Investec

OUT OF THE ORDINARY

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Thinking Differently

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As a member of the fund selection team, I spend a great deal of time trying to identify fund managers that have an edge over the market in the way they think and invest. The reality is, there are thousands of investment analysts who are predominately looking at much the same information and data, are from a similar background and have been trained in a similar way, and therefore, they may often come to similar conclusions about what constitutes a good investment. As a

result, possessing and demonstrating a discernible 'edge' is difficult to say the least. This problem is exacerbated by the lack of diversity in the investment management industry, which has contributed to the long-standing problem of groupthink. Groupthink reduces the ability of investment teams to generate ideas that are contrary to market consensus, a prerequisite for alpha generation. To combat this problem, we have to find people who think differently to ourselves, possibly those who are from completely different backgrounds. Social media is one such place to find this and Twitter is my preferred source. For example, one equity analyst who I follow was born and trained in Bangladesh before moving to the US. His recent thread on the distinctions between the US stock market and Bangladeshi stock market made for interesting and thought-provoking reading (an insight which would be rare to find in the City of London).

Social media provides a platform on which to publish content; you could potentially be reading the tweets of a little-known investment genius before they have had their big break and before their ideas gain the attention of the whole industry. In some ways, networks such as Twitter are a meritocratic ecosystem where the higher the quality of the content, the more it is highlighted to users (via interactions: retweets, likes and comments), which enables content from accounts with a small following to reach a wider audience.

There is also the added benefit of viewing the thoughts of well-known investors in a more sporadic and unpolished form than is published in their monthly investment updates. This offers a different insight into the minds of investors who have been known to think differently. This is not to say their thoughts are necessarily correct, but understanding and merely knowing about some of their ideas can stimulate the mind to think in new ways which may be applicable to any subject.

One of the downsides of using social media as a source of information is the risk of 'echo chambers', where users immerse themselves in an online environment that supports their pre-held suppositions and where these suppositions are insulated from rebuttal. For the objective user, doing the exact opposite can be of particular use; what better way to test the strength of your ideas than to seek out the view of someone who completely disagrees with you? An example of this is the way in which the various merits of Tesla have been a huge source of debate with bulls and bears both vigorously putting forward their ideas. Additionally, someone who you are interacting with online could offer a more objective view than the person sitting next to you, who might wish to avoid upsetting you by putting down your idea, or possibly a subordinate who may be reluctant to challenge your assertion.

Alternatively, you could use social media to discover a topic that you are passionate about. For example, pages in a textbook about debt seniority or derivatives are not going to get many people enthusiastic about finance, but if you provide an interesting context such as the Evergrande debt default, the Gamestop short squeeze or how oil traded at minus 37 dollars per barrel at one point last year, the subjects can have new meaning.

I will leave you with an interesting idea that I borrowed from Twitter: Warren Buffett and Charlie Munger have played a key role in each other's success. For decades they have managed to stay at the forefront of a competitive industry and have carried on working way past retirement age. What was the probability that these two investment masterminds would have met in the formative years of their careers in Omaha, Nebraska in the 1950s or 1960s? Pretty slim odds, I think you'll agree. To this end, most of us aren't surrounded by people with the same interests as our own or people who get the best out of us intellectually. Therefore, we have to look further afield, with social media being one source of finding those who do.

Economic Commentary

FTSE 100 weekly winners

Royal Dutch Shell Plc Class A	7.8%
Royal Dutch Shell Plc Class B	7.7%
International Consolidated Airlines Group SA	7.1%
Glencore plc	6.1%
BP p.l.c.	5.5%
Compass Group PLC	5.1%
Smiths Group Plc	4.2%

FTSE 100 weekly losers

Royal Mail plc	-12.6%
AVEVA Group plc	-10.5%
Admiral Group plc	-8.3%
Spirax-Sarco Engineering PLC	-7.7%
Halma plc	-7.4%
DS Smith Plc	-7.4%
Taylor Wimpey plc	-6.6%

FTSE 100 index, past 12 months

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