

Investigative Investing

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Investing is both a science and an art. To be a successful investor, you need to have an edge. This can be quantitative, qualitative or behavioural.

In general terms a quantitative edge is measurement and today that also means the use of complex computer models to process data. Qualitative is harder to measure but includes management expertise. And a behavioural edge examines how people make their decisions.

Most investors focus on the science and quantitative part which is why buzzwords such as 'algorithmic trading', 'artificial intelligence' and 'big data mining' are tossed around like expensive confetti in the world of finance.

Paradoxically, how real is this edge if all the competitors are doing the same thing? Financial information has become commoditised over time with services like Bloomberg and Reuters increasing the supply of quantitative data further arbitraging away any quantitative edge that may have existed 20 years ago.

Charlie Munger, the second in command at Berkshire Hathaway has repeatedly espoused the importance of learning the big ideas in the different disciplines. One discipline that bears very little resemblance to investing and yet remains very relevant is investigative journalism.

The main job of an investigative journalist is to carry out research, ask the right questions and follow the evidence wherever it may lead whilst being acutely aware of any prejudices that can sway their thoughts. This is unnervingly close to what good investors do.

Here at Tacit we have no quantitative edge, supercomputers or PhDs carrying out complex mathematics with those strange Greek symbols. Our investing edge is qualitative and behavioural.

We believe that qualitative data can be mispriced because it is not commoditised by the Bloombergs and Reuters of this world. Our behavioural edge stems from understanding our biases and the erratic nature of markets.

So, at Tacit, we like to think of ourselves as investigative journalists. Without the stereotypical eyeshades or pens tucked behind our ears.

We start off with an idea, develop a detailed understanding of it, ask the right questions and talk to people who agree and disagree with us. Trying to disprove the validity of an idea prevents us from falling in love with it and being blindsided by its flaws.

Understanding our edge and staying firmly within it has worked well for us and will continue to do so going forward.

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