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Qualities of Outstanding Investors

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Translated and adapted from an article published on July 18, 2019

Students in finance often ask me what qualities are required to become a very good investor. This is a central question not only for young people looking to decide on their career, but also for institutional and private investors looking to select a portfolio manager. Here are my observations on the qualities leading to success.

1. **Intellectual and Personal Honesty**

Look for objectivity and truth, no matter your ego or that of others. Give due credit to who deserves it, accept constructive criticism and admit your mistakes; this increases your chances of finding the best investments. Ray Dalio, of Bridgewater speaks of "radical" truth and transparency.

2. **Voracious Curiosity / "Learning Machine"**

Successful investors don't count their hours. They enjoy learning to the point where it's not a job anymore, but a passion. They continually ask questions and are naturally inclined to want to understand a lot of topics, to get to the bottom of things and solve problems. In short, they have the perpetual student's inner fire.

"I have no special talent. I am only passionately curious"
-Albert Einstein

3. **Lateral knowledge**

With a CFA or a master's degree in finance, students have a good start. But they have a long way to go in order to distinguish themselves by developing a cross-section of lateral knowledge including history, psychology, science, politics, philosophy, culture and law[i]. Charlie Munger, Warren Buffett's business partner, talks about "latticework of mental models" which I encourage students to read about.

4. **Work Ethics**

Outstanding investors enjoy devoting a considerable amount of effort and preparation into solving a problem or analyzing a situation. Without hard work and in-depth research, it is impossible to generate enough conviction to take significant portfolio positions in individual companies; without significant positions, it is difficult to obtain superior long-term returns.

5. **Temperament**

Intellectual qualities are not enough. Some of the best finance theorists are poor investors. The reason lies in my opinion in temperamental qualities, which involve different layers of the brain[ii].

Judgement: it's a vast and complex subject, but let's just say that it is acquired through practice by being confronted from an early age with problems of various kinds and learning to solve them through observation and reflection, in an open and flexible manner;

Discipline: here are two interesting components: first, learning to delay gratification, i.e. making efforts and sacrifices now in order to reap the benefits later. In the case of investments, we essentially delay consumption and take a risk in the hope of obtaining more in the future; also, once we do invest, being patient and not craving for immediate profits (immediate gratification) is important. A second noteworthy dimension of discipline is learning to create a rigorous decision-making process, including checklists and documentation, to ensure that our emotions do not corrupt our thinking;

Patience: never being in a hurry. Being able to wait for the fat pitch without undue pressure is a key to investment success. It's easier said than done. Charlie Munger speaks of "extreme patience"; he could wait with large cash holdings for many years without doing anything, and then invest decisively. He thus generated an average annual return of 19.8% from 1962 to 1975 compared to 5% for the Dow Jones, an annual outperformance of about 15%;

"The big money is not in the buying or in the selling, it is in the waiting"
-**Charlie Munger**

Courage and Resilience: Investing involves taking risks with incomplete information. In my view, proper investing involves being a contrarian, buying what is temporarily unpopular but of good quality. We can reduce risks by gathering more or better information, but it remains that courage is always required. Resilience is needed in the face of setbacks that are a normal part of an investor's life;

Independence: Not constantly having to be psychologically validated is crucial. Being able to look "foolish" for a while without flinching allows to go against the crowd at the right time and wait for a situation's turnaround;

Sense of Competition and Opportunism: knowing when and where to invest by choosing one's battles; recognizing when one has an edge or an informational advantage, or when one can maneuver favorably into a market distortion;

Humility: investors understand they essentially are trying to predict the future and there are no certainties. It is better to approach this with humility, think in terms of probabilities, and always keep in mind that we can be wrong. Being too adamant and inflexible, or boasting about one's success does not help in generating a good long-term average. On the other hand, knowing and accepting one's limits does help.

"I'm no genius. I'm smart in spots, and I stay around those spots"
-Thomas Watson Sr. IBM CEO 1915-1956

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[i] See ***Range : Why Generalists Triumph in a Specialized World***, by David Epstein, Penguin Randomhouse, 2019

[ii] See the classic ***Emotional Intelligence*****,** by Daniel Goleman, Bantam Books, 1995