Take Stock – The 6 Questions Every Investor Must Ask Themselves

Description

Take Stock *is the Motley Fool Canada's* ***free*** *investing newsletter. To have future editions delivered directly to you, simply* ***click here now****.*

Dear Fellow Fools,

There are a lot of so-called experts in the financial world to whom you *could* pay attention. Thanks to the Internet and 24-hour-a-day business television, these folks are available any time you like. But there are only a select few experts to whom you *should* pay attention.

Howard Marks, Chairman of the investment management firm Oaktree Capital Management, is one of these experts.

Beyond Marks' investing prowess, he's also highly skilled with the pen (keyboard?). His "Memos From Our Chairman" are an absolute must-read in the minds of many investors – including yours truly. In this week's Take Stock we're going to review some of the more profound passages from Marks' latest memo, *Dare to Be Great II*.

The goods

Considering my years of experience in Canada's investment management industry, *Dare to Be Great II* had me nodding my head from beginning to end.

The primary message of the piece is that to achieve greatness (in *anything*, really), you cannot follow the path that is being taken by the masses.

Humans—not to mention investors!—have a very hard time with this concept. After all, not taking the same path as everyone else leaves us open to an unknown, highly uncertain outcome.

However, to be great, leaping into the unknown is a step we *have to* make. As Marks writes, and to get back to investing, "you can't take the same actions as everyone else and expect to outperform."

Similarly, “you have to assemble a portfolio that’s different from those held by most investors.”

Many of the investment experts you see and hear on a day-to-day basis don’t do this!

The concept of preferring to fail with the masses rather than succeeding on your own is rampant in the financial industry—particularly at the institutional end, where all of the “smart” money is supposed to exist.

You see, these institutional investors (mutual funds, pension funds, etc.) are evaluated on how they perform relative to a benchmark.

Relative performance is the name of the game. If the market drops by 20% in a year but their portfolio is only down 15%, they win, even though their clients are 15% poorer than they were at the beginning of the year. Their focus on relative performance is understandable, but misaligned. It’s in their best interest, but not necessarily the clients.

In contrast, Marks writes, “The goal in investing is asymmetry: to expose yourself to return in a way that doesn’t expose you commensurately to risk, and to participate in gains when the market rises to a greater extent than you participate in losses when it falls.”

This doesn’t mean every decision has to be a winner. It just means that the decisions that work out work out more than the ones that don’t. “To succeed at any activity involving the pursuit of gain, we have to be able to withstand the possibility of loss.”

Another investor that understands this concept better than most is Motley Fool co-founder David Gardner. David makes no bones about the fact that when his stock recommendations go wrong, they typically go “spectacularly” wrong. However, the 60% of the time that he is right, *he’s really, really right*, and this has carried David’s (U.S.-based) Foolish services to great heights over the years.

The right stuff

With our *Stock Advisor Canada* advisory service, we’re bringing the shared philosophies of David and Howard Marks to pursue greatness north of the border.

And though it’s very easy to *say* that our Canadian service is going to be “great,” Marks also provides an “investment creed” that serves as a guide to see who’s willing to do what it takes as an investor to achieve this label.

I’m going to walk through Marks’ creed, as it gives a better indication of what we Canadian Fools are all about, and serves as an excellent guideline to ensure that we’re on the right path. We however aren’t the only ones who should be answering these questions as they are applicable to all market participants.

1. Is the efficient market hypothesis relevant? Do efficient markets exist? Is it possible to “beat the market”? Which markets? To what extent?

No. No. Yes. All. By a lot.

Though this series of questions is often kicked around by the pundits that appear on TV and elsewhere, the concept of an efficient market has no place in Fooldom. We believe the market can be beaten; the Fool has demonstrated this across nearly all of our services, including *Stock Advisor Canada*. End of story.

2. Will you emphasize risk control or return maximization as the primary route to success (or do you think it's possible to achieve both simultaneously)?

With all of our recommendations, our analyst team at *Stock Advisor Canada* is almost exclusively focused on this balance between risk and reward—and we feel like it's possible to achieve this balance. Our recommendations thus far offer a wide-range of risk/reward relationships.

3. Will you put your faith in macro forecasts and adjust your portfolio based on what they say?

NO! I've learned this one the hard way. I'm not sure there's been anything in my life (not even my kids) that has cost me more money than listening to, and believing in, macro forecasts. Those days are long gone. All we're doing at *Stock Advisor Canada* is looking for great companies built for the long term that offer an attractive risk/reward relationship.

4. How do you think about risk? Is it volatility or the probability of permanent loss? Can it be predicted and quantified a priori? What's the best way to manage it?

In our mind, risk is the probability of permanent loss. Surprisingly, this is an unconventional view as many believe that volatility represents risk. In fact, our most recent Weekly Update in *Stock Advisor Canada*, "Volatility Is Not Risk," discussed this very subject.

5. How reliably do you believe a disciplined process will produce the desired results? That is, how do you view the question of determinism versus randomness?

We wholeheartedly believe in a disciplined, repeatable process that's followed by all four members, myself included, of our *Stock Advisor Canada* analyst team. Each of our analysts is uniquely qualified and experienced to bring our members the very best recommendations, month in and month out.

6. Most importantly for the purposes of this memo, how will you define success, and what risks will you take to achieve it? In short, in trying to be right, are you willing to bear the inescapable risk of being wrong?

Unlike most in the financial world who define success in terms of relative performance, although we compare the performance of our recommendations to the S&P/TSX Composite Index, success to us is much more aligned with our members' best interests.

We want to not only earn our members some serious dough, but we also want to be **held accountable** , which we do by openly displaying the performance of all our recommendations; be **informative** and **educate** with a regular stream of correspondence (the service is much more than just two fully researched recommendations per month); and **build** a Foolish Canadian community through our Discussion Boards, where members are free to interact with each other, and the analyst team.

There are no closed doors in Fooldom. We do everything in plain sight. When we're right, you'll know about it. And perhaps more importantly, the same goes for when we're wrong. That's a dynamic that I don't believe exists in the uber-conventional, button-downed mainstream financial world.

Bottom Line

Our pursuit of greatness is well underway at *Stock Advisor Canada*—we've now recommended 14 stocks to our members. We've built a nice base of subscribers to this point, but there's always room for more.

We'd love to have you join us, which you can do by simply clicking this link. You'll notice that at the very least, the price we're offering (which is 100% refundable within the first 30 days) is more than great.

What do you say? Will you join us, Fool?

To get started, simply click here now!

Yours Foolishly,

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CATEGORY

1. Investing

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