

Adapt or Die

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Introduction

Hi, I'm Louis Llanes with Wealthnet Investments. I wanted to just talk a little bit about my thinking this week about trading and investing for clients and various things in our business. And it's you know, today, I was just thinking about how much I've been thinking about psychology in the last week, because, you know, you can have all these systems and we do a lot of, you know, quantitative analysis where we're looking at, what do the numbers say, if we go back in time and we test a strategy or concept, what did the numbers say? And a lot of that information we use as guidelines to help make decisions.

Being Congruent

In order to stay disciplined, you have to actually execute day in and day out, and that requires having a really good mental outlook. Being congruent, I was just kind of going through my notes. And one of the things I like to do is I do a journal; I have this journal and I write in it mostly every day. Not always every day, but I try to, and sometimes I'll put notes on a whiteboard or other things, and it doesn't always come out the same way.

Habits & Beliefs: Execution, Communication, Relaxing, Constant Improvement

Well, I was just looking at one of my passages that I was writing about, and it says, I feel like I need to fully execute our investment strategy without conflict, but with ease, eat our own cooking and to communicate it, relax and live day by day constantly improving without stress. I just talked about habits and beliefs, and the habit of executing every day. It's just like anything else. Just having a good daily routine makes a whole lot of sense.

Adapting Due to Out-of-Sample Conditions

As it relates to the environment that we're in right now, I think you have to look at the data and understand that there are times when we experience out-of-sample conditions. That is, when there is no history for us to look back to that indicates what could happen in the future. We can see historical examples that rhymes with the current environment, but in a lot of ways, it's not exactly like what we are experiencing today.

Following Models Can Lead You Astray

In these times you must use your own judgment because historical models probably do not represent the current situation and can lead you astray. There's this concept of always following your model and to always follow your process. I believe that it makes sense to always follow your process, and in your process, you have to have an element that says, "when do you not follow the traditional ways of doing things and the way you normally do things?" I think the only time you really don't follow the way you normally do things and when is when things aren't normal. If you're a client of ours, you know that we made some dramatic changes in portfolios very quickly earlier this year. This really helped us a lot in our investment performance this year.

Constant Learning

You know, it's not my first rodeo, I was talking to a client of mine and she says, "You know, I'm really grateful for working with you". This really made me feel good, and she said, "We've been with you for over 20 years and we've been through a bunch of ups and downs and you've really learned a lot." I thought, Wow! that was a great thing for her to say - you've learned a lot in your profession. I hope I continue to learn a lot in the profession in the future.

Adapting & Growing: Signal Versus Noise

It was it was a nice thing to hear from her. But it made me realize that if you are not learning and adapting, you're not growing, you're not going to do well as an investor. You have to be able to adapt to whatever is changing. There's so many different things that have changed in the market since when I first got started in it. I starting to think about - what is adapting? When do you need to adapt? Well, you adapt when you have new information that makes you realize that you need to change something that you normally do. What's important is that you are able to identify those things that are normal versus non-normal. This is the process of distinguishing between the signal versus the noise. There's a concept of the signal-to-noise ratio - noise being the fuzziness and irrelevant news, fundamentals, and price action that doesn't really matter. The signal is really trying to identify relevant information that will move prices. What is that signal that is changing? And why is it changing?

It requires you to do more than just look at the numbers, there is a narrative sometimes that makes sense to follow. Now, in the past, I've always said ignore the narrative. I trust numbers more than the narrative and that is true. I do trust numbers more than I trust a narrative 90% of the time. There are times though when you just must get out of the market period and you must lower your size. Otherwise you can have investments that lose money. I don't care what type of investor you are - if you're a real estate investor, or only invest in private companies. There's just times when you just say, No, I'm not taking any more right now.

Private Equity and Fake Numbers

I look at the private equity market right now. I think a lot of people are being lured into the private equity market because they are being sucked in by false numbers. These numbers are not real because there's no mark-to-market in private equity. There's no mark to market. The real returns are know after the fact.

I can think of a story when one investor who invested with Goldman Sachs. He had a ton of money with Goldman Sachs, and Goldman was recommended that they put a large portion of his portfolio in private equity, and of course, he lost his shirt in private equity. This experience was the catalyst for this particular investor to no longer trust the big brokers. I'm not here to bash big brokers. I just think that there's times when you must adapt and go-out-of-sample. Ask yourself, "what does this mean?", and "how do I need to change right now?"

Adapting Our Communication

I was talking to a gentleman out of the UK, who has been in the advertising world for a long time, and he's done video, he works for a financial news video firm that is global. The firm was founded by hedge fund managers, and creative people and I've done some contributions for them. One of the things I've learned is that people want to hear a genuine conversation. So one of the things I'm planning on doing is cutting all the presentation stuff out as much and just have bullet points and have conversations with smart people, our internal smart people, and an external smart people so that people can hear our current thinking. I think that's what people want to hear. I think that's what you want to hear. You want to hear what do we think? Why do we think it? And What are we doing about it? That's the direction we plan on communicating in the future.

So, anyhow, so here we are, it's on a Sunday. Everybody's out running around right now except my son who's upstairs banging around and I'm working out of our home studio, I have a video studio and a recording studio in my house. I'm a big audio fan. And maybe one day I will bring out my guitar. For those of you who don't know, I'm a guitar player, and maybe I'll play a few things for you.

Gives Us Your Feedback

But I really want to just stress that I want to hear your feedback. If you have any suggestions tell us what you want to hear.

Go to our website at www.wealthnetinvest.com.

Ping me at info@wealthnetinvest.com

Please give us feedback whether you are an individual investor or an investment professional. That's all for now. Hope you have a great day and we'll talk to you later. Have a great day.