

# Let the Light Shine In

November 3, 2003

Taking place now is a major debate between the doctrine of efficient markets and behavioral finance as it pertains to investments. All the reliable evidence indicates to us that efficient markets are a great test tube type analysis, but have nothing to do with the real world of investments. Human beings, not theoretical mathematical formulas, make decisions. Mathematical correlations have only to do with what appears to have happened in the past in a vacuum, not taking into consideration the myriad of variable that occurred at the various times of the market moves measured. Does not it seem reasonable that one would have to take into account GDP, inflation, legislation, matters of war & peace, weather, social trends, demographics, and various major breakthroughs, etc. in relation to the way markets reacted as they did? No, say the academicians, financial planners, Wall Street Analysts, and other disciples of the University of Chicago. Good offset bad and the bell curve prevails.

If this is so, why does our customer base always sell after the market goes down and buy after the market goes up? It's just not our people; it's everywhere. It's universal and the main reason that investors never get close to obtaining the returns they want, but rather get the returns they deserve. The thing that disturbs us the most is that Wall Street preys upon those they serve by doing all they can to create volatility. We are not sure it's intentional but without doubt, it happens. We see, as does every other money manager who will tell you the truth, that clients follow the pattern of buying high and selling low. Why? It's human nature and human nature has not changed in 2000 years. We are not saying all behave in such a manner, but it is a statistically significant number.

What will change this M.O.? We wish we knew. It seems when money and markets are involved, sound reasoning takes a vacation. Fancy colored charts with glossy covers using prior historical mathematic correlations are tough to compete with. Economic fundamentals, which have allowed us to obtain great long term returns, are abstract and little studied by those we serve. This is in no way a criticism. We wouldn't be studying every day this dismal science if it wasn't our responsibility and profession.

We believe that a day will come when the major inhibitors of good investment results are discarded. Keynesians economics and efficient markets are "killers." Volatile markets are "killers." But both will prevail until the light finally shines in an area, which has been dark for a very long time.

PS: The 3<sup>rd</sup> Quarter GDP was released after we completed the above – we will comment on it next week. What we do know is that this represents the top in an otherwise dismal recovery off of a recession that almost wasn't. **Look out below!**