Experience is Overrated

Charley Lau is widely respected in baseball circles as one of the greatest hitting coaches in the history of Major League Baseball.

His book, *The Art of Hitting .300,* is regarded as one of the best instructional guides into the science behind a good swing.

Here's the problem -- Lau never hit .300 in a single season during his years as a professional baseball player. In fact, his career batting average was just .255.

Experience can help in certain areas but it's often overrated in terms of separating the winners from the losers.

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David Rosenberg from Gluskin Sheff shared one of his "scariest numbers of them all" in a recent research piece:

And it is 13.4 million.

No, that is not the number of global Bitcoin users. It is the total number of new people that have entered the financial services industry since the beginning of 2009. Much of this was to replace the 6.9 million who had enough of this business and walked away, or the 3.9 million who were summarily fired over the past nine years. Either way, we have 13.4 million newbies in this industry with no experience -- at least no experience in navigating through a shifting paradigm. These poor folks, and the soon-to-be poor investors who have their money with these people, have only one cycle under their belt. In fact, only a half-cycle when you really think about it. They have only known economic expansion; a bull market in equities and all risk assets; massive leverage; uber-low or negative interest rates; extremely low levels of volatility; deflation or ultra-low inflation; endless rounds of quantitative easings; globalization; and central banks having your back at all times.

The idea here is that all these fledgling young investors are so untested and inexperienced that they're bound to make mistakes when this cycle turns. And this makes sense to some degree. But how many of these newbies are actually making the decisions with real money at stake? Rarely anyone one starts out in the financial industry with a book of business or fund to manage on their own.

Young people typically start out as analysts, working in sales, or some other support staff role. They're doing grunt work and learning on the job. How many of these 13.4 million are portfolio managers or advisors who have trading or investing discretion? I would venture a guess that it's not that many.

You know who makes the big-time investment decisions? People with experience!

You know who made the most impactful mistakes leading up to the financial crisis? People with experience!

You know who has made the most impactful mistakes since the financial crisis?

I think you can see where I'm going with this.

Experience is not the same thing as expertise.

For every investor who has learned from their past mistakes and experiences with various market environments, there are 3-4 who are stuck fighting the last war who have become prisoners to their memories of past markets.

A young investor who lived through the 1930s would assume the stock market is the last place you would want your money and depressions are a normal part of the economic cycle.

A young investor who lived through the 1940s would assume World Wars (and the ensuing inflation that comes from them) are par for the course.

A young investor who lived through the 1950s would assume their Depression-era parents were nuts for not trusting the stock market.

A young investor who lived through the 1960s would assume the only way in which to invest is through popular blue-chip growth stocks.

A young investor who lived through the 1970s would assume stocks go nowhere and sky-high inflation along with rising interest rates are ever-present risks.

A young investor who lived through the 1980s would assume investing is easy, save for the fact that stocks can crash more than 20% in a single day.

A young investor who lived through the 1990s would assume 20% annual returns are the norm and day-trading is the path to riches.

A young investor who lived through the 2000s would assume enormous market crashes and recessions occur on a set schedule.

I've seen a few turning points in market and economic cycles in my career. The vast majority of the people who were right about the timing of the upturns could never bring themselves to admit the good times don't last forever. And the vast majority of people who were right about the timing of the downturns could never bring themselves out of the bunker mentality.

How many investors "called" the 2008 crisis only to miss out on the ensuing recovery? All of them?

I've seen plenty of money manager presentations touting their 634 years of combined experience. Does this really tell you anything?

Experience in the markets is often overrated. Talent and intelligence are also overrated. Temperament, patience, self-awareness, humility, discipline and process are all extremely underrated. Experience can help with these things but it's not a prerequisite.

Young investors today have never invested in an environment like we find ourselves in today. But neither have experienced investors either. The current market environment is uncharted territory for investors both young and old, green and seasoned.

No two market environments are ever the same. The only constants are risk and human nature. Everything else about the future is always uncertain.

The investors who understand these two concepts give themselves a better chance of succeeding when this cycle does finally turn, no matter how much or how little experience they have with past market scenarios.

Further Reading:
Experts on an Earlier Version of the World

Now here's what I've been reading lately:

- How about now? (Irrelevant Investor)
- Beginning with the end in mind (I Heart Wall Street)
- Lessons from the past 25 years (Morningstar)
- When diversification works as advertised (Reformed Broker)
- Invisible asymptotes (Remains of the Day)
- The reporter who took down a unicorn (NY Mag)
- The bad blood at Theranos (Big Picture)