

Behavior Finance

Success in Investing, as in Life, Hinges on Quality Decision Making

By Curt R. Stauffer
May 18, 2020

[Subscribe](#)



During this time of social distancing and economic shut down most people are keenly aware of risk related to our everyday actions. This is due to the fact that our actions during a time when a highly infectious virus is spreading magnify a risk/reward equation that we subconsciously have calculated all of our adult lives. However, now that simply touching a doorknob, going to the grocery store, or socializing with neighbors requires a conscience risk assessment, decision-making, and the associated risk calculation is now top of mind.

Annie Duke wrote a book called Thinking in Bets which provided a brilliant tutorial on how best to weigh risk, make, and assess decisions in everyday life. Written long before the world ever heard of COVID-19, Annie Duke, known as "The Duchess of Poker" now is an author and lecturer on the art and science of decision making. Annie Duke has a unique combination of an advanced degree in psychology and many years as a championship poker player on the professional poker tour.

I recently watched an interview where Mrs. Duke talked about decision making during the COVID-19 pandemic. In this video, Mrs. Duke makes the following statements, which I paraphrase below, that all individuals can benefit from in day-to-life and as investors:

- A good decision-making model must remain fluid in order to allow for new information.
- Every decision is a bet on future outcomes.
- Emotions almost always are detrimental to good decision making.
- Be most skeptical of information that closely lines up with what you want to be true.

As an investment professional, Mrs. Duke's process of weighing the probability of potential outcomes and then evaluating the outcome of a decision after the fact is very constructive. Everyday investors make decisions based upon the input of new information about their investments, the economy, and the markets overall. Even doing nothing is a decision by an investor. Great investors also have ample opportunity to evaluate the outcomes of their decisions and use that evaluation to improve upon their decision-making process. These opportunities to learn are ample because great investors are not fearful of a certain percentage of their decisions resulting in unfavorable outcomes.

One of my favorite great investors to quote is Howard Marks of Oaktree Capital. In a 2014 editorial published in Barron's, titled Howard Mark's on Daring to be a Great Investor, Mr. Marks was quoted saying "When I first went to work at Citibank in 1968, they had a slogan that "scared money never wins." It's important to play judiciously, to have more successes than failures, and to make more on your successes than you lose on your failures. But it's crippling to have to avoid all failures, and insisting on doing so can't be a winning strategy. It may guarantee you against losses, but it's likely to guarantee you against gains as well. Here's some helpful wisdom on the subject from Wayne Gretzky, considered by

many to be the greatest hockey player who ever lived": "You miss 100% of the shots you don't take." Consistently generating more successful outcomes than unsuccessful ones, which is the definition of being great in most professions, comes down to having a sound process, the discipline to abide by the process consistently, and knowing how to process failure. Annie Duke, in her book Thinking in Bets, states that "a great poker player who has a good-size advantage over other players at the table, making significantly better strategic decisions, will still be losing over 40% of the time at the end eight hours of play. That's a whole lot of wrong. And it's not just confined to poker."

I am always trying to refine my decision-making process in order to improve the probability of a successful outcome. Although I am always cognizant that many determinants are beyond my control, I want to be as effective as possible processing the inputs that I can control. If I believe that my decision-making process is purposeful and sound, I am willing to accept a certain level of unfavorable outcomes believing that favorable outcomes should ultimately prevail.



Disclosure:

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Coastal Investment Advisors), or any non-investment related content made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/ or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Coastal Investment Advisors. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Coastal Investment Advisors is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of Coastal Investment Advisors' current written disclosure statement discussing our advisory services and

fees is available for review upon request. Curt Stauffer is an Investment Advisory Representative of Coastal Investment Advisors. Coastal Investment Advisors is not affiliated with Seven Summits, LLC. Investment Advisory Services are offered through Coastal Investment Advisors, a US SEC Registered Investment Advisor, 1201 N. Orange St., Suite 729, Wilmington, DE 19801. Any mention in this commentary of a potential securities or fund investment should not be construed as a recommendation for investment. Investors should consult their financial advisors for advice on whether an investment is appropriate with due consideration given to the individual needs, risk preferences and other requirements of the client

By Curt R. Stauffer

May 18, 2020

Share:



Get more personal finance tips

Weekly insights delivered directly to your inbox.

Sign Me Up

Information presented on this site is for informational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any product or security. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed here. The information being provided is strictly as a courtesy. When you link to any of the web sites provided here, you are leaving this web site. We make no representation as to the completeness or accuracy of information provided at these web sites.