



Meet the Biggest Obstacle to Becoming a Successful Investor: Your Brain

Description

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Dear Fellow Fools,

Recently, one of our own was under fire. And like all good Canadians, we Fools like to support our fellow countrymen, especially when they're facing unjust criticism.

Strategist (and Canadian) David Rosenberg, now of Toronto-based investment management firm **Gluskin Sheff**, has made some good calls in his day, and has picked up a sizeable global following because of it. Recently, Rosenberg began to stray from his historically bearish tone – a shift that has riled at least a portion of his following.

We don't have any great insight into whether Rosenberg's changed tune will turn out to be right or wrong, but we *do* have some insight into what's going on in the minds of his irked clients.

Award-winning Fool.com columnist Morgan Housel very nicely covered this issue in a recent article. In this week's Take Stock, we have re-purposed Morgan's fine work — which is a great reminder for all of us to be aware of one of the strongest forces working against all investors.

Take it away, Morgan ...

Putting a Gap Between You and Stupid

By Morgan Housel

New York Times columnist [Carl Richards](#) has a great saying. A financial advisor, Richards says, is someone who puts a gap between you and stupid. The smartest investors in the world are tempted to do dumb things with your money. An advisor's job is to look you in the eye, shake their head, and walk you back from the ledge.

Every investor needs someone like this. But how many of us have one? Few. Most of us have the opposite. We seek out people who agree with our ideas, cheering us on and holding our hands straight off the stupid cliff.

Keep that in mind, and meet David Rosenberg.

Rosenberg is an economist with Gluskin Sheff in Canada. He's on TV a lot, is usually pessimistic, and has somewhat of a cult following among bears. A lot of his calls were wrong in hindsight, given the five-year bull market. That's nothing against Rosenberg. He seems like a smart guy. Forecasting is just hard.

Now Rosenberg is changing his tune. He's turning more bullish on stocks and the economy.

Some of Rosenberg's clients are furious. Why? Not because his timing was off, but because he changed his mind *at all*.

"Cancel my account, and tell Dave I don't recognize his work," one client wrote, [according](#) to *The Wall Street Journal*. "He used to be the straightest shooter out there ... it is too much for me to have another cheerleader," wrote another.

These clients weren't paying Rosenberg to analyze the economy and provide an objective forecast. They were paying him to confirm their pessimism. Now that he's bullish, they want nothing to do with him.

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"I'm finding out that a lot of my loyal readers were never really interested in my analysis," Rosenberg said last week. Next stop, Stupidville!

There's a name for this: confirmation bias. It's the tendency to seek out and glorify information that supports our existing beliefs, and ignore and discredit information that goes against them.

It's incredibly powerful. During the 2004 U.S. presidential election, psychologist Drew Westen of Emory University and his colleagues studied the brains of 15 "committed" Democrats and 15 "committed" Republicans with an MRI scanner. Each group was shown a collection of contradictory statements made by George W. Bush and John Kerry. Not surprisingly, the partisans were quick to call out

contradictions made by the opposing party, and made up all kinds of justifications to rationalize quotes made by their own side's candidate.

But here's what's scary: The participants weren't just being stubborn. Westen found that areas of their brains that control reasoning and logic virtually shut down when confronted with a conflicting view of their preferred candidate. He explained in the book *The Political Brain*:

When confronted with potentially troubling political information, a network of neurons becomes active that produces distress. ... The brain registers the conflict between the data and desire and begins to search for ways to turn off the spigot of unpleasant emotion. We know that the brain largely succeeded in this effort, as partisans mostly denied that they had perceived any conflict between their candidate's words and deeds ...

Once partisans had found a way to reason to false conclusions, not only did neural circuits involved in negative emotions turn off, but circuits involved in positive emotions turned on. The partisan brain didn't seem satisfied in just feeling *better*. It worked overtime to feel *good*, activating reward circuits that give partisans a jolt of positive reinforcement for their biased reasoning.

The bias that causes people to write off an opposing politician while defending their own is the same one causing David Rosenberg's clients to flee. In each case, people aren't looking for someone who can reason and think rationally. They just want someone to confirm whatever they already believe. In a constantly changing world, this is one of the surest routes to deception and bad decisions.

CEOs do this, too. In one fascinating study, a group of researchers from Cornell showed that CEOs who surround themselves with colleagues who shell out praise and flattery are more confident in their decisions, less likely to peruse strategic change, and ultimately more likely to be fired. Former Lehman Brothers CEO Richard Fuld "surrounded himself with every type of yes-man and woman you could possibly get" says author Lawrence McDonald. No one challenged his views, at least while remaining employed. The result was a colossal blindness toward risk.

So, what can we do about it?

Follow Carl Richards' advice. Find someone who puts a gap between you and stupid.

I think one of the best things anyone can do in investing is find someone who disagrees with your views. If you're a bear, find a bull. If you like bonds, find someone who doesn't. Seek them out and make them your best friend. Spend more time with them than the people who agree with you. Listen to them carefully. Take what they say seriously.

This is devilishly hard. But when you force yourself to do it, you will be shocked at how much more you learn from people who disagree with you than those who share your views. It forces you to accept that things are usually more complicated than your gut reaction makes them out to be.

I used to be in the hyperinflation, dollar-is-going-to-crash camp until I forced myself to read the other side of the argument and realized it made more sense. Assured the financial crisis would doom the economy, I was once tempted to sell most of my stocks in late 2008 until a friend walked me through the history of the Great Depression, noting that stocks did spectacularly well for those who stuck it out. In both cases it was hard to listen to the views of someone I fervently disagreed with. But in both

cases, the other side was right. I'm so glad they put a gap between me and stupid.

Try it yourself.

Ask a Fool

We love hearing from our community of Fools and want to remind you that you can utilize our "Ask a Fool" service to put forward whatever might be on your mind. Simply e-mail us at CanadaEditorial@fool.com.

Thanks to Morgan for lending a hand this week.

'Til next time....happy investing and Fool on!

Sincerely,

Iain Butler

Chief Investment Advisor

Motley Fool Canada

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tmfohcanada

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