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thoughtful investing for private clients

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By Mel Meltzer and Charolyn Pedlar, co-founders of Platinum Portfolios

In today's climate of elevated valuations across multiple metrics - be it price-to-earnings ratios, CAPE ratios, price-to-book values, or equity risk premiums -

the market certainly appears expensive. Many respected figures in finance, from Jeremy Grantham to Warren Buffett, have pointed out that certain sectors of the market have become extremely overvalued. This situation underscores a crucial point for fund managers: navigating the current environment requires a disciplined approach to thinking and decision-making.

As John Maynard Keynes wisely stated, engaging in rational behaviour for a sustained period does not guarantee protection from market irrationality. Fund managers can find themselves facing significant risks, and losses of funds under management, when acting rationally while surrounded by a market driven by the fear of missing out (FOMO). This pervasive fear compels investors to enter a feeding frenzy, creating a cycle of booms and busts that has historically characterised market behaviour. The current AI boom is another example playing out today.

As fund managers, we recognise that every boom follows a similar playbook, and while we cannot predict the exact timing of when the market will shift, we must remain vigilant. The wisdom of Buffett, who's parody of the game of musical chairs that the party continues until it ends, serves as a reminder of the unpredictability inherent in market cycles.

At Platinum Portfolios, we believe our value as fund managers is realised when we adhere to our established processes, reflecting on our experiences and investing only in those opportunities we understand.

German philosopher Hannah Arendt was one of the most influential political theorists of the twentieth century. She sought to understand why ordinary people would commit acts of harm, and offered a way of thinking about this dynamic. One of her most profound insights is that people do not *intend* to do harm or act unethically. Rather they simply follow instructions. She emphasises the importance of critical thought and self-examination, distinguishing genuine thinking from mere knowledge accumulation or everyday expertise or us, this means not only analysing market data but also questioning prevailing assumptions and resisting the herd mentality that can lead to poor decision-making. The example of Steinhoff highlights the dangers of complacency and thoughtlessness; many investors were swept up by the stock's popularity and size, neglecting to critically assess its fundamentals, ultimately leading to significant losses.

Arendt's reflections on the "banality of evil" serve as a cautionary tale for fund managers: when we fail to engage in independent analysis, we risk becoming complicit in harmful practices. Her notion of thinking as an activity that requires reflection, and deliberation resonates deeply with our commitment to thoughtful investment practices.

Socrates' metaphors - the gadfly, midwife, and electric ray - further illustrate the multiple roles of a fund manager. As gadflies, we must awaken ourselves and our clients to the realities of the market, encouraging critical examination of investments. As midwives, we help to cultivate sound investment strategies, ensuring that ideas are rigorously vetted and free from unfounded assumptions. The electric ray represents the necessary pause for reflection, allowing us to consider our actions carefully before making decisions, especially during periods of market noise.

Arendt emphasises that the capacity for thinking is not a privilege reserved for a select few; it is a shared capability. Every fund manager we know engages in this reflective process, but the risk of drifting into thoughtlessness remains. This risk can manifest as an inability to question dominant narratives, leading to collective misjudgements that will cause investors to have severe losses. Therefore, fostering a culture of inquiry and reflection within our team at Platinum Portfolios is essential. We encourage open dialogue and critical examination to prevent unexamined actions that could lead to significant losses for our clients.

In conclusion, Arendt's insights underscore the critical role of reflective thinking in fund management, especially in the current market climate where irrational behaviour and high valuations dominate. By committing to a disciplined process of thought, we can navigate the complexities of financial markets and keep to our fiduciary duty to our clients. It is vital to distance ourselves from market noise and the temptations to follow the herd, resisting the fear of missing out or the anxiety of underperforming in the short term.

Our approach not only protects our clients' interests but also fosters a productive fund management environment. By prioritising critical thinking and self-reflection, we can guard against the pitfalls of uncritical decision-making and act as thoughtful stewards of our clients' money. The focus of the fund management team at Platinum Portfolios is developing processes and outcomes that are simple and smart.

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