

Doomed to Failure

Why the human mind 🤔
isn't built to play ▶
the markets 📈
and **win** 🎉





Standard Disclaimer

- We'll obviously spend a lot of time talking about investments and the financial markets. However, the intent is to be informational even when it might seem like there's financial advice being discussed.
- I am neither a financial advisor nor a tax professional.
- I am, however, a staunch follower of [Jack Bogle's](#) genius methods, although, I sometimes aspire to be an "[enterprising investor](#)" in [Benjamin Graham's](#) definition.

Quick Poll #1 :

Do you agree that the majority of active traders lose money in the stock market?

Please enter your answer as “1 : Yes/No” in the Zoom chat box!



Not an old wife's tale after all ...

**90-95% of all active traders LOSE
money in the stock market over the
long term***

* No clear origin attributable yet widely repeated



Pitfalls of trading...

A study of Brazilian futures traders found 97% of individuals who traded in the market for more than 300 days lost money on their trades.

Research on individual day traders in Taiwan over a 15 year period from 1992 to 2006 showed even the most experienced day traders lose money and surprisingly even those traders who lose consistently continue to trade despite their losses.

The SEC studied the habits of retail FX traders and discovered, “approximately 70% of customers lose money every quarter and on average 100% of a retail customer’s investment is lost in less than 12 months.”

Another study of eToro day-traders found nearly 80% of them lost money over a 12-month period with a median loss of 36%.



Actively managed brokerage account

- Has several individual stocks or stock pickers that were cherry picked on the basis of some combination of knowledge and/or beliefs
- NOT just comprised of index funds and passive ETFs
- You have an objective of maximizing growth / returns / profits
- This definition is equally applicable to other asset classes besides stocks. Hopefully, you get my point...

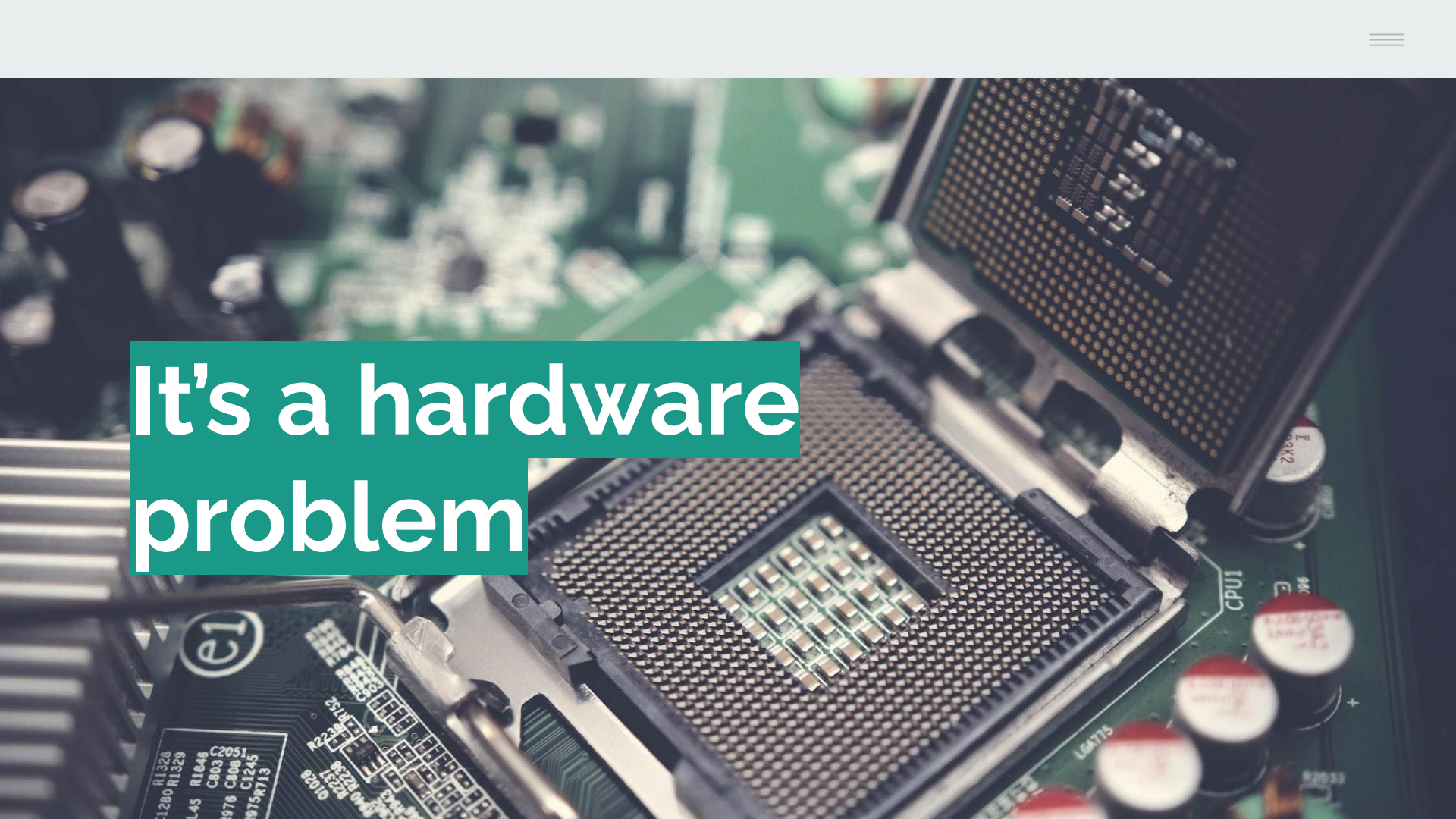
Quick Poll #2 :

Do you have a brokerage account that is actively managed?

Please enter your answer as “2 : Yes/No” in the Zoom chat box!



If the house
always wins, why
don't we just
choose NOT to
gamble?



It's a hardware
problem



Hardware Problem - Why?

THE ROOT OF OUR MISTAKES

1

Our mental circuitry was not designed to enable rational decision making.

It was optimized for *survival and conservation of energy / effort.*

A LACK OF REEXAMINATION

2

We make decisions sooner than we realize based on factors that we don't realize.

And we use our intellect to come up with a cogent narrative that helps to *preserve our world view rather than question it.*

3

We mistake luck for skill and find explanations where none exist (i.e make them up)

OVERCONFIDENCE

4

We fundamentally mistake the world that we live in and believe that we can forecast how things shake out.

Our world does not like to be predicted

IGNORANCE

1. THE ROOT OF OUR MISTAKES

System 1 and System 2

SYSTEM 1

- 😴 UNCONSCIOUS
- 🏎️ FAST
- 😎 INTUITIVE
- 👤 ASSOCIATIVE
- 😞 ERROR-PRONE
- 📍 AUTOMATIC
- 😬 BIASED



SYSTEM 2

- 😬 CONSCIOUS
- 🐢 SLOW
- 😎 LOGICAL
- 🔍 ANALYTICAL
- ⚖️ RELIABLE
- 💪 EFFORTFUL
- 🐢 LAZY

A Faulty iPhone



WHAT YOU CAN SEE

WHAT'S TRENDING

POSITIVE REVIEWS

RECENTLY USED APPS



BATTERY LEVEL

OF INSTALLED APPS

BACKGROUND

FAVORITE APPS

2. A LACK OF RE-EXAMINATION



Frequency Illusion

FOMO

Halo Effect

Belief Bias

Survivorship Bias

Narrative Fallacy

Authority Bias

Optimism Bias

Recency Bias

Confirmation Bias

Gambler's Fallacy

Clustering Illusion

Sunk Cost Fallacy

Availability Heuristic

Endowment Effect

Associative Reactions

Bandwagon Effect

“How much should I invest in
TSLA?”

 INTENSITY MAPPING 

+

 MENTAL SHOTGUN :  AFFECT HEURISTIC 

We identify as being “System 2”
thinkers even when we execute as
“System 1” thinkers!

Ex : Can't make these up

01

Stock performance tied to ease of pronouncing company's name

The “Jim Cramer” Bounce

Home Country Bias in Equities





Ex : Warren Buffett

02

We ignore the fact that the timing of his rise is wildly different than our own investment period

We believe following his principles will lead to untold riches... without investing a fraction of the time he invests in reading 10-Ks

We ignore the fact that there truly is just ONE of him*

Most importantly, we ignore the **MILLIONS** who fail trying to become him



*Clearly, I am doing a disservice to the genius of his compatriot **Charlie Munger** but the overall rarity isn't affected with 2 such unicorns

3. OVERCONFIDENCE



To our minds “Correlation IS Causation”

When viewing two events A and B, it is hard not to assume that A causes B, B causes A, or both cause each other. Our bias is immediately to establish a causal link.



It's hardwired into us - Skinner's famous experiment demonstrates how you can induce superstitions in a pigeon by creating a false link between actions and reward.



Skill or Luck?

We automatically believe that our successes are a result of hard work, knowledge, intelligence or a combination of the above.

We forget that plenty of unsuccessful entrepreneurs, investors and doers were persistent, hard working people who still failed.

In reality, mild success can be explainable by skills and labor.
Wild success is usually attributable to variance from taking large risks.



Nobody accepts randomness in
their successes,
only in their failures.



Are your returns a result of LUCK or do they demonstrate SKILL?

Time for a Game

What you just saw is exactly how the S&P 500 performed from the week of May 16, 1997 to the week of Apr. 27, 2007.

You didn't beat the market.

The \$10,000 you invested turned into \$13,208. If you hadn't made any trades you would have made \$4,799 more—leaving an ending balance of \$18,006. At the time you reinvested, your trade had cost you only \$5,939 but it ended up costing you \$860 more because of the compounded gains you missed. Want to try again?

Try Again

close

What you just saw is exactly how the S&P 500 performed from the week of May 22, 1981 to the week of May 3, 1991.

You beat the market!

The \$10,000 you invested turned into \$33,098. If you hadn't made any trades you would have made \$4,103 less—leaving an ending balance of \$28,996. You took a risk and it worked out, but there's no guarantee you could do it again. Why don't you try?

Try Again

close



Don't get fooled by randomness

- If I walked in here with an undefeatable strategy for the game - RUN!
- At a given time in the market, the most successful traders are likely to be those that are best fit to the latest cycle.
- Optimism, it is said, is predictive of success. Predictive? It can also be predictive of failure. Optimistic people certainly take more risks as they are overconfident about the odds; those who win show up among the rich and famous, others fail and disappear from the analyses.



4. IGNORANCE



What are Black Swan Events?

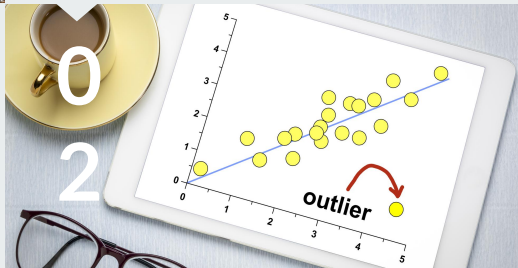


Unpredictable events with devastating consequences

You probably remember where you were when something of this magnitude went down.

Written off from our models due to their “unlikelyhood”

Black Swans are great reminders of human naïveté. We think we have great models of the world and we get proven wrong over time.



Obvious in hindsight

Everyone agrees that we ignored a big risk just **AFTER** we get hurt. We live in a world of TSA, widespread masking and capital requirements.

What are Black Swan Events?



END OF THE SOVIET UNION

END OF THE SOVIET UNION; The Soviet State, Born of a Dream, Dies



By Serge Schmemmann
Dec. 26, 1991

Thousands Feared Dead as World Trade Center Is Toppled



By James Barron
Sept. 11, 2001

Mortgage Defaults Reach a New High



By Vikas Bajaj
March 6, 2008

Coronavirus Has Become a Pandemic, W.H.O. Says

But the virus can still be stopped if nations are willing to take aggressive measures, said the organization's director-general.

**Why can't we predict them ahead
of time?**

Is it a failure of imagination?



Predicting the “Unpredictable”

No amount of observations of white swans can allow the inference that all swans are white.

The observation of a single black swan is sufficient to refute that conclusion.





Predicting the “Unpredictable”

We learn from repetition—at the expense of events that have not happened before. Events that are non-repeatable are ignored before their occurrence, and overestimated after (for a while).



ECONOMIC VIEW

Why Inflation Isn't the Danger



By Alan S. Blinder

June 20, 2009

OPINION
PAUL KRUGMAN

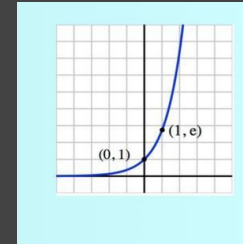
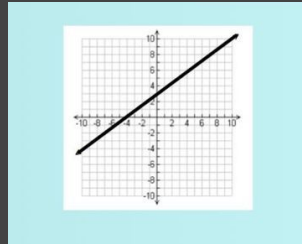
History Says Don't Panic About Inflation

Nov. 11, 2021



Predicting the “Unpredictable”

We live in a world of “non-linear” responses.



“History and societies do not crawl. They make jumps. They go from fracture to fracture, with a few vibrations in between.

Yet we (and historians) like to believe in the predictable, small incremental progression.”



Timing the market



+



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Kübler Ross model of (delusional) investing - WIP

01

GETTING IN

What makes you get in?

02

I'M GOOD!

What makes you think you'll win?

03

NOT DONE

What keeps you engaged?

04

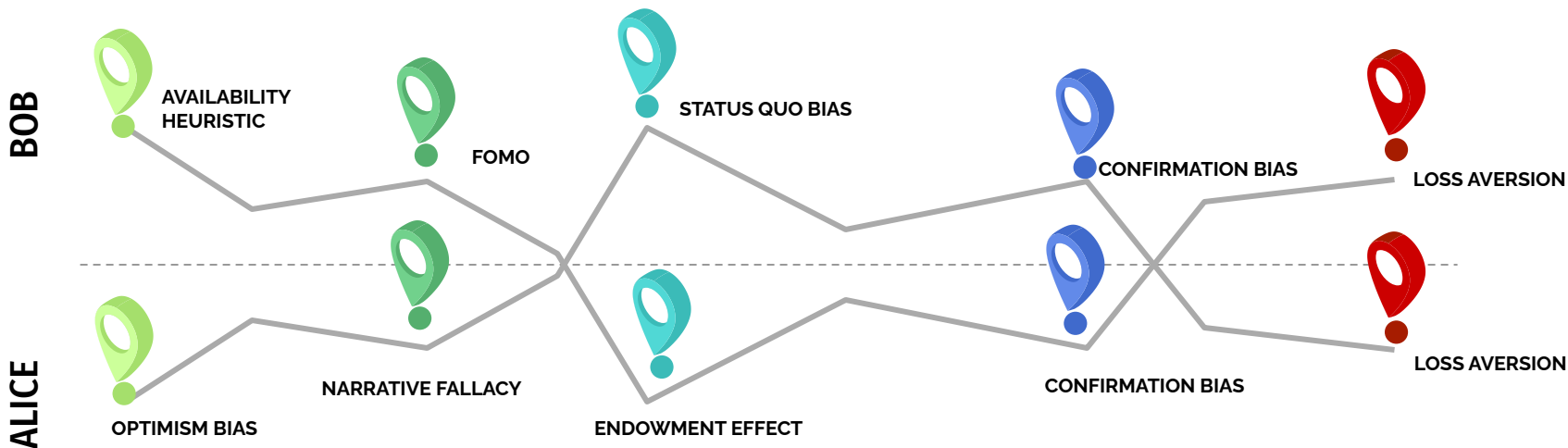
HANGING IN

What makes you ignore reality?

05

TIME TO BAIL

What makes you cut and run?





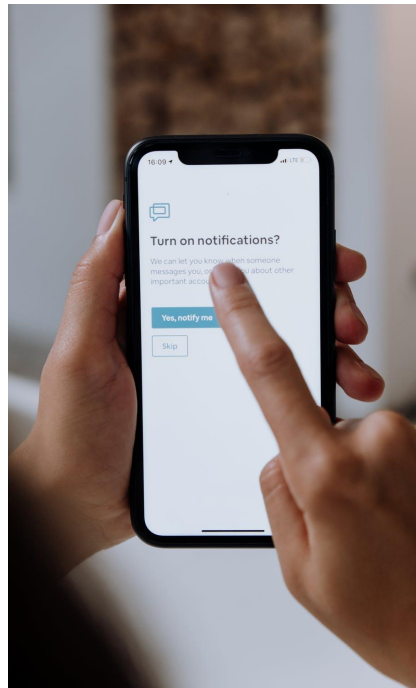


Can we improve our odds?

There are some steps that you can take to *reduce* your chances of getting swept up into bad decisions.

If you want to fully eliminate speculative risk - **DON'T DO IT**

- 01 | Mentally write-off at the beginning
- 02 | Disconnect from Triggers
- 03 | Journaling and Forcing Structured Decisions
- 04 | Calibrate on the Trading ⇌ Investing Spectrum
- 05 | Review to avoid revisionist history



03 | Journaling (Part 1)

Hindsight bias

The tendency, upon learning an outcome of an event—such as an experiment, a sporting event, a military decision, or a political election—to overestimate one's ability to have foreseen the outcome. It is colloquially known as the “*I knew it all along phenomenon*.”



“While we have a highly unstable memory, a diary provides indelible facts recorded more or less immediately; it thus allows the fixation of an unrevised perception and enables us to later study events in their own context.”

03 | Forcing Structured Decisions (Part 2)

- List your Personal Rules of the road - examples below
 - Min 2 year time horizon (also, Capital Gains Tax Benefit)
 - Only “LONG” positions
 - Analyze the the opposite position **with equal enthusiasm!**
 - Minimum waiting period prior to investing
 - Market orders only - price vs value
- Write down your *Investment Thesis*
 - What is your **UNIQUE / CONTRARIAN** take on this stock?
 - ex. “I believe the market is underpricing the bottom line impact of wearables such as AirPods 🎧 and Apple Watch ⌚ : \$AAPL”



03 | Forcing Structured Decisions (Part 2)

- Ignore people and sources of information that you deem *untrustworthy* or *optimizing for clicks over informational value*.
Eg. Motley Fool or a Hedge Fund Titan Mr. XYZ
- Call out each **assumption** and **evidence** driving your investment
 - Quick Hits - Earnings Report, Revenue Growth, Breakdown, Margin, Indebtedness
 - DCF Valuation - ex. [Aswath Damodaran](#)
 - SEC [Filings](#) and [Insider Activity](#)
- Add more restrictive rules but try not to remove any
 - eg. Maximum number of investments



04 | Calibrate on the Trading <> Investing Spectrum

- Review periodically at set intervals
- Calibrate yourself on the spectrum EVERY time you review
 - *"Is this an investment or was this speculation?"*
 - *"Was I trying to make a quick buck here?"*
- Re-evaluate impulses (and make note of them!)
 - *"Have the factors in my investment thesis fundamentally changed? How? What's the evidence?"*
- Large Dips are a chance to **harvest losses**
 - *"Buy the dip"* is not a strategy - it's just riding the gravy train during periods of monetary expansion



05 | Review in order to avoid revisionist history

- No system improves without **ACCURATE FEEDBACK!**
- Raw performance comparison is for suckers : Compare against a **counterfactual investment in a S&P 500 fund** (Opportunity cost / Incremental value)
 - Relative Performance
 - Volatility Comparison ~~ Peace of mind
 - Bookkeeping and Taxes
- **Take profits** when the time is right!
- Gotchas
 - Tax Loss Harvesting - Don't forget to subtract the losses that you didn't write off from the performance score!
- **Identify lessons** in *the journey* of both your success and failures





3 Lessons I learnt along the way

1. Incremental ROI keeps you grounded

How much extra returns does extra analysis translate into?

How much extra risk did I take to get those returns?

2. Less is more - my latest rule, no more than X concurrent positions

Don't let your successes today lead you to failure tomorrow



3. The BEST lesson still remains passive investing through low-fee index funds.

It lets me triumph over my stone age brain by making it a no-brainer ❌🧠❌

(pun intended, sorry!)

Two *Timeless* posters for your wall



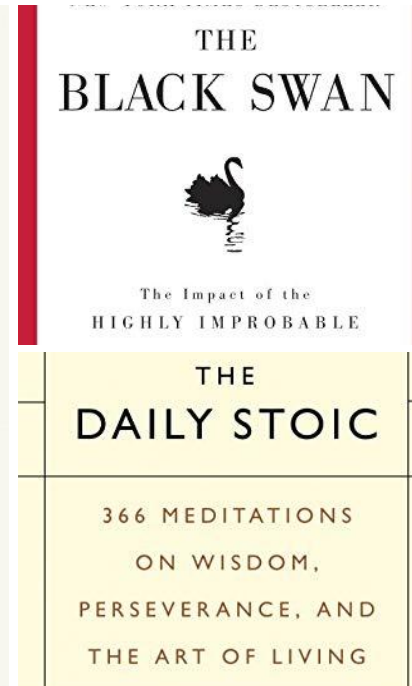
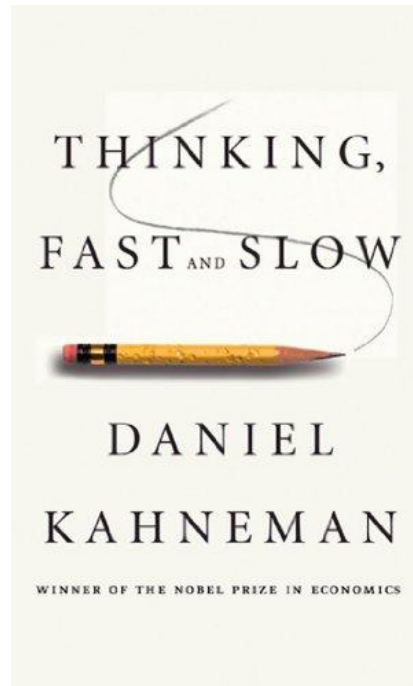


Want to learn more?

These are *introductory* books in the three big domains that I have leveraged for the presentation.

It's only meant to get you curious and send you on a fulfilling learning and living journey

- 01 | [Thinking, Fast and Slow - Daniel Kahneman](#)
- 02 | [Fooled by Randomness, The Black Swan](#) - Nassim Taleb
- 03 | [The Daily Stoic](#) - Ryan Holiday & Stephen Hanselman





About the Speaker

Ravi Ranganathan is an engineering leader at Netflix and is a software engineering professional. He currently works on technologies that drive Globalization, and prior to that worked on Marketing and Ad Technology and on Web Search.

He is passionate investor who started at 18 under his mom's guidance and started going solo at 23. He discovered his love for investing and financial planning by watching his parents, both of whom are career bankers and self-made individuals. Even though they came from humble means, their ability to offer their three children enormous opportunities in life through hard work and investing was a life lesson he's carried forward.

He's a movies and TV buff, technophile and loves cooking, travel, reading and hiking. He's married and has a 20 month old who keeps him grounded, busy and entertained. In his spare time, he is presently learning conversational french, macroeconomics and experimenting with new cuisines.

You can reach him at hello@rravi.dev or connect with him on [LinkedIn](#)



Thank you.

