the same thing.

## 2. Presenting an upside reward with no regard to the associated cost.

And by cost I don't necessarily mean the price tag. Everything worth pursuing in life has a cost, but most costs are paid with stress, anxiety, uncertainty, and self-doubt.

The whole history of investing is simple: Long-term returns can be extraordinary but to achieve them you must put up with an endless parade of volatility, mania, and panic. Two sides of the equation. When anyone presents the one side (potential return) without the other (volatility, chaos) they are bullshitting about the entire arrangement. It's as if someone says, "Ferraris are really nice," without any mention, or even knowledge, that they're nice because they cost a third of a million dollars.

Lots of things fall into this category, and it's a key source of unhappiness in people's lives.

The assumption that you'll be happier with more money leads to disappointment because we overemphasize the reward (money) with no regard to the cost (working longer hours, student debt, the risk of entrepreneurship, etc.). It's a package deal, and you can't pick and choose the reward while ignoring the cost.

Naval once wrote:

*One day, I realized with all these people I was jealous of, I couldn't just choose little aspects of their life. I couldn't say I want his body, I want her money, I want his personality. You have to be that person. Do you want to actually be that person with all of their reactions, their desires, their family, their happiness level, their outlook on life, their self-image? If you're not willing to do a wholesale, 24/7, 100 percent swap with who that person is, then there is no point in being jealous.*

Kanye West once responded to criticism that despite his skills, he's a bit of a jerk: "If you want these crazy ideas and these crazy stages, this crazy music, and this crazy way of thinking, there's a chance it might come from a crazy person."

Paul Graham put it this way: "Half the distinguishing qualities of the eminent are actually disadvantages."

Andrew Wilkinson says: "Most successful people are just a walking anxiety disorder harnessed for productivity."

Patrick O'Shaughnessy writes: "In my experience many of the most talented people I've met couldn't be described as happy. In fact there are probably more that could be described as 'tortured.'"

The saying, “Never meet your heroes” is true because the way we imagine people we admire, or the successes we desire, tends to be a bullshit construction that emphasizes advantages while discounting the associated costs.

### **3. Unnecessary complexity.**

The U.S. constitution is 7,591 words. The average mortgage contract is over 15,000 words, and Apple’s iCloud terms of service agreement is 8,800 words. The tax code is over 11 million words.

Sometimes length is necessary. When the Allies met to discuss what to do with Germany after World War II Winston Churchill noted, “We are dealing with the fate of eighty million people and that requires more than eighty minutes to consider.”

But in most situations a handful of variables drive the majority of outcomes. If you’ve covered the few things that matter, you’re all set. A lot of what gets added in after that is unnecessary filler that either wastes your time, or is designed to confuse or impress you.

Mark Twain said kids provide the most interesting information, “for they tell all they know and then they stop.” Adults tend to lose this skill. Or they learn a new skill: how to dazzle with bullshit.

Stephen King explains in his book *On Writing*:

*This is a short book because most books about writing are filled with bullshit. I figured the shorter the book, the less bullshit.*

Poetry.

### **4. Ignorance of your own luck or others’ misfortune.**

Not all success is due to hard work and not all failure is due to laziness. Even if you agree with that, it’s astounding how easy it is to jump to conclusions.

In most cases of extreme success or failure, the line between bold and reckless was thin. What separates the billionaires from the bankruptcies can be the slimmest movement – one customer’s choice, a judge’s decision, or a fluke where fate went one way when it easily could have gone the other.

Then there’s the luck of it all. People’s lives are a reflection of the experiences they’ve had and the people they’ve met, a lot of which are driven by accident and chance.

Some people are born into families that encourage education; others are against it. Some are born into flourishing economies encouraging of entrepreneurship; others are born into war and destitution.

That's not to say hard work and vision don't play a role in success; of course they do. It's just easy to ignore the luck and misfortune side of outcomes because it's messier and painful to accept.

A form of bullshit occurs when that goes overlooked, and success is used as a superiority lever against the less successful. The truth is often the less successful are just as insightful as their successful peers, because they're just as smart but happened to end up on the unfortunate side of risk.

My rule of thumb to avoid that form of bullshit is that the luckier you are the nicer you should be.

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Markets have calmed down a little over the past couple of weeks. I believe this is due to interest rates settling down a bit. Going forward, I am looking for both medium and long-term interest rates to confirm they have peaked or are close to peaking for this cycle. Although I have been wrong over the past few months in this respect, I do believe US 10 – 30-year rates probably overshoot by about 50 basis points too high on the upside. My base case is inflation will begin to decelerate and the Fed will eventually tone down their hawkish rhetoric. I don't believe we will get anywhere near the number of interest rate hikes short term markets are pricing-in this cycle before something potentially breaks. We will see.

Regarding US equities, I have less conviction here. The market has recently attempted to make a bottom, but it is a difficult call as I believe growth will continue to slow and the Fed will remain hawkish in the near term. Remaining cautious on stocks generally with concentrations still in large cap tech, real estate related sectors, healthcare, and utilities.

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

Sincerely,  
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