

GENERALLY SPEAKING

International Alpha Team, Second Quarter 2019



RISK FACTORS

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Three years ago, in the run-up to the Brexit vote, a single soundbite seemed to sum up the mood of one side of the debate, and indeed of a much broader, international populism that rejected received wisdom on many things, from immigration to immunisation. Michael Gove, one of the leading Brexiteers, was repeatedly quoted as having said, “I think the people of this country have had enough of experts...”.

Gove was derided by his opponents. How could anyone be so dismissive of expertise? As one of his Cabinet colleagues said, *“If you wanted to build a bridge, you would talk to expert engineers to make sure it didn’t fall down.”* Surely expertise was only becoming more important in our ever more complicated world? But Gove is one of the subtler, more intellectual Brexiteers and that perfect soundbite was created in part by the well-timed interruption of a skilled interviewer, for Gove had gone on to say that what he thought the UK had had enough of was experts, and particularly economists, *“from organisations with acronyms saying that they know what is best and getting it consistently wrong.”* In this, he was, probably consciously, echoing the work of political scientist Philip Tetlock, ironically perhaps, an expert on experts.



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Tetlock's work lays out one of the most fundamental problems with experts: for all their knowledge, they can't say anything very useful about the future in the areas of their expertise. For more than 20 years Tetlock ran a series of prediction tournaments, asking experts to make political and economic forecasts. On average, on most of the questions he asked, expert opinion did only a little better than guessing and actually did worse than simple algorithms that assumed the future would be no different than the present, or that the current rate of change would continue. The better-known an expert was, the less accurate their predictions. And the further out they were asked to look, the worse their performance became.

Tetlock did, however, identify a subset of experts who performed a little better than both chance and the simple algorithms. He called them 'foxes'. It wasn't that the foxes knew any more than the others. It wasn't that they had more qualifications or more experience. Rather, what marked them out was the way that they thought. For they were, in Tetlock's words, "*open-minded, careful, curious and – above all – self-critical*". Importantly, teams of foxes outperformed lone foxes. And by a good margin.

The foxes were in a sense multi-disciplinary, taking knowledge and insight from other people and from other academic fields rather than doggedly insisting on the primacy of their individual judgement or the purity of their own discipline. They understood that while we need to create a structure of specialisms and academic disciplines to help us handle the complexity of the

modern world and the ever-increasing flow of data it generates, the resulting silos, with their peculiar jargons, tribal jealousies and tunnel vision, need to be reconnected and reintegrated if we are to start to understand what is going on around us, let alone if we are to have any chance of glimpsing the broad shape of the future. Indeed, much of the most interesting and creative research, in both the hard and social sciences, comes when different disciplines overlap.

At first sight, Tetlock's emphasis on breadth over narrowness seems to contradict the work of another prominent contemporary expertise expert, Anders Ericsson. Ericsson's work has been popularised by the author Malcolm Gladwell, and most people who have heard of him associate him with Gladwell's coinage, 'the tenthousand-hour rule' under which it takes years of intense, gruelling, focused 'deliberate practice' of a relatively narrow set of skills to achieve mastery or expertise.

Ericsson, by the way, has taken issue with this characterisation, even caricature, and has said that: "*I see the core message as something else altogether: In pretty much any area of human endeavour, people have a tremendous capacity to improve their performance, as long as they train in the right way.*" In this at least he seems to agree with Tetlock who found that, among the foxes, by far the single best predictor of performance (three times as powerful as intelligence) was their 'commitment to self-improvement', a quality closely aligned with what Carol Dweck has called 'the growth mindset'.

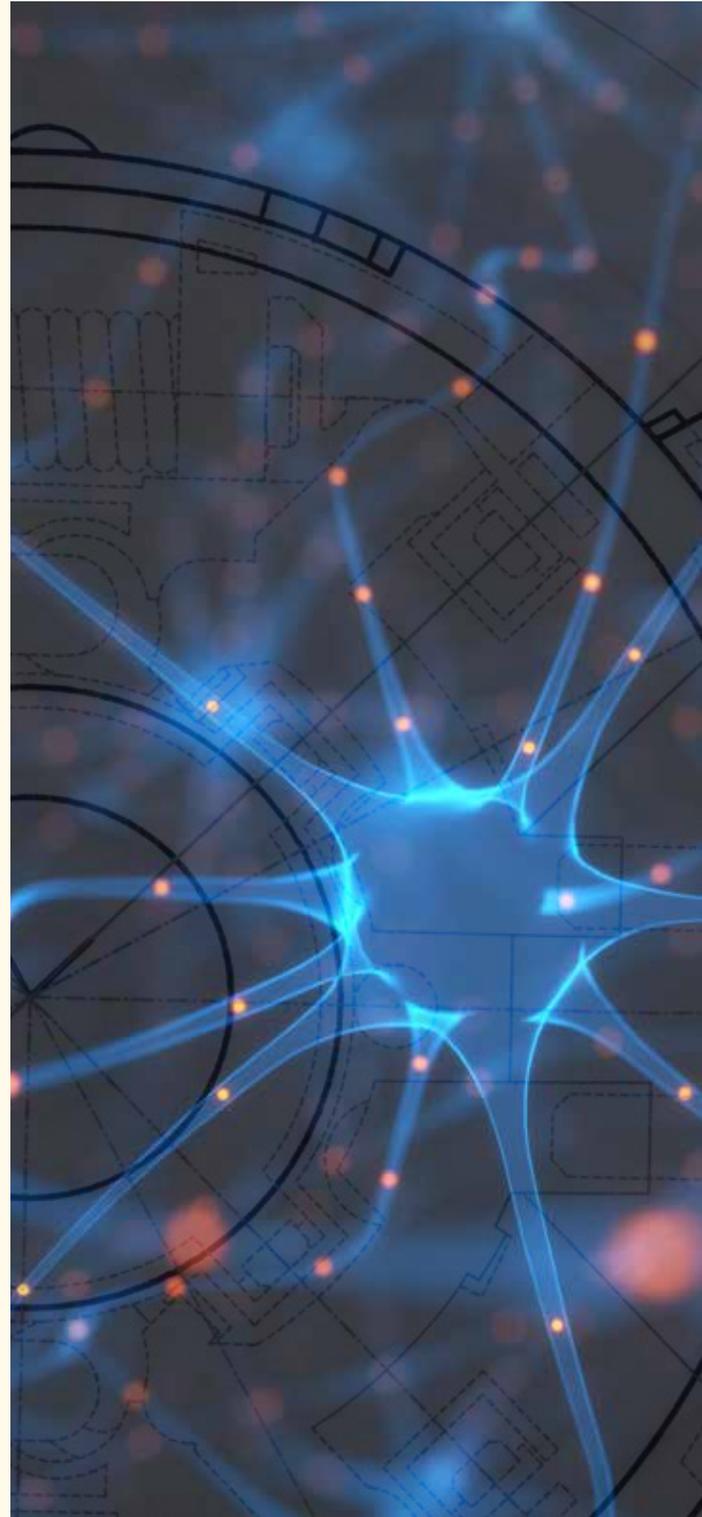
Importantly, teams of foxes outperformed lone foxes. And by a good margin.



But, for all that, Tetlock and Ericsson are at odds and mostly, I think, because their initial studies came in very different fields. Ericsson studied musicians and sportsmen, that is, performers who inhabit worlds that are very largely unchanging and really quite constrained, either by the physics of their instruments or by the rules of their game. By contrast, Tetlock was asking his experts to assess questions in areas where there are few rules and many interactions between actors. Deliberate practice just doesn't seem to work very well in these areas: one meta-analysis of 88 studies has found that it accounts for over a quarter of the variance in performance in games such as chess and around one fifth in music and sports, but, to all intents and purposes, none in the professions.

What, you may well ask, does any of this have to do with investment? Well, the world we deal with as investors is the world as a whole with all its complications, connections and change. This is the world Tetlock asked his experts to predict, not the bounded worlds of Ericsson's studies. It should perhaps come as no surprise that one of the greatest investors, Charlie Munger, is such a fan of breadth, curiosity and commitment to self-improvement: *"You need a lot of curiosity for a long, long time. You need a passionate interest in why things are happening."*

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Munger's commitment to reading is widely recognised. However, we haven't perhaps done full justice to the breadth of that reading. He talks of "making friends of the eminent dead" in all fields by reading their books. Bill Gates has described him as *"truly the broadest thinker I have ever encountered...Our longest correspondence was a detailed discussion on the mating habits of naked mole rats and what the human species might learn from them."* Munger argues that we should study a range of "mental models" from across the academic disciplines, principally from mathematics, engineering, biology, psychology, economics and history, and then use this extensive tool kit to approach investing issues. Otherwise, he says, you end up like the man with (only) a hammer, to whom every problem looks like a nail since *"the nature of human psychology is such that you'll torture reality so that it fits your [one or two] models, or at least you'll think it does."*¹

Arguably this approach is more relevant than ever because, even though narrow expertise is coming under assault from populists, checklists and algorithms, it is extraordinarily well entrenched. In universities around the world, breadth continues to be traded for narrowness.

In addition to the factors we've already noted, this trend is also driven by a belief that narrower, more obviously vocational courses prepare students better for the world of work. So widespread is this conviction that the journalist Fareed Zakaria has concluded that *"the irrelevance of a liberal education is an idea that has achieved that rare status in Washington: bipartisan agreement."* And this despite studies showing that humanities majors outperform biology majors in medical school admissions tests and beat business majors on the GMAT entrance exam.

1. A Lesson on Elementary, Worldly Wisdom as it Relates to Investment Management and Business, speech to USC Business School, 1994. Munger suggests that the Efficient Market Theory is the best example of man with a hammer syndrome with its "seductiveness to people with large mathematical gifts ... If you're good at manipulating higher mathematics in a consistent way, why not make an assumption which enables you to use your tool?", even if "the fundamental assumption [does] not tie properly to reality."

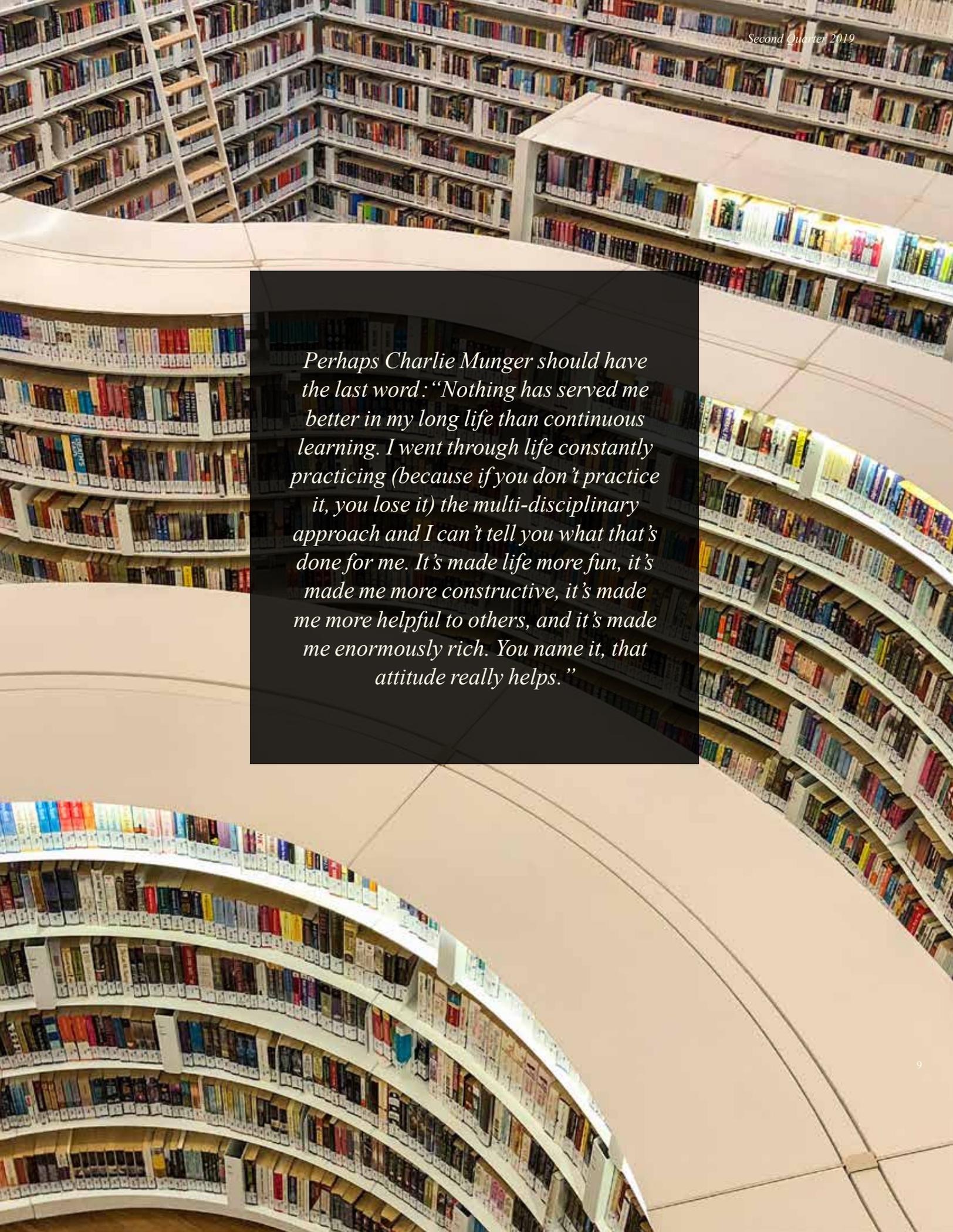
This drive towards narrowness means that those who take a broader view should have a greater opportunity than ever to produce differentiated results. And, in many ways, it is also easier than ever for those committed to breadth and self-improvement to pursue them. The sheer information overload that the Internet can produce, its revelation of how much we know as a species and how little of it we know as individuals, is in itself an argument for expertise. But it also means that it has never been simpler for the would-be generalist to seek out experts in all fields and learn from them, whether by exploiting Amazon's long tail of instantly available specialist books or by watching experts' lectures, listening to their podcasts and reading their academic papers.

We believe strongly in Munger's general curiosity, or curious generalism: one of Baillie Gifford's key taglines is 'Curious about the world.' We recruit entry level investors from a broad range of academic disciplines, with a strong preference for the broadest of those disciplines and a starting, but not absolute, prejudice against the more narrowly vocational. Successful candidates from whatever discipline will have demonstrated real curiosity and in many cases will have sampled a variety

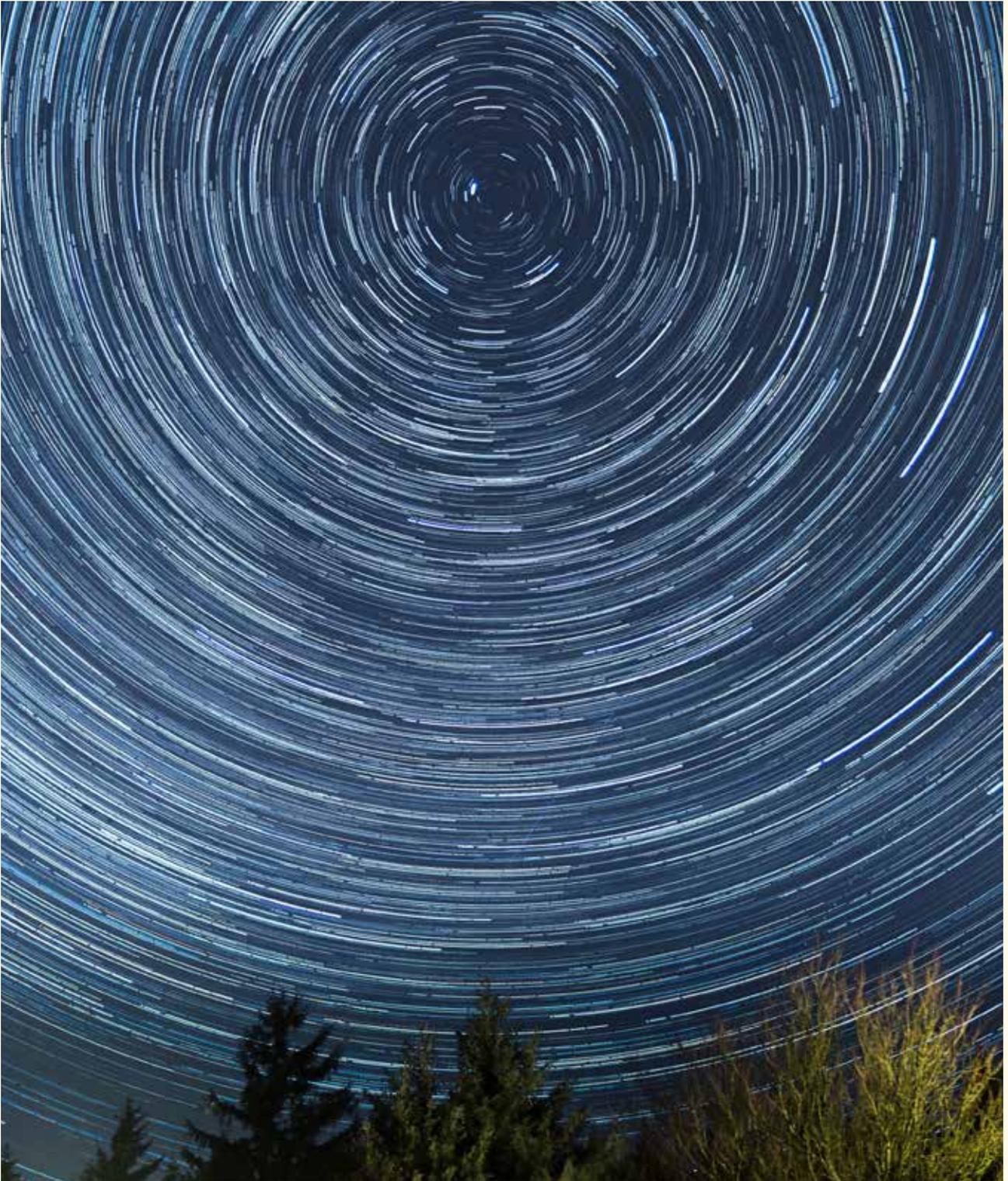
of classes to broaden their knowledge and thus invest in themselves for the long term, rather than clustering their choices to achieve better near-term results at the expense of long-term wisdom. They generally read a great deal over a wide range of topics. An increasing number have pursued postgraduate degrees because they love learning but have abandoned academic careers because they fear their narrowness.

When they arrive at Baillie Gifford, rather than trying to make them 'useful' as quickly as possible by giving them a narrow specialisation, whether geographic or sectoral, we invest in them for the longer term by rotating them through four different teams in their first five years. More senior investors also change teams from time to time. Throughout their careers we encourage all our investors to escape the bubble of the financial world and to keep learning, whether from the books of the eminent dead, the lectures of the eminent living or the conversation of their (not quite so eminent) colleagues. While many of them will develop quite deep knowledge in some, usually quite eclectic, areas, we want them to be aware of how little they know even in those areas, and to remain global generalists at core.

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Perhaps Charlie Munger should have the last word: "Nothing has served me better in my long life than continuous learning. I went through life constantly practicing (because if you don't practice it, you lose it) the multi-disciplinary approach and I can't tell you what that's done for me. It's made life more fun, it's made me more constructive, it's made me more helpful to others, and it's made me enormously rich. You name it, that attitude really helps."



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