EQUIUS ASSET CLASS℠

Modern asset class investing principles, research, and perspectives for long-term investors

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Intellectual Curiosity

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As I pointed out in last month's *Asset Class*, raw intelligence alone is not enough when it comes to making good investment decisions (or any good decisions in life, for that matter). Common sense is also important. So too is logic—reason and rationality with structure. And we love structure when it comes to investing.

Intelligence, common sense, and logic are all developed and enhanced by ceaseless curiosity, which in turn is fueled by healthy skepticism. The result—*intellectual curiosity*—has led Equius and our clients to asset class investing and differentiates us from the vast herd of advisors and investors still engaged in varying degrees and forms of stock picking and/or market timing behavior.

If you are intellectually curious, you are always learning. You trust "facts" and "evidence" more than people. And you never stop challenging those "facts" and "evidence" (i.e., you never remove the quote marks). You just keep moving the bar higher until you've reached the point where you feel your intellectual curiosity has resulted in the most optimal outcome you can achieve—for now. You never close your mind.

I'm often asked what it is that draws clients to Equius Partners and what sets them apart from other investors. I'd like to believe they find my charming personality and exceptional people skills hard to resist. But I know better. I could certainly credit Phil, T.J., and many others on our team for having those qualities, but they know these traits only go so far in an industry saturated with charming salespeople.

We're convinced it's the knowledge we share; the transparent, thorough, and collaborative way in which we share it; and more importantly, *the willingness of our clients to receive and process it with an open mind* that draws investors to Equius and sets them apart from their peers.

At some point in their lives, they began to question why investment techniques developed 85 years ago should still work in a modern era of powerful computers, institutional dominance of daily trading, and instant dissemination and analysis of news and data. They came to realize that "undervalued" securities do not exist in such an efficient market, but different *opinions* do.

They started asking the right questions and getting better answers. They stopped accepting at face value the traditional Wall Street half-truths and outright falsehoods. Irrefutable evidence and sound logic became more important than brand names. The real motives and unprincipled sales cultures of firms like Merrill Lynch, J.P. Morgan, Goldman Sachs, Morgan Stanley, Fidelity, etc. revealed themselves and were rejected.

I've always wanted readers of *Asset Class* to reflect as much on our *industry* as on the *science* behind our approach, and be especially sensitive to the reactionary trends that arise from periods of extreme market volatility. It's falling prey to these short-term trends that destroys long-range financial plans and severely diminishes the benefit of what Einstein called the eighth wonder of the world: compound interest.

In our view, there have been only two truly worthwhile *macro* trends in investing—at least in terms of the public securities markets. The first was the trend toward structured "active" portfolio management, the foundation of which are the principles outlined in *Security Analysis*, published in 1934. That trend grew out of the chaos of the 1929 market crash. The second trend was (is) away from active management and to indexing and structured asset class investing. This has been driven by research published by a unique group of forward-thinking academics and fueled by the consistent failure of active management in the modern era.

Pretty much all of the *micro* trends in our industry since 1934—including the current obsession with "alternative investments"—are just variations of the now-outdated and obsolete active approach. Failure begets more failure as our industry works hard to maintain the status quo. Only the intellectually curious can really understand this and are therefore better equipped to protect the compounding of a more predictable expected return over their investing lives.

Asset class investing does not eliminate market volatility and short-term downside risk, as we know well from the current market environment. It does mitigate these risks, especially over time, and it vastly improves the likelihood of meeting your objectives compared to the alternatives.

We hope you enjoy a healthy and happy holiday season with loved ones. The Equius team looks forward to feeding your intellectual curiosity in the new year and beyond. Thank you for your open mind and trust!

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