

The Only Three Questions That
Count (if you are Ken Fisher that is)

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Disclaimers

- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

Ken Fisher "The Only Three Questions That Count"

- Evokes a lot of reactions:
 - Parts of it are great.
 - Parts of it make me scream.
 - Parts of it are boring.
- This talk mostly not about reactions - but reactions are important

Three questions:

- What do you believe that is actually false?
- What can you fathom that others find unfathomable?
- What is your brain doing to blindside you?

What do you believe that is actually false?

- Safe and important if you can dig to fundamental truth
- Unfortunately most of the time you cannot
- If you see two contradicting hypotheses where before you saw one, it's still good result

- Ken's examples are worth looking at, because they are based on serious data mining from the past
 - Even if you disagree with Ken about budget deficit or whatever, read his data. It is scientific, it is well collected and presented and it might make your mind more open about what may happen in next 1-5-10 years. ;)

Ken's "What do you believe that is actually false?" theories

- Ken is firmly into "deficit is good" camp - the book was written before current debacle
 - Not fundamental truth
- He's also pretty much in Forbes-all-government-is-so-freaking-bad-I-cannot-believe-it camp
 - Not fundamental truth
- High P/E markets are not riskier than low P/E markets
 - Maybe. But he says zero about concrete stocks!!! Market P/E is fictional, don't get stuck on it
- "As goes first month, so goes the year"
- "Sell in May and go away"

What can you fathom that others find unfathomable?

- Not very novel - pretty much "*what advantage I have over others?*"
- Ken's myths: if you read something in media it won't work, because others have done/thought/exploited it
 - Not necessarily - it's percentage and idea game
 - Microsoft was probably "old idea" in 1990 and then still worked great for 10+ years.
 - Tough to know what ideas are "known and overused" vs. "known and underused" - maybe look at valuations
 - "Any category of security that was hot in last five years won't be in next five years and vice versa" - poppycock, tech was hot then busted, but Google was still great stock!, don't buy categories, buy stocks

What can you fathom that others find unfathomable?

- Raimondas law: There is nothing in this world **only you** know
- First corollary: If there is, it's not applicable to investing
- Second corollary: If it is, somebody else knows it too
 - You're never a single investor in business unless you own it
- Third corollary: If it applicable to investing and nobody else knows it, it is wrong
 - If you are single investor in business and nobody else wants to buy that business from you, it is a bad investment 😊

Don't be contrarian

- Where Ken is right: pure contrarianism does not work
- There's always option C!
 - For stocks option C is often flatline (not up, not down)
- Also related to the issue that you don't know whether option A "what most people think" or option B "inverse of A" win
 - Tech boom (option A) went longer than bears (inverse of A) expected

More “known” “unknown” stuff

- PSR does not work anymore. That's what Ken says, and he's the inventor of PSR. Apparently it worked then, but does not work now.
- Yield curve - inverted vs. regular - presumably still works.
- Bond yield correlation with stock returns still works
- Last two years of presidency are better years for stock returns
 - Somewhat worked this year

What is your brain doing to blindside you?

- Behavioral psychology - there are more in depth books on this than Ken
- The Great Humiliator theory is balderdash - the market is **not** out to get you
 - You risk mental illness if you think it is
- “Accumulating pride, shunning regret” is risky
 - Easy to persuade yourself that you’re genius in bull market
 - Easy to lay blame on bear market or whatever
- Tough to sell winners - but you have to have discipline to do it
- Tough to sell losers - but you have to have discipline to do it
- Tough to buy when stock/market tanks - but you have to have discipline to do it

Biases

- Confirmation bias
 - Looking at positive info
 - Avoiding negative info
 - Needs to be observed and handled
- Hindsight bias
 - “I knew this is going to happen this way”
- Pattern continuation: stock that performed well will continue to perform, dog will continue to drop
- Order preference - like the stocks that went up, hate the stocks that went down

Ken's advice

- Accumulate regret, shun pride
- Own up to the mistakes
- Diversify
- And if you still think you're the best write a book or get a TV show. It's also diversification in a sense... :P

Disaster year(s)

- Page 298 - how every year from 1934 to 2004 was a "disaster" year.
- Double dip recession in 2010? You should have looked at 1936, no I mean 1965, well 1974 would give you nightmares too. :)
- Fun table. :)

Caveats

- Ken runs multibillion portfolio and he writes essentially for himself. So a lot of his techniques only make sense if you also run multibillion portfolio. For example, his strategy is pretty much to stick with benchmark (e.g. S&P or World-Market-Index) and only make bets that deviate by 10-20% from the benchmark. E.g. if you think that technology will outperform, you'd buy some tech stocks to be overweighed compared to benchmark. You'd never buy e.g. MSFT just because it is cheap. Very annoying approach that probably does not make sense to small investors.

Verdict

- Buy it. Read it. Burn it afterwards or put it on the bookshelf and scare your friends with statistics.