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TUTTLE
CAPITAL MANAGEMENT

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What Successful Investing Has in Common with Nutrition

Tuttle Capital Management

Introduction

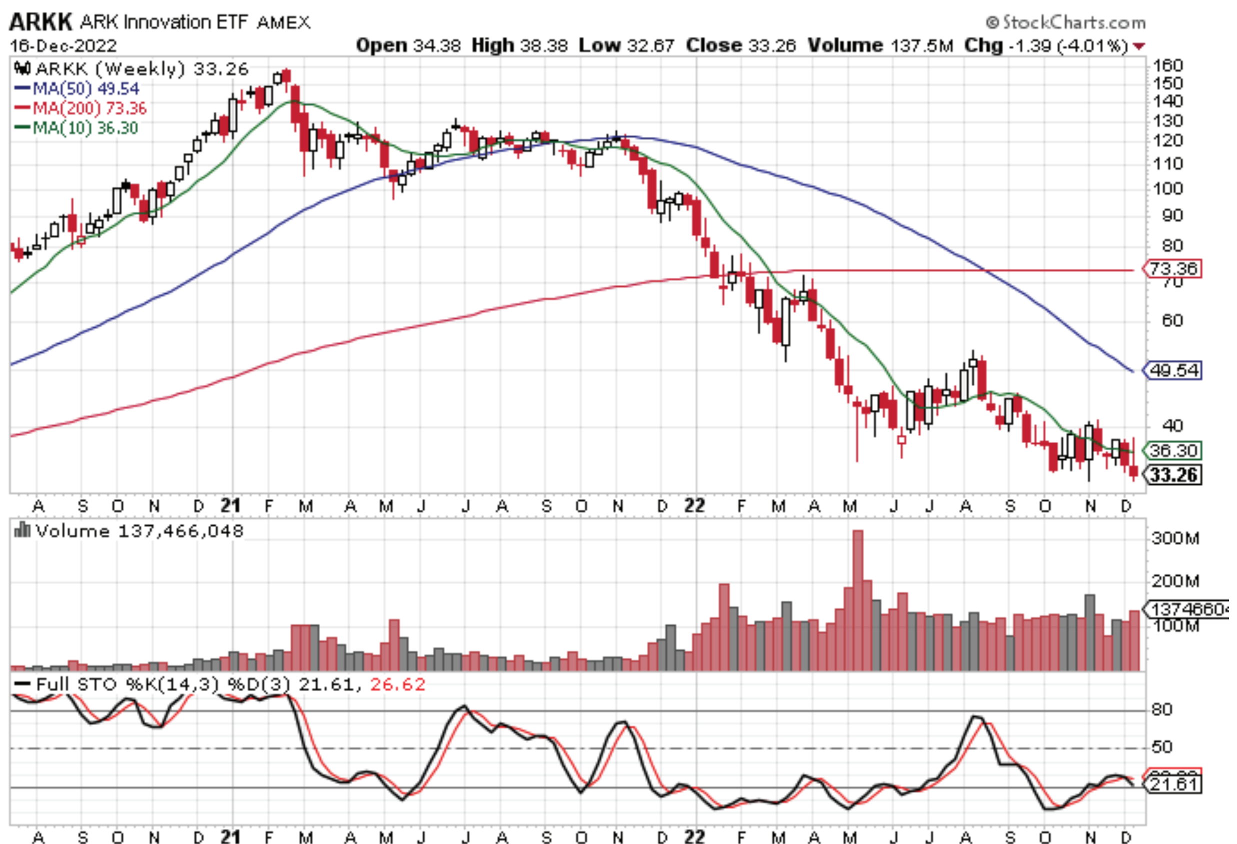
One of the principles that has driven growth and innovation in society is delegation, or the idea that you don't have to know how to do everything. What you don't know, somebody else can most likely do for you. I believe there are areas, however, in which you should be educated, whether you delegate or not. Nutrition and finance are two such areas, and mistakes in either could be costly.

In nutrition we have the Standard American Diet (SAD), the acronym of which being, perhaps, more appropriate than we'd like to admit. I can't help but notice that conditions such as cancer, heart disease and obesity still affect many in our society and, in some cases, may be worsening. If the standard American diet were the right way to eat, I would think our collective health would be much better than it appears. If you research nutrition, there are plenty of alternate diets. Some, such as the vegetarian diet and carnivore diet, despite being polar opposites, have potentially compelling research backing them up. The same can be said for others, such as keto, paleo, Mediterranean, etc. I can tell you what is the right diet for me, but I probably can't tell you what's right for you. However, perhaps I can give you a useful framework. If you look at all of these diets, the one thing they have in common is the elimination of processed foods and added sugar and high fructose corn syrup. I'm no expert, but perhaps that's an underlying framework upon which everything else is individualized.

When I started in financial services, the goal of investing was to make money, full stop. There was no S&P 500 to compare against. You either made money or you didn't. At some point along the way that all changed. The goal became to have a globally diversified portfolio, managed according to your risk tolerance and goals, compared to some benchmark. Whether you made money was not important; you just needed to match or exceed the benchmark. I would argue that this didn't happen because financial services companies thought it was a better way. I believe it happened because they realized that fee-based compensation was better for their bottom lines than commissions. They also didn't want people sitting on piles of cash that they couldn't charge a fee on. So just like I would argue that SAD is not ideal for nutrition, I would argue that the now-standard approach for investing is not ideal for many people. Unfortunately, I can tell you the ideal approach to investing for me, but that doesn't make it ideal for you. I have been doing this since the 80s, and I can sit at my desk all day watching the market. I can however give you a potentially useful framework of guiding principles:

The Framework

1. **Be agnostic between long and short.** The investing industry will try to convince you that shorting is dangerous, but it all depends on the context. It can be dangerous if you buy something that you can't afford or aren't prepared to lose more than you put in. If you short something, you can lose an unlimited amount. If you had decided to short AMZN at the lows in 2002 and held it until now, you would have massive losses, but that's an extreme example, one I wouldn't have advocated for in the first place. Also, most of the time the market generally goes up, so I doubt you could find any dedicated short sellers who make money over time. I am not advocating always shorting, just being as open to going short as you are going long.
2. **"In The Long Run We Are All Dead."** This is one of my favorite Keynes quotes. The investment industry often tries to get investors to have a long-term time horizon, potentially so they can justify losses. This mentality doesn't always make sense, though (see the following example, source: StockCharts.com):



The above chart is illustrative of current performance trends of the underlying investment and subject to change. Investing is subject to market risks and results will vary.

3. **Trade based on what you see, not what you think.** There will always be pundits and brokerage firms telling you what they think markets are going to do, and much of the time they may be wrong. The markets are going to tell you what they are doing. You don't need to try to predict it.
4. **You can time the market, *sort of.*** I can't tell you what the market or a stock is going to do today, tomorrow, or any day. However, I can tell you as I write this that "less is best" if you are going to be fully invested. The industry will tell you that trying to time the market is dangerous because if you miss the 10 best days in the market you have mediocre returns. They don't tell you what happens if you miss the 10 worst days. Again, nobody has a crystal ball, but I can tell you that the moment that the Fed pivoted on inflation in November 2021 you should have been looking at the long side differently.

5. **There is no perfect trading system or indicator, but these types of things can help inform your decisions.** My favorite books of all time are the Market Wizards books from Jack Schwager. In them he profiled the top traders of the time, many of which used mechanical systems to crush the market. These are different times. You may find a mechanical system that works from time to time, but there is no longer a Holy Grail. So, for example, back in the early 2000s people got enamored with buying or selling the market based on where it was vs. the 200-day moving average at month end. I wouldn't use this is as a system today, but whether stocks are above or below could help inform your investment decisions.
6. **Learn to read charts.** What you decide to look for in a chart could vary. You could be looking for breakouts, undercut and rallies, head and shoulders, etc., but the chart is going to tell you what investors are thinking.
7. **Prioritize risk management and position sizing.** You could have the best methodology in the world, but if your risk management is off, at some point you may blow yourself up. What that means is going to vary; some people are comfortable with more risk than others. At a minimum you should consider having some sort of stop loss.
8. **Let your profits run.** Again, what that means is going to be different. If you are a breakout trader you could hold something for years if it continues to be in an uptrend. A counter trend trader is probably going to trim as something rises and add on dips.
9. **Be adaptive.** Markets change and you need to be flexible enough to trade with them. 2022 has been a horrible year for breakouts so far. If you keep trying to trade breakouts when they keep failing your results are going to be less than ideal. If you are a day trader, you know that a strategy that works in a trend day doesn't work nearly as well in a choppy day.

And there you have it: a potential framework for investment success. The details will vary whether you are a day trader or a long-term position trader, or anything in between, but the principles we've discussed can be applied and individualized, much like the infinite number of ways we personalize our nutrition plans.

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