

Serious advice

“Given all this, what do MPs do all day? Media manipulation, not operational planning on priorities.

“Unsurprisingly, most senior MPs in all three parties are locked into a game in which they spend most of their time on a) launching gimmicks, and b) coping with crises. These two forms of activity are closely related. The only widely understood model of activity in Westminster (and one which fits well psychologically with the desire for publicity) is *a string of gimmicks* aimed to manipulate the media (given the label ‘strategy’ to make it sound impressive) which are announced between, and in response to, *media crises*, some of which are trivial and some of which reflect structural problems. Many, drawing perhaps only on the bluffing skills rewarded by PPE, have no idea what else to do.

“Powerful people rush from meetings about the latest gimmick they are to announce, to meetings about the latest cockup for which they need to try to dodge the blame (possibly caused directly by a previously announced gimmick), to the TV studio, to dinner parties, where they gossip about either a) the daily crisis, or b) vague speculations about the distant future (and give overconfident predictions that are usually wrong but which they later reimagined to have been right – ‘as I’ve always said...’). Ministers’ time is dominated by unfocused panic about the media environment – not focused urgency about the most important problems.

“These gimmicks have obvious costs in the form of money wasted and the ostensible goal unfulfilled. They also have indirect costs that are often higher. 1) They divert the bandwidth of senior people from serious issues. (For example, dealing with No10 gimmicks diverted DfE ministers, spads, and officials from focusing on serious issues such as child protection.) 2) Once announced, they can easily trigger a set of further stupid decisions as the system attempts to evade the humiliation of the gimmick failing. While many outside Westminster assume there must be some ‘purpose’ or ‘strategy’ to the gimmick, often the truth is it exists purely to be briefed to the media – it is not even intended as a serious idea, and indeed such gimmicks are often soon forgotten even by their inventors.”

- From *The Hollow Men II: Some reflections on Westminster and Whitehall dysfunction* by [Dominic Cummings](#), published 30.10.2014. (Hat-tip to [Sir Steven Wilkinson](#).)

If you recently studied or are studying Economics at university with a view to securing a job in the capital markets, there is good news and bad news. The bad news is that you have just wasted, or are wasting, three years of your life on a bullshit degree that will prove actively harmful to your ability to understand either the financial markets or your fellow man. The good news is that a very small number of publications and presentations will undo much of the damage and provide a genuinely useful perspective on the business of global investing. This commentary, we think, happens to contain many of them.

This correspondent's practical education in what truly matters in investment management began in earnest after falling upon Peter L. Bernstein's *Against the Gods: the remarkable story of risk*, in the late 1990s. At the time, almost every investor in the world was stampeding to invest in growth stocks of questionable underlying value. A good job humanity learns from its mistakes.

The following excerpt from the text positively leapt from the page. The Swiss mathematician Daniel Bernoulli features prominently in Bernstein's book, and he has some claim to being the world's first behavioural psychologist. As Bernoulli suggested, when managing money for wealthy people,

The practical utility of any gain in portfolio value inversely relates to the size of the portfolio.

In other words, the primary focus of asset management for the wealthy should be on capital preservation – on absolute return, rather than market-relative, investing. If you're managing money for wealthy people: **just don't lose it**. Your wealthy clients will surely wish to generate attractive positive returns, too – but not if the pursuit of those returns jeopardises the starting value of a pot of possibly irreplaceable capital.

It is now a matter of keen debate whether loss aversion on the part of the wealthy might actually be a universal preference, and not limited to those with significant wealth. Michael Lewis' *The Undoing Project*, effectively a biography of the psychologists Daniel Kahneman and Amos Tversky, suggests that the condition is omnipresent – that we are **all** loss-averse, irrespective of the size of our portfolio. In which case, much of the asset management industry is poorly configured and possibly unfit for purpose. Amongst institutional fund managers, for example, the investment focus is typically **not** on the generation of absolute returns, but on market-relative ones. Aided by a regulatory mindset which encourages low fees at the expense of sensible and discriminating investing, passive investment funds are now eating everybody else's lunch.

A few years before the global financial crisis set in, a former Merrill Lynch colleague, Eric Everard, was kind enough to point out Chris Martenson's [Crash Course](#). Via the Crash Course we became familiar with the work of Dr Albert Bartlett, and his extraordinary presentation [Arithmetic, Population and Energy](#). The essence of Bartlett's argument lies in two observations. Firstly, that mankind's biggest problem is our inability to understand the power of the exponential function – essentially, the awesome and often destructive power of compound interest. Secondly, that for any entity beyond maturity, further growth is either obesity, or cancer. This is just one topic (amongst many fascinating topics) discussed during our recent interview with Sir Steven Wilkinson in the [State of the Markets podcast](#). Another being: what should entrepreneurs seek to build: big businesses, or great businesses? Do they even have a choice?

Another friend, Chris Dillow, economist at *Investors Chronicle*, some years ago recommended Irving L. Janis' *Groupthink*. Those who like the cut of Dominic Cummings' anti-bureaucratic jib

will **love** Janis. *Groupthink* is a study of high profile political f***-ups. It includes analysis of great political debacles like the Bay of Pigs invasion and the Cuban missile crisis, the attack on Pearl Harbour, and the decision to escalate the war in Vietnam. (It also contains pro-active strategies for dealing with Groupthink.)

Janis warns that within any group or committee structure, the risk of Groupthink – whereby an overly consensual group dynamic leads to disastrous decision-making – is always a possibility. The risk is heightened when cohesiveness within the group (Cummings would probably call it “chimp politics”) becomes so high that there is no potential for disagreement among its members. The group is more vulnerable to Groupthink when it is overconfident, closed-minded, and pressured towards conformity. Speaking of overconfidence, closed-mindedness, conformity, and a dangerous belief in your own PR, we segue effortlessly to [Oxford PPE](#). If you thought, like we previously did, that Cambridge or LSE Economics were the most dangerous degrees in the world, Andy Beckett’s analysis of the horrors of PPE and its multitudinous high profile political victims will broaden your mind on the subject(s).

Finally, for this week, we get to the topic of time well spent – and the polar opposite.

Every weekday morning, I want you to listen to me for at least half an hour. I will speak to you, and you will just have to listen. I will give you information about a random series of events that in many cases will be disasters. Some of them – many of them – will make no sense whatsoever. I will determine the priority of these events, which will be highly subjective. I will give you little or no context, just an easy narrative – a tiny little nugget of a story, each time. I will not pay you for your time, but then again I will ask nothing from you in return.

I will then ask you to listen to me at intervals throughout the day. I will continue to share with you a madcap jumble of incidents, a hellish number of which will be excruciatingly dull political announcements. Most of this information will have nothing to do with you, but I will try and make you feel as if somehow you are responsible for all of it.

I will then ask you to repeat this routine every day for 10, 20, 30 years – for your entire life, in fact.

I am the news cycle. Will you be my friend ?

Rolf Dobelli’s admirable essay [Avoid News](#) puts mainstream news in its rightful place, namely in the bin.

News impairs thinking. In order to think, we need to concentrate. In order to concentrate, we need time. But that is not the imperative of the news media. News pieces are not designed to give you the luxury of time and deep understanding – the media want to provide instant gratification to that part of you that craves novelty, excitement, simplicity, and easy narrative.

The news is a distraction engine. It is time for all of us to switch that engine off.

By definition, time spent consuming news is time that cannot be devoted to any other activity.

There’s also a “switching cost” – the time it takes you to get back to whatever activity you were pursuing before the news distracted you.

Then there's the insidious intrusion of news pieces long after the initial exposure and the original 'hit' of news.

We are drowning in information and yet starved of knowledge.

Information, courtesy of the internet, is no longer a scarce commodity. It is as ubiquitous as the air itself.

But your attention – your *time* – is the most valuable thing you possess. Even money can be replaced, but time never can. Why give it away so cheaply ?

We are not suggesting that all journalists are bad. We are stating that most undeniably are.

The internet has forced a 'race to the bottom' in terms of quality and thoughtfulness that most media organisations are struggling to win. Any supposed victory will be pyrrhic for all participants.

The first Director-General of the BBC, Lord Reith, summarised the broadcaster's purpose in three words: **inform, educate, entertain**.

Reith, an intensely moralistic Aberdonian, pursued a goal to broadcast

“All that is best in every department of human knowledge, endeavour and achievement”.

That put the BBC of the time at odds with the *laissez-faire* free market of US media, in which the largest audiences begat the largest advertising revenues. The news media will be wrestling with the powers of Mammon forever.

Do we honestly think that the average journalist today is tirelessly pursuing “all that is best in every department of human knowledge, endeavour and achievement” ?

Or do we nurse a suspicion that the average journalist today is clinging on to a not-very-well-paid job and bouncing from one article to another at breakneck pace in pursuit of “clickbait” and “the large, the showy, and the noisy” ?

Getting down to brass tacks, do we nurse a suspicion that the average financial journalist today might be much less well-informed about the industry than they should be, and in many cases less well-informed than many of their readers ? Financial professionals are required to obtain specialist qualifications before they can practise. No such obligations or requirements are placed on financial journalists.

If the idea of going 'cold Turkey' from the news fills you with horror, start the withdrawal in stages. Rolf Dobelli adds,

If you want to keep the illusion of “not missing anything important”, I suggest you glance through the summary page of the *Economist* once a week. Don't spend more than five minutes on it. Read magazines and books which explain the world – *Science*, *Nature*, *The New Yorker*, *The Atlantic Monthly*. Go for magazines that connect the dots

and don't shy away from presenting the complexities of life – or from purely entertaining you. The world is complicated, and we can do nothing about it. So, you must read longish and deep articles and books that represent its complexity. Try reading a book a week. Better two or three. History is good. Biology. Psychology. That way you'll learn to understand the underlying mechanisms of the world. Go deep instead of broad. Enjoy material that truly interests you. Have fun reading.

Don't turn away from informed commentary, for which there's always a need. But turn your back on the specious, the irrelevant, the time-wasting, and the noisy.

There you go. If you were planning to start an Economics degree but have now decided not to, we've just saved you.. perhaps £30,000. You're welcome.

Bibliography:

Against the Gods by Peter L. Bernstein (publisher: John Wiley)

[Arithmetic, Population and Energy](#) – a presentation on YouTube (with more than 5 million views to date) by Dr. Albert Bartlett of the University of Colorado at Boulder

[Avoid News](#): towards a healthy news diet by Rolf Dobelli

[The Crash Course](#) by Chris Martenson

Groupthink: psychological studies of policy decisions and fiascoes by Irving L. Janis (publisher: Houghton Mifflin)

[PPE: the Oxford degree that runs Britain](#) by Andy Beckett

[The State of the Markets podcast](#) – lively interviews with financial professionals and other interesting guests, hosted by Paul Rodriguez and this correspondent. Our latest interview with Sir Steven Wilkinson is a belter.

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@timfprice

Tim Price is co-manager of the [VT Price Value Portfolio](#) and author of 'Investing through the Looking Glass: a rational guide to irrational financial markets'. You can access a full archive of these weekly investment commentaries [here](#). You can access the archive of our regular 'State of the Markets' podcasts, with Paul Rodriguez of ThinkTrading.com, [here](#).

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