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THE MOST IMPORTANT THING

This month it is 25 years since the stock market crash of 1987. It is therefore 25 years since my first experience of how human beings can move from being greedy to fearful in a matter of hours. It is also therefore rather coincidental that I am currently reading a book written by Howard Marks called "The Most Important Thing". I say that it is coincidental because what I have read so far in the book (I'm currently at page 98) is a philosophy of investing that revolves around understanding how events like October '87 can and do happen.

Back in October '87 I had first-hand experience of the type of panic that can overtake professional investors when greed turns to fear. (I have written about this experience in opinion piece 28). After the crash the conventional wisdom was that it was going to lead to another economic depression just like in the 1930s. Howard Marks on page 93 states "*You have to have a strong enough stomach to defy conventional wisdom and resist the myth that the market's always efficient and thus right. You need experience on which to base this resolute behaviour. And you must have the support of understanding, patient constituencies*".

Looking back on my own experience in '87 I now realise that the team I was part of did not have enough "experience" to go against the herd and we certainly did not feel that we had the understanding of "patient constituencies" because we were a relatively inexperienced team (I was only 23 at the time) and we believed that neither our clients nor owner had any understanding of what was going on. In other words to cut a long story short, fear took over, we panicked and sold in the days following the crash (including all of our Japanese holdings) and it was months later when the conventional wisdom changed and the fear of depression subsided that we bought back at higher prices!

We needed our equivalent of Howard Marks but unfortunately we only had intelligent, motivated, hard working people that suffered from the normal human failings of loss aversion, ego, envy etc, etc.

Back in '87 I was studying to become a member of the Society of Investment Analysts (SIA). This course had only been introduced into Ireland in 1986. In the UK it was regarded as the best qualification to get and was therefore brought to Ireland to increase the professionalism of Irish fund managers. As far as I can remember no other members of the AIB team in '87 had even got this SIA qualification. (This is an indication of an industry that was only just beginning to get properly established in Dublin).

Looking back at the content of the SIA course I cannot remember any emphasis being put on the psychology of investing as described by Howard Marks in his book. In fact I cannot remember even Ben Graham getting a mention and he should have been a major part of the curriculum. Instead Modern Portfolio Theory was given priority and I feel the opportunity to introduce me to Value Investing was missed.

I just hope the modern day equivalent of the SIA, the Chartered Financial Analysts (CFA) make Howard Marks' book required reading for the current generation of students because it might help them to avoid some of the mistakes I've made over the last 25 years.

This is a particularly short opinion piece this month because I want to get back to reading the rest of Howard Marks book. I highly recommend that anyone with an interest in investment should do the same and it will come as no surprise to regular readers that I am going to leave the last word to Warren Buffett:
When I see memos from Howard Marks in my mail, they're the first thing I open and read. I always learn something, and that goes double for his book."