

The Intelligent Investor: Saving Investors From Themselves

By *Jason Zweig*

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I was once asked, at a journalism conference, how I defined my job. I said: My job is to write the exact same thing between 50 and 100 times a year in such a way that neither my editors nor my readers will ever think I am repeating myself.

That's because good advice rarely changes, while markets change constantly. The temptation to pander is almost irresistible. And while people need good advice, what they want is advice that sounds good.

The advice that sounds the best in the short run is always the most dangerous in the long run. Everyone wants the secret, the key, the roadmap to the primrose path that leads to El Dorado: the magical low-risk, high-return investment that can double your money in no time. Everyone wants to chase the returns of whatever has been hottest and to shun whatever has gone cold. Most financial journalism, like most of Wall Street itself, is dedicated to a basic principle of marketing: When the ducks quack, feed 'em.

In practice, for most of the media, that requires telling people to buy Internet stocks in 1999 and early 2000; explaining, in 2005 and 2006, how to "flip" houses; in 2008 and 2009, it meant telling people to dump their stocks and even to buy "leveraged inverse" exchange-traded funds that made explosively risky bets against stocks; and ever since 2008, it has meant touting bonds and the "safety trade" like high-dividend-paying stocks and so-called minimum-volatility stocks.

It's no wonder that, as brilliant research by the psychologist Paul Andreassen showed many years ago, people who receive frequent news updates on their investments earn lower returns than those who get no news. It's also no wonder that the media has ignored those findings. Not many people care to admit that they spend their careers being part of the problem instead of trying to be part of the solution.

My job, as I see it, is to learn from other people's mistakes and from my own. Above all, it means trying to save people from themselves. As the founder of security analysis, Benjamin Graham, wrote in *The Intelligent Investor* in 1949: "The investor's chief problem – and even his worst enemy – is likely to be himself."



One of the main reasons we are all our worst enemies as investors is that the financial universe is set up to deceive us.

From financial history and from my own experience, I long ago concluded that regression to the mean is the most powerful law in financial physics: Periods of above-average performance are inevitably followed by below-average returns, and bad times inevitably set the stage for surprisingly good performance.

But humans perceive reality in short bursts and streaks, making a long-term perspective almost impossible to sustain – and making most people prone to believing that every blip is the beginning of a durable opportunity.

My role, therefore, is to bet on regression to the mean even as most investors, and financial journalists, are betting against it. I try to talk readers out of chasing whatever is hot and, instead, to think about investing in what is not hot. Instead of pandering to investors' own worst tendencies, I try to push back. My role is also to remind them constantly that knowing what not to do is much more important than what to do. Approximately 99% of the time, the single most important thing investors should do is absolutely nothing.

There's no smugness or self-satisfaction in this sort of role. The competitive and psychological pressure to give bad advice is so intense, the demand to produce noise is so unrelenting, that I often feel like a performer onstage before a hostile audience that is forever hissing and throwing rotten fruit at him. It's hard for your head to swell when you spend so much of your time ducking.

On the other hand, you can't be a columnist for The Wall Street Journal without a thick skin. I have been called an ignoramus, an idiot and dozens of epithets unprintable in a family newspaper; accused of front-running or trading ahead of my own columns; assailed as being in the pockets of short-sellers betting against regular investors; described as being a close friend of a person I've never met in my entire life; decried as being biased in favour of high-frequency traders and as being biased against them; and told, almost every week, that I lack even the most basic understanding of how the financial markets work. The perennial refrain from critics is: *You just don't get it. Internet stocks / housing / energy prices / financial stocks / gold / silver / bonds / high-yield stocks / you-name-it can't go down. This time is different, and here's why.*

But this time is never different. History always rhymes. Human nature never changes. You should always become more sceptical of any investment that has recently soared in price, and you should always become more enthusiastic about any asset that has recently fallen in price. That's what it means to be an investor.

When, in the fourth quarter of 2008 and 2009, I repeatedly urged investors to hold fast to their stocks, I was called a shill for Wall Street and helplessly naïve.

When I took a sceptical look at Congressman Ron Paul's gold-heavy portfolio in December 2011, angry readers called me "weak minded," "ignorant," "pathetic" and a member of "the big bank lobby." (Gold was around \$1,613 per ounce then; it was last sighted this week sinking below \$1,230.)

When, only a few weeks ago, I warned that any hints of a tighter policy from the Federal Reserve could crush recently trendy assets like real-estate investment trusts, high-dividend stocks and "low volatility" stocks, readers protested that I didn't even know the difference between a rise in interest rates and "tapering," or a decline in the rate at which the Fed buys back bonds. I know the difference – but, with many of these assets down by up to 10% since then, it isn't clear that all investors knew the difference.

Every columnist knows that if you ever write something that didn't make anybody angry, you blew it. People don't like having their preconceived notions jolted, and doubt and ambiguity are alien to the way most investors think.

That's why I'm realistic. I don't ever expect to convert all my readers to my viewpoint. I would be a fool to think I could. But I'd be a worse fool if I ever stopped trying.

So you can understand exactly where I am coming from, I will tell you a story.

My senior year of college, my father was dying of lung cancer. Most weekends, I would take the train up from New York City to Fort Edward (then the nearest train station to where I grew up in rural upstate New York).

On one of my last visits, even as my father was in severe pain, he asked me the same question he always did: What are you reading?

I fluffed my feathers a bit and said: Kierkegaard. "What is he telling you?" asked my dad. I had just been reading a volume of Kierkegaard's journals on the train, immersed in the poetic ruminations of the great Danish philosopher. So I immediately spouted, verbatim and with the appropriate pauses for world-weary effect, the words I still remember to this day: "No individual can assist or save the age. He can only express that it is lost."

Without a moment's hesitation, my dad retorted: "He's right. But that's exactly why you must try to assist and save the age."

In that one moment, my dad put a callow youth gently in his place, out-existentialised the great existentialist and gave me words to conduct a career by.

Only years later did I understand fully what he meant: We can't assist or save the age, but the attempt to do so is the only way we have of even coming close to realising some dignity and meaning for our lives. The longer the odds, the greater the obligation to try to beat them. That's why

I keep at it, even though I have profound doubts that most people will ever learn how to be better investors. I never expect everyone to listen; all I ever hope for is to get someone to listen.

I felt this first hand in a former job in 1999 and 2000, when I wrote column after column warning people not to fling money at technology stocks and, in return, got hundreds of hate emails a week (often hundreds per day). It was grim, contrarian work, constantly refusing to tell people what they desperately wanted to hear – it was like trying to stop a hurricane by pushing against it with your hands.

The vindication came for me not when the Nasdaq bubble burst, but years later, when a hand-addressed envelope came in the mail. One of my columns was enclosed, folded again and again and frayed almost to tatters.

Across it, a reader from Minnesota had written by hand: “Dear Mr Zweig: For a long time I have wanted to say thank you for writing this. The second I read this it made so much sense to me that I tore it out and folded it up and carried it around in my wallet. Whenever my friends started bragging about their trading profits I would excuse myself, go to the bathroom, pull this article out and read it again and it kept me out of trouble. I am returning it to you now because I don’t think I need it anymore, but I wanted you to know that I have carried it with me every day for years.”



No one writes letters anymore, of course. But I still get emails every week from readers telling me that something I wrote kept them out of trouble or helped them make sense of the market’s latest mad outburst.

I’ve had many honours in my career – being chosen as the editor of the revised edition of Graham’s *The Intelligent Investor*; spending two years helping the Nobel laureate Daniel Kahneman write his book *Thinking, Fast and Slow*; and, this month, winning the Loeb Award. But the greatest honour I have had is the abiding privilege of trying my best to serve our readers well. It isn’t always easy, and I don’t always succeed, but that effort is its highest reward an investing journalist can ever have.