NEWSLETTER
ISSUE NO. 9

The Healthy Skeptic.

with Jeff Sarti

THE DISCIPLINE TO BE DIFFERENT: 10 Principles of a Healthy Skeptic

DIVE INTO WHAT'S INSIDE:

- The 10 core principles every long-term investor should live by
- How to replace emotional reactions with timeless values
- Why ignoring the headlines may be the smartest move you make

RETURN TO THE BASICS.

In my previous newsletter, I rebranded our series from Perspective to Healthy Skeptic. While I briefly touched on the core tenets of a healthy skeptic, timely issues surrounding the new administration, tariff policies and DOGE took center stage. Now, it's time to return to the basics and delve into the ten principles that define a healthy skeptic. I think you'll find that many of these principles are more essential than ever given the uncertainty we face in the world today.

As Healthy Skeptics, we know...

1. The media is obsessed with the short term, so we tune it out.
2. Market predictions are just noise for long-term investors.
3. Uncertainty exists and we purposely make resilient decisions that lessen the impact.
4. Following the herd is a recipe for complacency.
5. Just because investments are familiar doesn't mean they are good.

6. Investing starts with investing in yourself.
7. Government statistics and policies are often misleading.
8. Each investor's path is unique to them.
9. Illiquidity can help create positive outcomes.
10. Overconfidence is akin to closed-mindedness.

These principles stand in stark contrast to what the financial media and industry often promote. It can be daunting for investors to stray from the herd, but with our forty years of championing an independent mindset, we are fortunate to have clients who embrace these values. I encourage you to reflect on each principle, noting which ones resonate and those where you may feel some discomfort. It's through discomfort that mindset shifts often occur. With that, let's dive in.

Principle #1

THE MEDIA IS OBSESSED WITH THE SHORT TERM, SO WE TUNE IT OUT.

I start with this principle because it's one of the toughest to tackle. We live in a world where we are constantly bombarded with news and headlines. The 24/7 news cycle is relentless, and social media has taken our sound-bite culture to a whole new level.

Picture this: flashing lights, bold headlines, and the latest "hot stock" of the day. It's all designed to grab your attention and keep you hooked. But why such a focus on the short term as opposed to sound, long-term investing principles? Simple — it's about selling ads. Greed sells, and the media knows it.

The Healthy Skeptic understands the incentives that drive media content and realizes that these very incentives are counter to healthy, long-term investing behavior. So, what's the solution? Turn the channel. Shōgun, anyone?

> "The stock market is a device for transferring money from the impatient to the patient.
>
> Warren Buffet

Emotion to Protect Against:

- Restlessness

Value to Reinforce:

- Patience

Principle #2

MARKET PREDICTIONS ARE JUST NOISE FOR LONG-TERM INVESTORS.

In a previous letter, I called into question our industry's obsession with predictions. "Our whole industry is built on the flawed premise that our purpose as financial advisors is to predict the future and devise an investment strategy that will 'win' if our predictions are correct. Here's the harsh truth: no one has a crystal ball or can accurately predict the future on a consistent basis."

I highlighted a study that showed that over 6,000 stock market forecasts from 68 leading "experts" had a 47% success rate. Even a coin flip has 50/50 odds!

Why is it that investors crave these market predictions, and Wall Street is more than happy to cater to this emotional need? It all comes down to our natural desire for control in an otherwise uncertain world. Wall Street preys on this emotional need and peddles predictions to instill in the average investor a false sense of comfort. Just trust the "expert" advice and predictive power of your financial advisor and all will be okay, right?!

The Healthy Skeptic's take? They either ignore these predictions altogether or treat them as entertainment. They understand that uncertainty is not something to be frightened of but instead is a natural condition of the human experience, which takes us to #3.

Emotion to Protect Against:

- Insecurity

Value to Reinforce:

- Knowledge

"

There are two kinds of forecasters. Those who don't know and those who don't know they don't know.

John Kenneth Galbraith (economist)

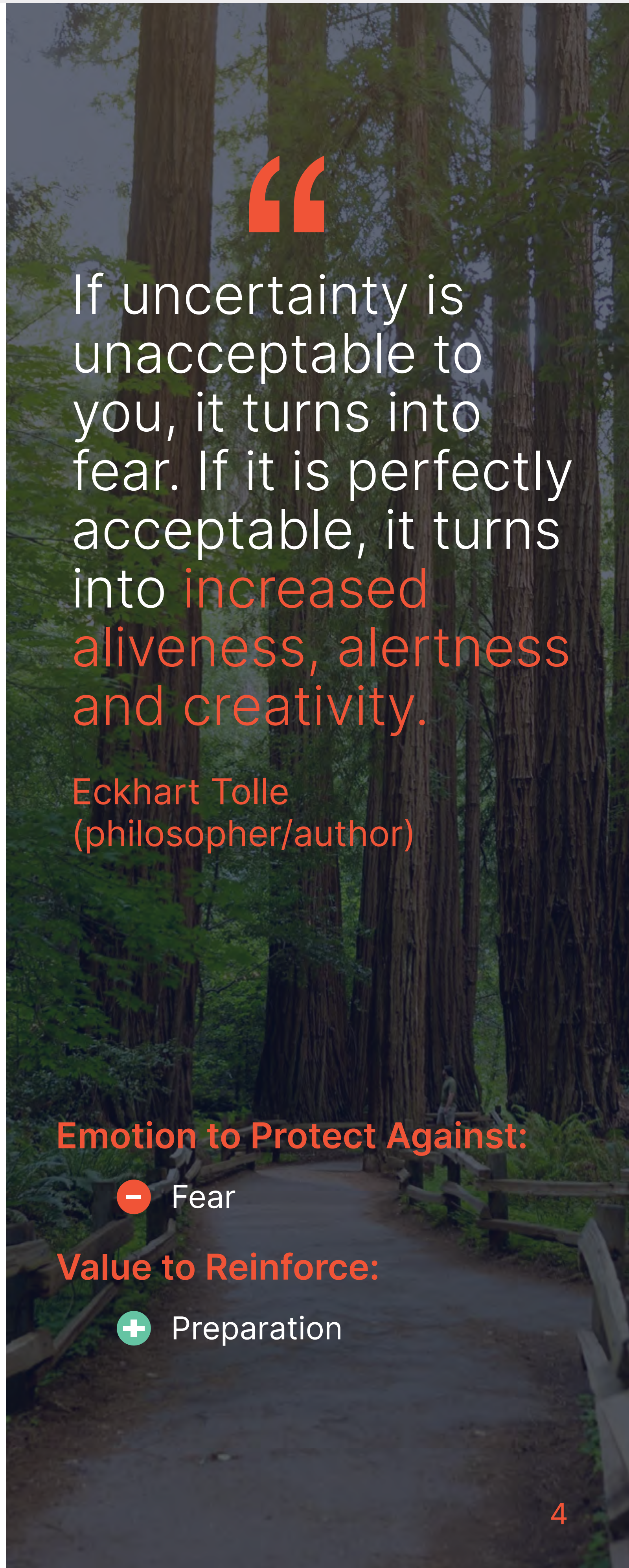
Principle #3

UNCERTAINTY EXISTS AND WE PURPOSELY MAKE RESILIENT DECISIONS THAT LESSEN THE IMPACT.

Uncertainty is an unsettling emotion, especially when the stakes are high. And the stakes don't get much higher than when your net worth is on the line. Fear and the loss of control are overwhelming, which is why the average investor is obsessed with overcoming and even mastering uncertainty.

I previously used a surfing analogy to illustrate the approach most take. Waves are inherently uncertain, and the surfer looks to hone their craft to master these dangers. A traditional investor looks to "surf" the markets by perfectly timing when to buy or sell the right stock. Or when the waves/markets become menacing, they ditch the surfboard and head to shore, selling their stocks and rushing to the safety of cash and bonds.

The Healthy Skeptic may surf as a hobby and have a small "play" account to trade stocks. But when it comes to their nest egg, they ditch the surfboard altogether and build a bigger boat. The boat is designed to be resilient and bigger than the waves themselves, diversified across a variety of different assets that should stay afloat and safe no matter the economic headwinds they face.



> "If uncertainty is unacceptable to you, it turns into fear. If it is perfectly acceptable, it turns into increased aliveness, alertness and creativity.
>
> Eckhart Tolle (philosopher/author)

Emotion to Protect Against:

- Fear

Value to Reinforce:

- Preparation

Principle #4

FOLLOWING THE HERD IS A RECIPE FOR COMPLACENCY.

Following the crowd is alluring for two reasons: 1) investors pile into things that have done well of late and 2) investors don't want to put in the hard work and would rather mindlessly piggyback off the success of others.

The Healthy Skeptic takes a different approach: 1) the trend du jour may be alluring but they intuitively know that whatever is "hot" is likely also crowded and expensive, and 2) they have a natural distrust of the mindlessness of groupthink. They ask the simple question, "Do I search for investments that are on sale or those that are overpriced?"

It's counterintuitive, but the typical investor crowds into overpriced assets with the comfort that everyone else is piling in. There is a sense of safety in numbers. This strategy may work in the short run, but history is a clear guide that this mindset dangerously positions the portfolio over the long run. The Healthy Skeptic has the confidence to take a contrarian approach, with the understanding that true value accrues to those who buy when things are cheap and sell when they are expensive.

Emotion to Protect Against:

- FOMO (Fear of Missing Out)

Value to Reinforce:

- Self-reliance

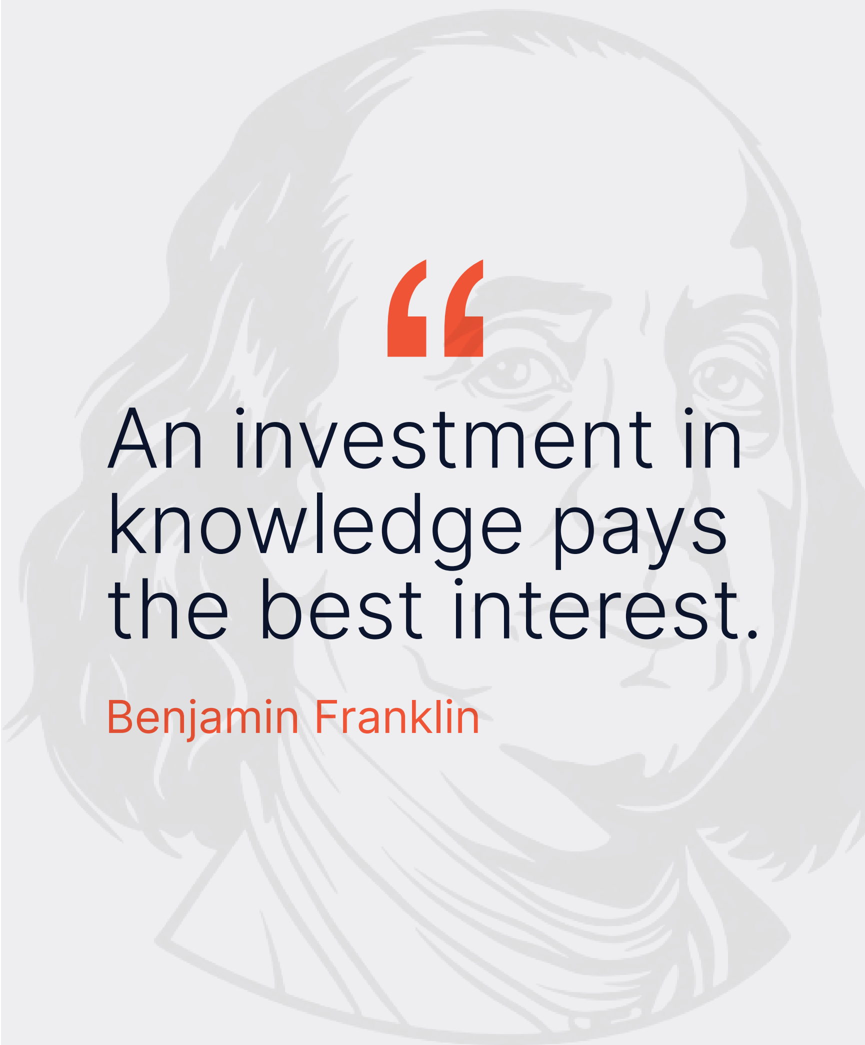
> "If all you do is follow the herd, you'll just be stepping in poop all day.
>
> Wayne Dyer (author/motivational speaker)

Principle #5

JUST BECAUSE INVESTMENTS ARE FAMILIAR DOESN'T MEAN THEY ARE GOOD.

It is very common for investors to jump into stocks because they are familiar with the company and its products. Apple is a great example where the iPhone is more than just familiar; it's practically an extension of ourselves. But just because we have familiarity with Apple's products, do we really understand its stock? What percent of its consumers are based in China? How much debt is on its balance sheet? And, most importantly, is it trading at a level that's cheap or expensive based on objective metrics?

The Healthy Skeptic does not fall into this trap. In fact, they lean into the unfamiliar with the understanding that unfamiliar investments are less crowded and therefore cheaper. Take real estate private lending investment as an example. Unfamiliar to most for sure — and therefore less crowded, which is why these investments target equity-like returns with reduced volatility relative to public markets Despite being unfamiliar, are these investments easily understood? Without a doubt! It's much easier to understand a loan on an apartment building when compared to an investment in a company like Apple with its multitude of complexities.



> "An investment in knowledge pays the best interest.
>
> Benjamin Franklin

Emotion to Protect Against:

- Overconfidence

Value to Reinforce:

- Curiosity

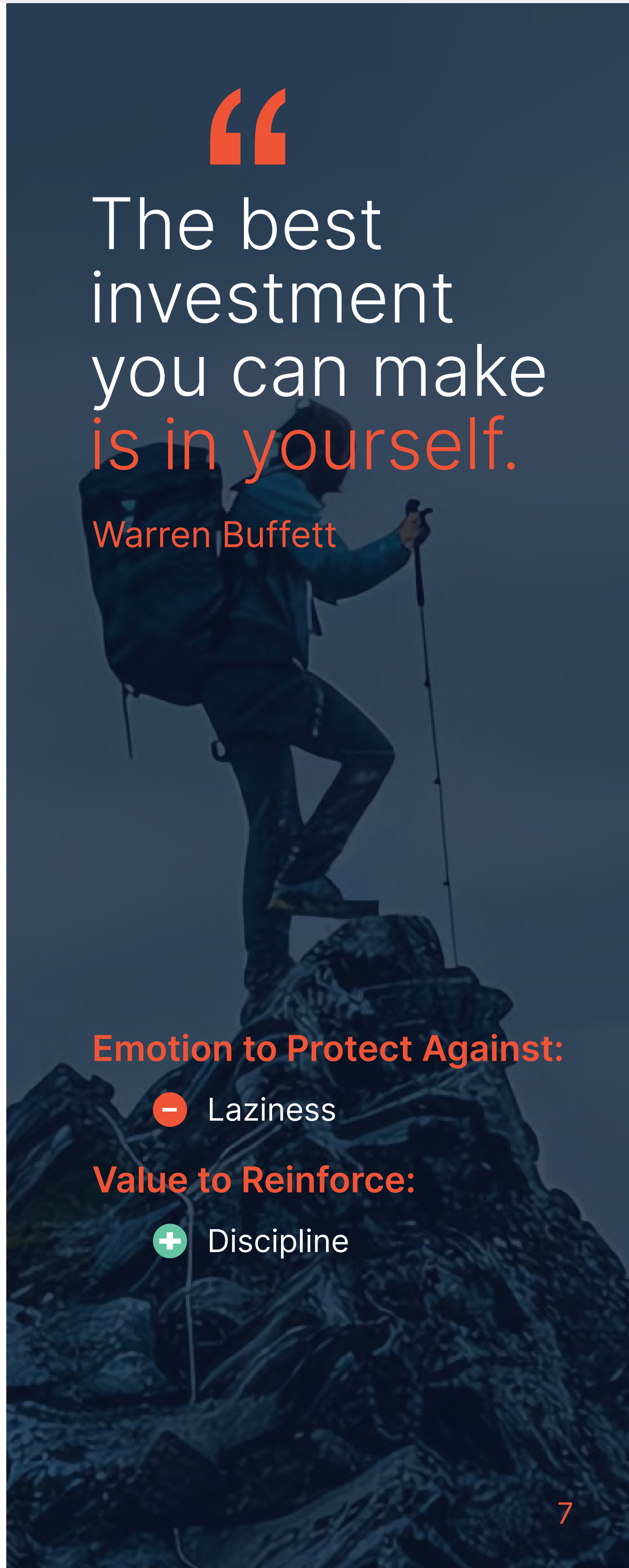
Principle #6

INVESTING STARTS WITH INVESTING IN YOURSELF.

Most Americans have no formal training in finance and investments. We are simply not taught these things in school. What then happens is you wake up in your 40s or 50s and realize that you've built a nice nest egg for your family. That responsibility can be overwhelming! But without training in investing and financial planning, you hand the reins over to a financial advisor who has the knowledge that you are lacking. You have no choice but to trust the financial advisor that you hired.

But trust is not a strategy if it's not backed by knowledge. Often the trust you have with your advisor is not built on a true understanding, but, rather, on a strategy of hope. The challenge with this baseless trust is that when times get tough, doubt creeps in.

A Healthy Skeptic takes a different approach. When they hire a financial advisor, they don't simply hand over the reins but treat their relationship as a partnership. They spend time understanding the fundamentals of their portfolio and, more importantly, what makes them tick when it comes to their finances. It's only through a true understanding of your biases and long-term goals that you will remain steadfast on your financial journey as opposed to being whipsawed with every stock market move.



“The best investment you can make is in yourself.

Warren Buffett

Emotion to Protect Against:

- Laziness

Value to Reinforce:

- Discipline

Principle #7

GOVERNMENT STATISTICS AND POLICIES ARE OFTEN MISLEADING.

The Healthy Skeptic doesn't take statistics that are thrown at them at face value. Take inflation statistics as an example. You don't have to be an economist to intuitively understand that inflation was higher than the 2% reported by the government for much of the last decade. Our regular trips to the supermarket raised our collective antennae.

Despite my regular criticism of government policies, I believe that we live in the greatest country on Earth. But I also must acknowledge that there is a flaw in the structure of our political system and how politicians are elected. Politicians are incentivized to continually boost the economy in the short term even if this can-kicking will ultimately harm future generations. It is through policies of money printing, zero percent interest rates and ever-increasing deficits that we have put ourselves on a financial path that is unsustainable. Healthy Skeptics have their eyes wide open regarding these risks and invest accordingly.

> No matter how deeply you distrust the government's judgment, you are too trusting.
>
> George Will
> (political commentator)

Emotion to Protect Against:

- Blind Acceptance

Value to Reinforce:

- Critical Thinking

Principle #8

EACH INVESTOR'S PATH IS UNIQUE TO THEM.

It is human nature to compare yourself to others. We all strive to be better, and your measuring stick is often your friend, coworker or neighbor. But a healthy mindset is comparing yourself to who you were yesterday as opposed to someone else.

Yet Wall Street preys on our natural inclination to compare ourselves to others. It's all about comparison shopping to "keep up" with the performance of others or an arbitrary benchmark that has nothing to do with your unique goals. This dissatisfaction encourages trading (profit for Wall Street firms) and short-term investment behavior at the expense of sound, long-term principles.

Each client's goals are unique to them and no one else. Perhaps your goals are to generate consistent cash flow to meet your lifestyle needs or, alternatively, to grow your portfolio at a faster pace than inflation over the long run. Shouldn't your portfolio be designed with those unique goals in mind as opposed to benchmarking to an arbitrary index like the S&P 500? Who cares whether the S&P 500 is up 10% one year or down 10% the next? If a client benchmarks their portfolio against an arbitrary index, they will make decisions that are counter to their unique goals.

Emotion to Protect Against:

- Envy

Value to Reinforce:

- Self-awareness

> "Comparison is the death of joy.
>
> Mark Twain

Principle #9

ILLIQUIDITY CAN HELP CREATE POSITIVE OUTCOMES.

Most investors crave liquidity. They think that being able to quickly buy or sell their stock position gives them more control. However, this ability to trade your stocks at a moment's notice is actually an illusion of control. In fact, liquidity gives control to your emotions at the exact wrong times. Feeling greedy and want to chase the new trendy stock? Buy! Panicking when the market hits a speed bump? Sell!

Healthy Skeptics reject this short term and speculative mindset and embrace a long-term ownership mindset. They are not fearful of illiquid investments but in fact embrace them with the understanding that short-term price movements are irrelevant. What really matters is appreciation and consistent cash flow over the long term.

> The big money is not in the buying and selling, but in the waiting.
>
> Charlie Munger (legendary investor)

Emotion to Protect Against:

- Fear and Greed

Value to Reinforce:

- Composure

Principle #10

OVERCONFIDENCE IS AKIN TO CLOSED-MINDEDNESS.

Nothing is more damaging to long-term investing success than overconfidence. Overconfidence takes many forms, from a belief in being able to time the market to exhibiting exemplary long-term forecasts to trusting that we will change our mind on an investment if the facts change (easier said than done!).

A Healthy Skeptic embraces a very different view of the world. They humbly understand that they only have a small part to play in the grander scheme of things and are simply along for the ride. While they hold strong long-term beliefs and convictions, they understand that the short term is driven by countless factors well outside of their control. While this acknowledgment is unsettling at first, once a Healthy Skeptic embraces this viewpoint, they find it liberating. They no longer stress about outsmarting the world or predicting an unknowable future. Instead, they humbly lean in and acknowledge that the world is bigger than they are. The result is that they DIVERSIFY and DIVERSIFY, and then DIVERSIFY their investments some more.

Emotion to Protect Against:

- Ego

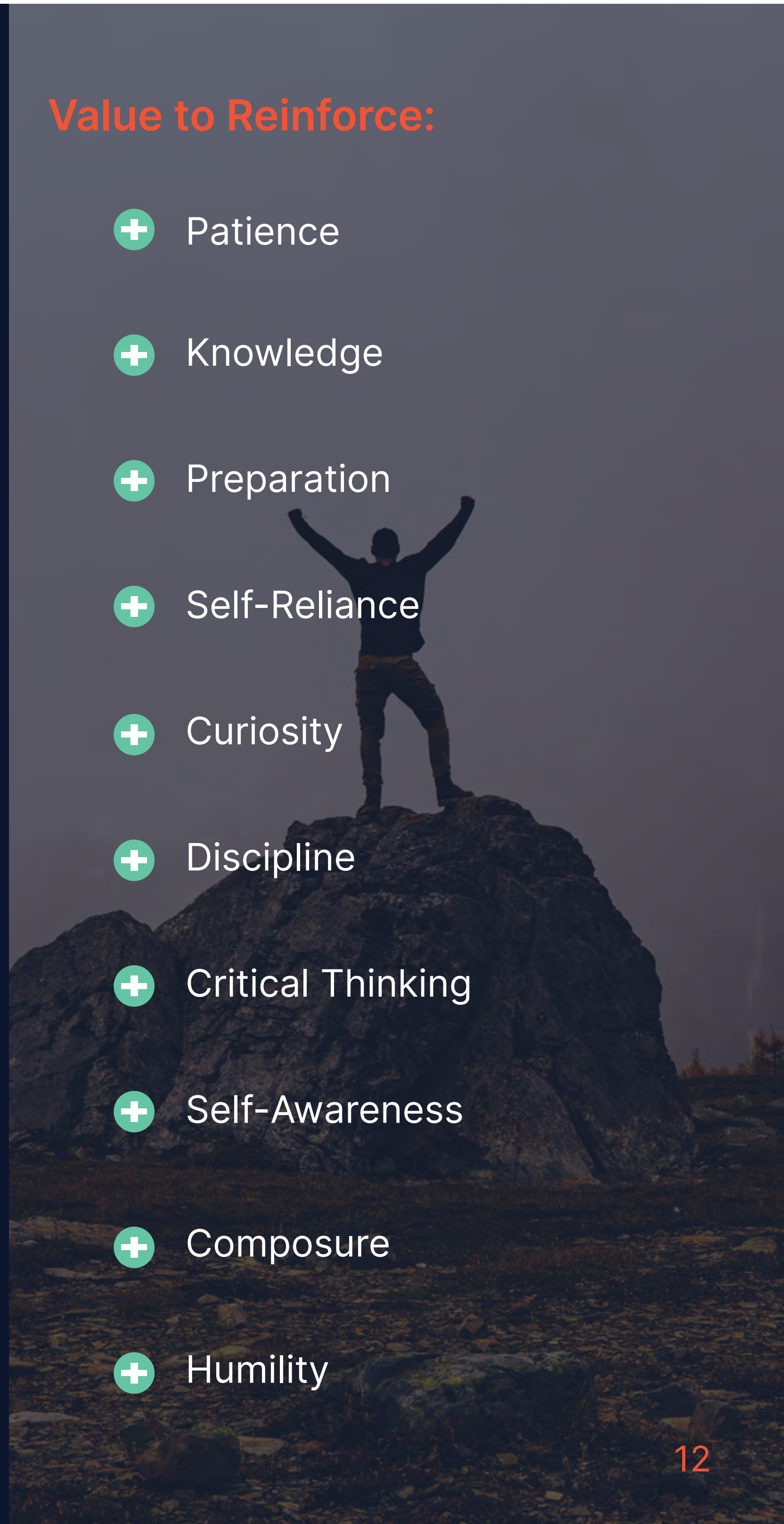
Value to Reinforce:

- Humility

> The whole problem with the world is that fools and fanatics are always so certain of themselves, and wiser people are so full of doubts.
>
> Bertrand Russell (philosopher, mathematician)

CONCLUSION.

Over the course of laying out these principles, I've tied each principle to an emotion that the common investor often succumbs to as compared to the value that the Healthy Skeptic strives for. When you look at this list, which side of the ledger should we lean into when protecting our nest egg?



Emotion to Protect Against:	Value to Reinforce:
Restlessness	Patience
Insecurity	Knowledge
Fear	Preparation
FOMO	Self-Reliance
Overconfidence	Curiosity
Laziness	Discipline
Blind Acceptance	Critical Thinking
Envy	Self-Awareness
Fear and Greed	Composure
Ego	Humility

When looking at the themes between these two columns, a few key takeaways come to the forefront. As a starting point, the emotions on the left represent taking the easy way out. This is in contrast to the values on the right, which are much harder to execute in practice. They take commitment, even when the going gets tough.

Similarly, the emotions on the left are somewhat primal or instinctual in nature. Nothing is worse for your investment pocketbook than succumbing to these emotional instincts. This is in direct contrast to the values on the right, which reinforce thoughtfulness and discipline in the face of challenges.

There is also a theme around timeframe that can be found between these different emotions and values. The emotions on the left are very short-term, often a microsecond in nature, while those on the right are more long-term and truly never-ending. There's no finish line when you are practicing things like patience or discipline or humility.

Easy vs. Commitment
Primal vs. Thoughtfulness
Short-term vs. Long-term.

When protecting and growing our nest egg, we are all seeking a semblance of control.

When surrendering to the emotions on the left, we have succumbed to a lack of control.

When practicing the discipline of the values on the right, we regain control.

I tremendously value the relationships we have with our clients. It is unique to be part of a wealth management firm that has a client base that possesses knowledge and the confidence that grows from that knowledge. This empowers us to chart a different path and embrace an alternative view of the investment landscape.

Our partnerships enable us to build more resilient portfolios, allowing investors to tune out the noise and embrace a long-term approach. This way, instead of obsessing about the daily zigs and zags of their investment portfolios, they can focus on the more important aspects of life that are truly fulfilling.

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