

# Seeds of Thought

Cognitive Science Meets Investment Management

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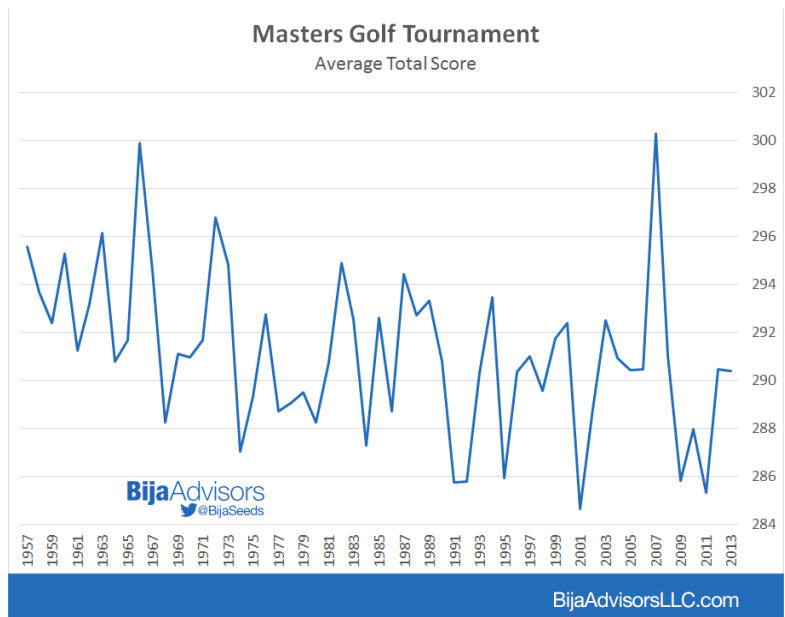
## Stroke of Genius

Golfers like to say that the game is one of inches, millimeters even. The slightest of adjustments can yield dramatically different results. Take our eye off the ball or dip our head, and we're likely to send it on the wrong trajectory, adding strokes to the final outcome. Performance is so finely tuned that etiquette dictates you should never talk during someone's backswing, it's bad manners to allow your shadow to cross between another player's ball and the cup while they putt, and sand traps must be raked smooth after use.

In truth, so many factors affect performance. There are the broad, static physical characteristics, external to the golfer, whose details are typically provided on scorecards and signage throughout the course. They include distance from tee to hole, shape and width of the fairway, placement, shape and size of hazards, and even pin placement. While they are the most commonly considered physical factors, there are plenty more that can have a significant affect on the success of an individual shot. Temperature, humidity, lighting, and speed of play are just a few of the other factors external to us that can have an impact on our scores. When it comes to improvement though, little thought goes into the environment.

Instead, we tend to focus on what we believe we can control. Namely, our bodies and the equipment that serves as an extension of them. Bigger, lighter, more spring, larger sweet spot, more comfortable grip, better feel, and that's just the club. Shirts that let your skin breath. Balls with dimples that are scientifically designed to capitalize on microscopic changes in course conditions, and pressurized to be finely tuned to our swing. Shoes, gloves, hats, sunglasses, bags, there is no end to the ways we can purchase a better golf score. Considering the more than \$4 billion per year that Americans alone are spending on golf equipment, it's clear, improvement is desired.

Yet, with all the advancements in technology over the past 15 years and the insatiable desire among players to employ it, the average golfer's handicap hasn't shown improvement. They still require roughly 100 shots to complete 18 holes. Surely, in the hands of highly trained professionals, scores must have collapsed, right? Actually, they haven't really seen



improvement either. In fact, you could argue that technology has actually stifled the impressive decades-long trend of improvement among professional golfers (see Masters Golf Tournament chart).

I've heard all the reasons that the true impact of improved technology has yet to be reflected in golf scores, but the most common among them is that they've made the courses longer, specifically to offset the effect of the new clubs. Truth is, the evidence doesn't support the argument. I gathered data from the Masters Tournament in order to weed out the noise and what better place to do that than Augusta. Rather than use winning scores (a far less time consuming task), I compiled the average total score for all golfers who made the cut, so as to focus on the generic trend. If the injection of titanium heads were a major factor, we should be able to point to the year that it happened without any hesitation. If the delayed extension of the course's length had a great impact, we should likewise be able to point to the year the scores clearly reversed trend. Purely by looking at the chart, can you guess when technology transformed the golf club and the year when Augusta lengthened by 5%? (Hint: If you think you can, you're mistaken.)

Turns out, in order to explain the outlier spikes and collapses in scores, you'd be better served looking to the weatherman, than the golfer's bag. Apparently, rain delays are a score killer and clear skies are like manna from heaven.

It's funny really. Anyone who has ever set foot on a golf course knows full well that it is a game of millimeters, not yards. Yet, for some reason, we still believe a club that adds yards to our game, and time spent at the range or with a pro focused on the distance aspect is where we will find some dramatic improvement. There are so many ways we can improve our game. For me, nothing comes close to the simple act of proper club selection. I don't mean knowing the club Rory would use in a particular instance, or even the one you or someone who scores similarly to me would use, but the one that fits my natural swing. Flaws and all. When I have absolute confidence that I have the correct tool in my hand for the task ahead, I swing more naturally, fluidly and accurately. I am relaxed, and can focus on the other aspects of the game where my attention is better served.

For years, I had two golf games. In one, I was all over the place. My club selection was haphazard, and every swing came with uncertainty. The kind of uncertainty that leads you to hold back or push harder at the very last nano-second of your swing. My scores were an accurate reflection of that confusion. In my other golf game, I was confident and inspired. My scores were consistent, and on average, 15 to 25 shots lower. The difference? I played with an experienced golfer who understood my swing. He never commented on my tendencies or suggested improvements. Neither did he offer me the latest weapon in his bag. He simply knew who I was as a golfer, and made my club selections for me. I had absolute confidence in his selections and so those misgivings that would normally tweak my swing, sending me off into hazards, disappeared. For those who have seen the movie, *The Legend of Bagger Vance*, you will understand when I say, it allowed me to "get out of my own way." When I golfed with this friend, I could "see the field," and my scores reflected it.

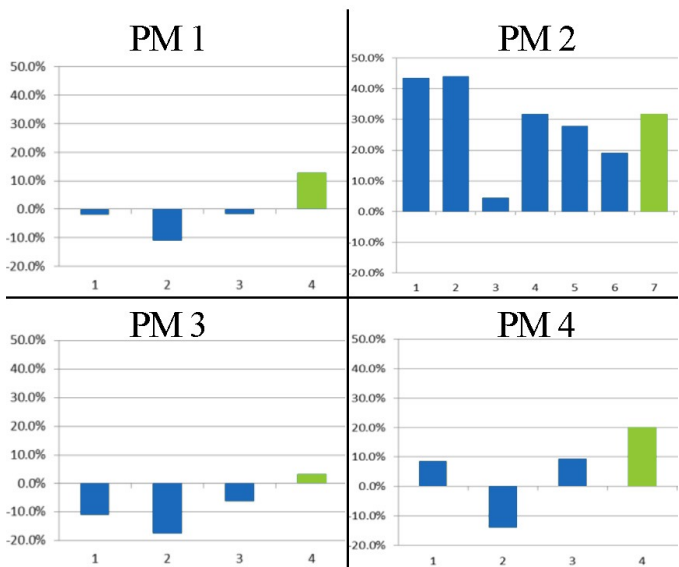
Unfortunately, Andrew King, my friend and guru of club selection, died in the World Trade Towers. I haven't experienced the game in the same way since.

### **The Definition of Actionable Intelligence**

In many ways, the game of golf serves as a metaphor for business and investing. Very often, we spend the great majority of our time and effort focused on the aspects of our job that provide the smallest potential for improvement, while ignoring those that are far more likely to generate significant gains.

Hours a day are spent talking to others, reading reports, and agonizing over the latest data, all in the hope of gleaning some insight that will improve our returns. One faithful subscriber once said to me, “I really enjoy reading what you publish, but I don’t necessarily think of it as ‘Actionable.’” I’m sure he is not alone in this assessment. Trade ideas and market analysis are to investors, what golf clubs are to golfers. You can feel them in your hand. You can hear that “ping” as the ball connects and the idea resonates. They are the go-to for investment performance improvement. I get it. I also get that the connection is more convenience and availability, than reality. Truth is, the big gains come by analyzing our own tendencies, strengths and weaknesses, individually and as humans. The greatest improvement gains come when we can get out of our own way, and see the world more clearly.

### Actionable Intelligence



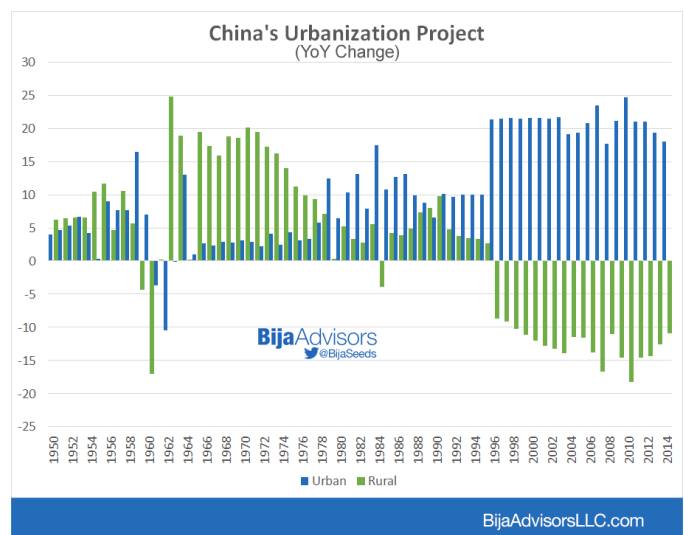
Not long ago, I was asked to take over the investment process for a hedge fund. Considering the individual and fund performance until that moment, you might think my first points of order would involve tightening up risk parameters, improving our forecasting by hiring new analysts or subscribing to more research, or organizing more meetings wherein we could share the intelligence we were gathering individually. It’s a natural assumption. I mean, if we could just improve our assessment of the markets, we would improve our returns. We needed to get focused. Get down to brass tacks. Spend more time pouring over data, on research calls, in meetings, and of course, tighten up risk parameters.

I elected to do none of that. Rather than suggesting a club suited for Rory McIlroy, I spent time understanding each individual’s natural tendencies, as well as those of the group, and then gave them the tools to improve their own individual games. I presented evidence for my findings and with each day, as returns improved, they began trusting my club selection, freeing them to simply swing more naturally, and their scores reflected it (see Actionable Intelligence charts; X-axis reflects 12 month periods).

Through Seeds of Thought and Macro Radar, I’m not handing you the hottest new driver in my bag or even necessarily selecting the right club for you to use today. Instead, my goal is to help you make better club selections for yourself. That is how I define, *Actionable Intelligence*.

### What China’s Import Data is Really Saying

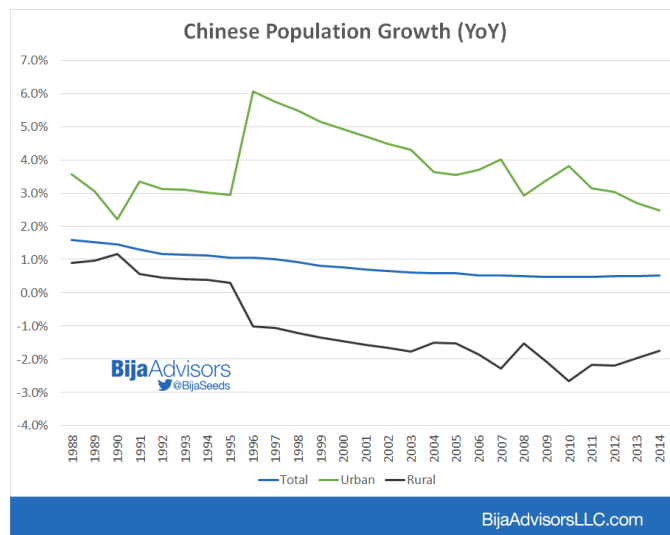
With the release of today’s Chinese trade data, analysts are once again attributing the weak imports numbers to poor domestic demand. Thereby implying a connection to domestic growth. It’s an easy one to make, but I believe it to be misleading, and distracting. It’s amazing to me



really, 20 years into the massive, orchestrated urbanization, and still very few China specialists even consider its impact on the data. I guess when you look at the chart (see China's Urbanization Project), it appears so steady and consistent, it's hard to imagine its relevance.

However, trade data is analyzed for its proportional growth. In other words, we look at percentage gains, not the nominal change. It makes sense then that we should look at the proportional change in the urban and total population, too.

You can see from the chart (Chinese Population Growth), the orchestrated urbanization resulted in a spike in 1996. However, it was on such a low base, it had only a small impact. As the base grew the impact on global commodity prices grew with it, but by 2008 (a mere coincidence that it occurred simultaneously with the crisis), the YoY growth rate of the urban population had fallen back to the original level. They ratcheted up the pace until 2010 to give another boost, but it was short-lived. To make matters worse, while the urban growth rate has returned back to pre-urbanization levels, the rural growth rate has not. As a result, commodity prices have collapsed (as they did



following the other globally significant urbanizations previously mentioned) and import demand for domestic consumption has understandably fallen in both nominal and real terms along with it. So while it is true, imports for domestic consumption have been slowing, it's important to understand what is driving the results. It should not be misconstrued as being reflective of the kind of domestic demand that can be altered by monetary policy. In other words, it isn't a behavioral phenomenon or reflective of confidence. It is, however, effectively the result of a huge public works project that continues to be implemented, while its impact has begun to reverse.

I called it a distraction, because it is seen as a China-centric phenomenon, and one that implies big problems for the Chinese economy. However, if my perspective is correct, the data says very little about the state of China's economy, and far more about the direction of the global economy.



### About the Author

For nearly thirty years, Stephen Duneier has applied cognitive science to investment and business management. The result has been the turnaround of numerous institutional trading businesses, career best returns for experienced portfolio managers who have adopted his methods, the development of a \$1.25 billion dollar hedge fund and 20.3% average annualized returns as a global macro portfolio manager.

Mr. Duneier teaches graduate courses on Behavioral Investing and Decision Analysis in the College of Engineering at the University of California. His book, *AlphaBrain*, is due to be published by Wiley & Sons in the Spring of 2017.

Through Bija Advisors' [coaching](#), [workshops](#) and [publications](#), he helps the world's most successful and experienced investment managers improve performance by applying proven, proprietary decision-making methods 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, Managing Director in charge of Emerging Markets at AIG International and founding partner of award winning hedge funds, Grant Capital Partners and Bija Capital Management.

His [artwork](#) has been featured in international publications and on television programs around the world, is represented by the renowned gallery, Sullivan Goss and earned him more than 50,000 followers across social media. As Commissioner of the [League of Professional Educators](#), Duneier is using cognitive science to alter the landscape of American K-12 education. He received his master's degree in finance and economics from New York University's Stern School of Business.

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