STICK TO WHAT YOU KNOW, AVOID THE REST

- *Larry Sarbit* highlights some things investors should admit they know nothing about.

This article was taken from the Vancouver Sun, *Thursday, June 25, 2020*

Even in "normal" times, the future, at least in the short to mid term, is a guessing game at best. The emergence of COVID-19 is the best example that trying to look forward with any clarity and precision is a fools' errand.

Warren Buffett, at this year's Berkshire Hathaway Inc.'s AGM on May 2, said "I don't know" 30 times during his discussion. In my history of studying and reading his writings and speeches, this is one for the record books.

As detailed previously, Buffett in 2008 came out proclaiming, "Buy America – I Am." At this year's meeting, he gave a lengthy lecture where he repeatedly said, "Don't bet against America," but he projected a much more subdued mood. And he has yet to write a very positive piece like he did almost 12 years ago.

A wonderful book, History's Worst Predictions and The People Who Made Them by Eric Chaline, is chock full of unbelievably horrible, but often hilarious forecasts made by so called experts. It's a great book for the living room table or the bathroom.

In one example, Henry Morton, first president of the Stevens Institute of Technology, in 1880 said this about Thomas Edison's light bulb: "When I examine the conclusion (on experiments with the electric light bulb) which everyone acquainted with the subject will recognize as a conspicuous failure, trumpeted as a wonderful success, I (conclude…) that the writer (…) must either be very ignorant, and the victim of deceit, or a conscious accomplice in what is nothing less than a fraud upon the public."

Here's another zinger on the advent of the car by Henry Ford: "The horse is here to stay, but the automobile is only a novelty – a fad," an unnamed president of Michigan Savings Bank advised Ford's lawyer, Horace Racham, in 1903.

And my favourite: "We don't like their sound, and guitar music is on the way out," Decca Records' Dick Rowe told the Beatles' manager when he rejected them after their audition.

Interestingly, the author got one wrong. "All countries should immediately now activate their pandemic preparedness plans. Countries should remain on high alert for unusual outbreaks of influenza-like illness and severe pneumonia," Dr. Margaret Chan, then director-general of the World Heath Organization, said in 2009.

Oh, how we should have listened to her. According to Johns Hopkins University, which keeps updates on the numbers, the worldwide tally of COVID-19 as of June 19 was 8.5 million cases and 455,000 deaths worldwide.

Circle of competence is an essential concept in investing, and in life in general. Separating the knowable from the unknowable is vital. Many people buy companies with only limited information, certainly not nearly enough to say they see all the advantages of the business and, more importantly, not enough to see the critical pitfalls.

Knowing you don't know something important and, therefore, avoiding the investment should be viewed as a huge positive. As Charlie Munger, vice-chairman of Berkshire Hathaway, has said, you simply throw it into the "too hard" pile and move on. The stock may perform fabulously, but it can also turn out to be a disaster.

Staying well within your circle of competence, in the areas that you know best, helps safeguard you from situations that can do a great deal of damage. Think of it as wearing both a safety belt and a helmet when driving because the roads are filled with dangerous drivers you never want to meet up close.

The list of questions I don't have answers to is infinitely long. However, when it comes to the world making of investments, there is a standard list of four I have followed for years.

1. Short- to mid-term economic trends

Buffett has said that if you have an economist on staff, then you have one too many employees. Forecasting future trends is a hazardous occupation. True, some are better at it than others, but, overall, the track record of the average economist is probably no better than 50/50. If one has a very positive view of the future, and another a negative outlook, good luck in choosing the one to base your investments on.

2. Interest rate trends

I haven't met a forecaster who is able to figure out which way interest

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rates are going. And I sure haven't heard or met one who knew back in the early 1980s that rates would go from high double digits to basically zero today. Maybe we'll have negative rates, something that James Grant, founder of Grant's Interest Rate Observer, said has never happened in recorded history. Is there anyone who foresaw this as even a remote possibility?

3. Stock market direction and movements

This is the favourite board game in the investment industry. John Pierpont Morgan was once asked about the direction of the stock market and he replied, "It will fluctuate." Buffett doesn't know. John Templeton, founder of the Templeton Growth Fund, didn't focus on it. Ben Graham, the father of value investing, spent no time at all on this and just bought companies at bargain prices. The media concentrates so much time on short-term movements in the market, but little on identifying companies worthy of long-term investment.

4. Currency directions

We've spent too much time guessing how the loonie is going to be valued against the U.S. greenback. I can tell you from first-hand experience that it's a really great place to not spend any of your time.

Lately, I've added a new one: medical events, both good and bad.

Predicting the future is very difficult. Yogi Berra said it best "It's tough to make predictions, especially about the future." Even the best and brightest have gotten forecasts totally wrong.

The most important thing: Accept that you don't know. Spend your time on things you recognize are important and know. Avoid the rest.

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