Marginally Speaking

It’s that time of year again, when we vow to improve, to make some adjustment to our behavior that will make us happier, prouder, wealthier. While it’s tempting to set grand pronouncements of the radical changes we will implement in the coming year, there are two reasons that may not be the right decision. Marginal change is both more likely to be implemented and more powerful than you might think. So, as you sit down at your desk with a clean slate and fresh p&l, facing exactly the same market environment you left just a couple of weeks ago, I encourage you to think about how you can improve by focusing on the margins.

As you can see from the chart, exercising more is one of the most common New Year’s resolutions. When many of us set this goal, it’s likely with a drink (or turkey leg) in hand, and exercising for just 30 minutes a day, 3 times a week sounds easily achievable, but it’s not. Otherwise, it wouldn’t be the most commonly unresolved resolution.

In reality, how we spend the majority of our time is nearly set in stone. What differentiates one year from the next, is what happens on the margin. It is there in those moments, that we define our lives. The year we lost weight, bought a new home, markets crashed, kids went off to college. As big as these events are, they all exist on the margin of our lives, where everyday, we eat, work, sleep, watch TV and relieve our bowels in an almost rhythmic pattern. It is the marginal stuff, the things we don’t do regularly, that requires effort and attention. It makes us uncomfortable, it challenges and rewards us far more than what happens in the bulk of our time.

According to the USDA, the average man with a sedentary lifestyle should take in about 2,300 calories per day. The reason is that the average sedentary man burns approximately 2,300 calories each day. The sum total of mundane activities such as sleeping, eating, brushing your teeth and watching tv requires the energy provided by 2,300 calories. On the other hand, for the average active man the USDA suggests taking in 2,700 calories per day. Yes, the difference between living a sedentary lifestyle and an active one requires just 400 extra calories a day, or roughly what you will consume in a large cup of Coca-Cola.

My point is that the bulk of what we consume and burn is predetermined, unalterable. Diets and exercise regimes exist on the margin. In the scheme of things, they are little more than minor adjustments to our daily routines, but the impact can be life changing. One less glass of wine at dinner. Small fries rather than large. Whole grain pasta versus refined. Seemingly tiny adjustments that can produce dramatic results, yet generate enough friction in the moment to keep us from doing what is in our own best interest.

The same applies to how we perform at work, no matter the job, but let’s look at the portfolio manager as an example. The role involves just three fundamental aspects: developing a view, deciding how to express it and when. For most PM’s, the majority of what we do is also fairly set in stone. We acquire information...
in the same way, utilize the same instruments, invest in the same assets and use the same indicators to determine timing that we have for years. Truth be told, much of the accumulation of information used to derive views happens with very little thought, being predetermined by geography, firm and industry. So, as it is with diet and exercise, adjustments and improvements at work occur at the margin.

When I took over the investment process at a hedge fund years ago, it was my job to turn PM’s who had excellent sell-side pedigrees, but very little success on the buy-side, into positive performers. Although it was expected that I would make sweeping changes, I understood that after 25 years in the business, they were, for the most part, who they would always be. Like a good fitness trainer, my job was to understand their deeply entrenched habits and suggest the marginal behavioral adjustments that could unleash dramatic improvement.

Over the next 13 months, thanks to one seemingly minor tweak, namely forcing the PM’s to formally answer the simple question, “Why?” whenever they made a decision, resulted in all of them achieving the best buy-side performance of their careers by a very wide margin, and outperforming their respective indexes. I didn’t change how they gathered information, have them use different instruments, invest in different asset classes, discover new technical indicators, or tighten up their stop-losses. I simply had them become more aware of their own actions, challenging them to recognize when their decisions were inconsistent with their own beliefs.

Truth is, no matter how good the trainer, how beautiful the gym or powerful the juicer, the great majority of people fail to stick with even marginal adjustments. The same goes for PMs, but why? As I said early in this piece, it is at the margins where vast potential exists, but it is also where you are challenged, feel uncomfortable, unnatural even, and that can be exhausting. If it wasn’t, it wouldn’t be on the margin, it would be a fundamental part of who you are.

As I turn off the free trial for Bija’s publications, I will leave you with this. What makes an exercise routine effective is resistance. Without it, you don’t get stronger or more fit. You must get your heart pumping, the lactic acid flowing and the oxygen churning. As they say, “No pain, no gain.” Well, the same goes for your mental well-being. You need to challenge how you think, read publications that fire up neurons and create new connections in the brain by providing resistance to your beliefs. Not just those about the US Dollar, but about the type of information you should be gathering and how you spend your time.

On this, the 1st day of the year, when everyone is writing about the overnight moves and big trends of 2015 you mustn’t miss out on, does it feel like maybe you’re wasting your time reading about eating habits and marginal adjustments to your behavior? Wouldn’t you be better served reading another research report on Draghi’s next move, instead? If so, good! That is the resistance.

After 28 years in the business, challenging myself and conventional wisdom, I’ve earned a reputation for thinking differently, with results that I let speak for themselves. It’s not about being contentious or even contrarian. It’s simply about thinking independently, logically. I will continue to do so on topics including risk management, investment process, data analysis, macro developments, policy decisions, cognitive bias and so much more that affects your performance at work, and in life.

Think of Bija’s publications as your mental trainer, adding another plate to the intellectual barbell, encouraging you, challenging you to do one more rep at the exact moment you want nothing more than to go down to the pub or curl up on the couch with a glass of wine. Can the marginal exercise of reading unique publications like Seeds of Thought and Macro Radar really improve how you think, live, work and play? While I can’t guarantee it, I would wager that your return on investment will be greater than what you’ll receive from another gym membership, treadmill or elliptical machine.

Now get out there and do something marginal.

About the Author
For nearly three decades, Stephen Duneier has applied cognitive science to investment and business management. The result has been 20.3% average annualized returns with near zero correlation to any
major index, the development of a billion dollar hedge fund, the turnaround of numerous institutional trading businesses and career best returns for experienced portfolio managers who have adopted his methodologies.

Mr. Duneier teaches Decision Analysis in the College of Engineering at the University of California Santa Barbara.

Through Bija Advisors' publications and consulting practice, he helps portfolio managers and business leaders improve performance by applying proven decision-making skills to their own processes.

As a speaker, Stephen has delivered informative and inspirational talks to audiences around the world for more than 20 years on topics including global macro economic themes, how cognitive science can improve performance and the keys to living a more deliberate life. Each is delivered via highly entertaining stories that inevitably lead to further conversation, and ultimately, better results.

Stephen Duneier was formerly Global Head of Currency Option Trading at Bank of America and Managing Director of Emerging Markets at AIG International. His artwork has been featured in international publications and on television programs around the world, and is represented by the world renowned gallery, Sullivan Goss. He received his master's degree in finance and economics from New York University's Stern School of Business.

Bija Advisors LLC
Web: BijaAdvisorsLLC.com
Email: info@bijaadvisorsllc.com
Twitter: @BijaSeeds
Podcast RSS: BijaSeeds
LinkedIn: Duneier
Phone: 805.452.9429

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