The Caterpillar and the Butterfly

Jeff Troutner, Equius Partners

Question: How can a seven-year-old stimulate investing insight?

Answer: By explaining to his grandfather how the process of metamorphosis transforms a caterpillar into a beautiful butterfly.

As any second grader evidently knows, metamorphosis is the process of transformation from an immature form to an adult form. Butterflies, if they’re lucky, go through four stages of development, the second one being the caterpillar stage. Let’s start there as we consider how different Equius and our clients are from so many of our peers.

Anyone engaged in active management (stock picking and market timing) as a long-term investment strategy is a caterpillar. As the science of investing continues to evolve—demonstrating conclusively how the why these old-school ways consistently fail investors—these caterpillars crawl along in blissful denial of the obvious.

Professional caterpillars grow fat and happy munching on a share of other caterpillars’ harvest. They hold regular beauty contests sponsored by the king caterpillar, Morningstar, who pins star medals on their tiny little chests signifying special, albeit fleeting, talent at exploiting other caterpillars’ naiveté. Most of the professional caterpillars will eventually be eaten by big powerful market birds. Others will simply grow old and die.

Occasionally, a few of these old-school caterpillars will move to the chrysalis stage, indicating emotional and intellectual development that could lead to an even more powerful and beautiful awakening. But, sadly, some of them get stuck in this chrysalis stage, unable to realize their full potential, and become fence-sitters (or limb-hangers) for the rest of their lives. Only the most enlightened of the caterpillars are able to work their way out of their self-imposed restraints and spread their wings as beautiful, free-thinking butterflies.

Complete metamorphosis is not natural in the investing world. Professional caterpillars who fully transform are driven by an intellectual pursuit of the truth, not by the natural pull of ego and greed. Amateur caterpillars who transform often do so only after years of being manipulated and exploited. Professional and amateur butterflies (like Equius and our clients) who join forces in a collaborative relationship are able to take the best that modern investing science has to offer and preserve and optimize the growth of their wealth for future generations of butterflies. By sharing their experiences and wisdom, they can also prevent others from being stuck in the caterpillar stage their whole lives.

Metamorphosis is a beautiful thing. (So are seven-year-olds.)
Egg Stage
(First introduction to the cruel world of investing.)

Caterpillar Stage
(Too often a last stage as Wall Street-controlled active investors.)

Chrysalis Stage
(Looking forward to a new life free of old-school Wall Street emotion roller coasters.)

Butterfly Stage
(Fully mature and developed asset class investor or fiduciary advisor.)

The life cycle of an asset class investor

The cycle repeats hopefully, influentially, with only a brief stay as a caterpillar, and preferably, for those we influence, with only a brief stay as an active investor.)

Investing Metamorphosis

I