REGISTERED INVESTMENT ADVISOR

DENEWILER

Capital Management Inc.
1600 Stout Street
Suite 1690
Denver, CO 80202

303.757.4854 / 888.808.7475
Fax 303.832.7484
denewiler@msn.com
www.growmydollar.com

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OBSERVATIONS ON THE MARKET

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By Greg Denewiler, CFA

More often than not, someone else can say it better. This is the case with Howard Mark's latest memo to Oaktree Capital Management's clients. The memo is titled **Dare to Be Great II**, and in it he discusses the difficultly of achieving superior investment results, and why most people don't. Here are some excerpts as they appear in the memo. I would be happy to email the entire memo to anyone who wants it.

The real question is whether you dare to do the things that are necessary in order to be great. Are you willing to be different, and are you willing to be wrong? In order to have a chance at great results, you have to be open to being both.

This just in: you can't take the same actions as everyone else and expect to outperform.

Especially in terms of asset allocation, "can't lose" usually goes hand-in-hand with "can't win." How much emphasis should be put on diversifying, avoiding risk and ensuring against below-pack performance, and how much on sacrificing these things in the hope of doing better?

Most great investments begin in discomfort.

"You have to give yourself a chance to fail."

And in the course of trying to be different and better, they have to bear the risk of being different and worse.

The goal of investing is asymmetry: to expose yourself to return in a way that doesn't expose you commensurately to risk, and to participate in gains when the market rises to a greater extent than you participate in losses when it fails. To succeed at any activity involving the pursuit of gain, we have to be able to withstand the possibility of loss.

It's important to play judiciously, to have more successes than failures, and to make more on your successes than you lose on your failures. But it's crippling to have to avoid all failures, and insisting on doing so can't be a winning strategy. It may guarantee you against losses, but it's likely to guarantee you against gains as well. "You miss 100% of the shots you don't take."

Superior investment results can only stem from a better-than-average ability to figure out when risk-taking will lead to gain and when it will end in loss.

This is really the bottom-line: not whether you dare to be wrong, but whether you dare to <u>look</u> wrong.

I'm convinced that everything that's important in investing is counterintuitive, everything that's obvious is wrong.

Unconventional behavior is the only road to superior investment results, but it isn't for everyone. In addition to superior skill, successful investing requires the ability to look wrong for a while and survive some mistakes.

It continues to get harder to find value in this market. This headline appeared a few days ago: Home values in more than 1,000 U.S. cities expected to be more expensive than ever within the next year. How many people were predicting that three years ago? Prices don't reflect how the economy is doing, they reflect how desperate people are to earn an income from their investments. It seems only prudent now to start being a little more cautious. Stop reinvesting dividends, if you sell something, don't reinvest all the proceeds. Of course you will **<u>look</u>** wrong for a while as prices march higher.