

# Mind Games

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In "[Bubbles and Elevators](#)", we discussed how human beings do seemingly ridiculous things to fulfill their instinctive need to mimic what others are doing, right or wrong, logical or illogical. The greatest investors, those that make money when markets are rising and avoid the pain when bear markets occur, are a limited bunch. It is not luck that makes them special, nor is it necessarily their ability to find fundamental and/or technical set ups that provide great opportunities. Ultimately, these investors possess the ability to understand and overcome the inherent behavioral traits that handicap most investors. To use a trite phrase- the great ones are truly able to think outside of the box.

## Behavioral Traits

Confirmation bias, group think, and cognitive dissonance dominate our logic and the way we interpret the world around us. It is our hope that, through a better understanding of each of these behaviors, we may encourage you to consider views that are outside of the box.

**Confirmation Bias** – This bias, a form of cognitive bias, is a condition of the human mind that occurs when we seek or interpret information in a manner that tends to confirm our existing beliefs or hypothesis. Those exhibiting this bias pay little attention to opinions and data that may offer alternative possibilities.

**Group Think** - This mental occurrence arises when a group of people seeking conformity think and act in similar fashion to each other. Typically the group will reach a consensus opinion without proper evaluation and with a lack of alternative viewpoints. From Wikipedia- "Groupthink requires individuals to avoid raising controversial issues or alternative solutions, and there is loss of individual creativity, uniqueness and independent thinking."

**Cognitive Dissonance** - This condition is experienced by an individual that holds two or more inconsistent thoughts at the same time, including new information that conflicts with existing beliefs. Frequently humans actively avoid information or opinions that may introduce or strengthen discrepant views.

People naturally find immense comfort in thinking and behaving like everyone else. Think about how exhilarating a football game can be when the crowd is roaring the fight song, everyone is wearing your team's colors and strangers are high-fiving each other.

We tend to ignore or shun alternative views that may challenge our ideas or beliefs. How many people subscribe to the liberal New York Times and watch the conservative FOX News?

How often do we seek and create narratives to help defray the stress of having opposing views? In "[A Narrative for Every Season](#)" we showed how a "panic born narrative" formed to help explain why a Trump presidency was good for the equity market despite a host of reasons that question the efficacy of his policy proposals.

### Summary

By falling victim to these traits we essentially guarantee that our investment returns will fall in line with the markets returns. **In other words, if we think and act like every other investor, why should we expect returns that are any different.** Therefore as investors and fiduciaries of others wealth, we owe it to ourselves to entertain and understand alternative views. We need to watch FOX News *and* read the New York Times. We need to challenge ourselves to better understand things that may not be comfortable.

Whether one is bullish or bearish, seek out and spend time studying the views of others with whom you disagree. By better understanding opposing opinions, investors will either strengthen their existing views and/or better understand the potential flaws in their current thinking. Either way, an investment or economic thesis is the better for it.

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