

News or Noise: A New Kind of Investment Blog

By David Fisher

According to the tech titan IBM, humans create 2.5 quintillion bytes of data every day. Because of the speed at which data is accumulating, at least 90% of the information in the world is less than two years old. With the cost of computing power and storage space declining, these trends are likely to continue and even accelerate.

Like most of you, we are inundated with information on our phones, in our email inboxes and on the Internet. Clearly, the world doesn't need a new investing blog to re-process stale information or reformat the day's useless headlines. Thus, we are calling our investment blog "News or Noise." We've taken up the challenge of sorting through the infinite bits of background noise and seeking the few truly newsworthy nuggets of information. What are the stories today that are likely to be meaningful for investors in the future? A very small number of headlines are important and of those, many are immediately processed by investors. Only a tiny fraction of all the new data is truly relevant and underappreciated.

Historically, the skill to succeed as an investor was in direct proportion to one's access to proprietary information. Because information was disorganized and widely disbursed, it was only available to those who were willing to spend large sums of money for it or who were connected to those who held it. Today, the world is much different. Information is ubiquitous and, as referenced above, is increasing at such a rapid rate that quantity is now irrelevant. The key factor in determining investing success today is the ability to sort through the large amounts of information and find the few details that are misunderstood by the majority.

Embracing Contrary Thinking

In his timeless book *The Art of Contrary Thinking*, Humphrey B. Neill summarizes the goal of information analysis as follows: "The art of contrary thinking consists in training your mind to ruminate in directions opposite to general public opinions; but weigh your conclusions in the light of current events and current manifestations of human behavior." In his book, Neill makes the following key points:

- Individual opinions are of little value to investors. In fact, the human traits of fear, hope, greed, pride-of-opinion and wishful thinking prevent us from being objective. The key to being contrarian is to be able to differentiate between information and human behavior.

Neill suggests that, “To be contrary to words is a most wise and often profitable practice, but to be contrary to facts is to invite disaster.”

- The goal of looking at things differently is not to make better forecasts. Part of knowledge is realizing that the future is uncertain and predictions make it hard to see the big picture. As Neill says, “I have dared to assert time and again that you may have all the statistics in the world at your fingertips, but still you do not know how or why people are going to act.”
- Finally, it doesn’t pay to go opposite the crowd at all times. In fact, the crowd is usually right during the bulk of a trend. However, at critical points when public opinion becomes extremely unbalanced, it pays to go contrary. Neill quotes author and U.S. Senator Theodore E. Burton who said, “In making investments it is foolish to do just what other people are doing, because there are almost sure to be too many people doing the same thing.”

Though Neill wrote his book more than 50 years ago, many of the same concepts are present in Nate Silver’s recent book, *The Signal and the Noise: Why Most Predictions Fail—but Some Don’t*. Silver’s message can be condensed into a few core principles:

- Don’t predict based on data that is not supported by theory or real-world insights. In today’s world, it is easy to rely on quantity of data and computing power to make predictions. However, information has to be viewed through a framework in order to be useful in making decisions. More noise is just that, “noise,” but it takes human judgment to discern the news from the noise.
- Don’t believe predictors who are overconfident. The media offers strong incentives to those who make specific, dogmatic predictions. In fact, there is great reward to those who make bold predictions that turn out to be right and limited downside for those whose predictions are wrong. The best predictors are what Wharton professor Philip Tetlock calls foxes—those who know “many little things” and are much less confident in their predictions. As Saint Paul said, “Be not wiser than you should, but be soberly wise.”
- Don’t neglect to consider events that are widely considered to be impossible. Rather, events that have a low probability of happening, yet are significant in their results, are often those that have the greatest effect on markets and economies. Think about two major recent events: 9/11 and the housing bust.
- Finally, one must think probabilistically. Silver recognizes that the future is uncertain. Rather than making finite predictions, one must look at the future as a probability weighted spectrum of outcomes. This process uses previously gathered data and human judgment to create a series of potential scenarios. Though not quantitatively rigid, it is also based on more than just “gut feelings.”

Daring to Know

Long before Nike coined the term “Just Do It,” there was this saying: *sapere aude*. Spoken by the Roman poet Horace more than 2,000 years ago, these words can be roughly translated as “dare to know.” Today, it is very easy to expect answers to be generated by smarter and faster computers that can analyze data in the blink of an eye. However, it is the process of viewing this information through a humanistic prism that provides enlightenment and valuable news.

Noise is worthless and confusing, while news is liberating and actionable. In his book’s conclusion, Silver says, “Information is no longer a scarce commodity; we have more of it than we know what to do with. But relatively little of it is useful. We perceive it selectively, subjectively, and without much self-regard for the distortions that this causes. We think we want information when we really want knowledge.” Each week, we will dare to sort through the information and bring what we think is a piece of real knowledge to you. We look forward to sharing our thoughts with you and welcome your comments and feedback.