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What Drives Us

Fall 2024

The US election season is in full swing, and you've undoubtedly heard countless pundits debating the upcoming US election and how its result will affect the economy and the stock market. These days, with digital media in a constant battle for our attention, the predictions have become even more alarmist.

Our featured article this month includes a famous quote from former U.S. Secretary of Defense, Donald Rumsfeld, about what we know. In the case of financial markets and the presidential election cycle, what we know is that over the last 100 years, you would probably be broke if you had bet on doomsday predictions. The fact of the matter is that, since the Great Depression, nearly every president has left office with the S&P 500 at a higher level than the day that they took office. Further, during that same period, there has been no president that didn't oversee a 10% or greater draw-down during their term.

The lesson of course is that, no matter what happens this November, history has shown that businesses are largely agnostic to the party in power. They are remarkably resilient and able to adapt to changing market and regulatory conditions. So, although there may be some noise around election time, we continue to believe that the best strategy to build long-term wealth is to own a balanced and diversified mix of high-quality financial assets.

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What Do Experts Really Know? Embracing the Unknown

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How confident are you in what you know? In 2002, Donald Rumsfeld, U.S. Secretary of Defense spoke these, now-famous, words during a Pentagon briefing:

“As we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say, we know there are some things we do not know. But there are also unknown unknowns—the ones we don’t know we don’t know.”

Professional experts are assumed to know a lot about their areas of knowledge whether in national security or investing, or something else.

But, as Rumsfeld’s comment shows, ‘metaknowledge’ or awareness of the limits of your knowledge is just as important as knowing what you know.

Do professional experts have an edge over non-experts by having higher levels of metaknowledge? A new study sought to answer that question by conducting research with experts in the fields of

climate science, psychological statistics, and investment. The researchers concluded that experts did tend to have higher metaknowledge than non-experts. For example, they were less overconfident overall but had more conviction in their correct answers than non-experts. However, experts were also more likely to exhibit greater confidence in their wrong answers compared to non-experts.

Previous studies found cognitive biases among finance and medicine experts. For example, economists display overconfidence in their theories despite a long history of incorrect forecasts.

Investment managers, while touting the importance of decision analysis in general, often fail to do so in practice yet maintain strong conviction in their sub-optimal conclusions. Alas, years of experience does not seem to ameliorate these tendencies. Similar patterns have been noted among medical professionals.

In one study, physicians' confidence in a diagnosis remained at 70%, even when they correctly diagnosed difficult cases only 5.8% of the time. Just as misjudgement can harm a medical patient, sub-optimal decision analysis can harm a client's investment returns.

Given the durability of certain cognitive biases, how can advisors de-risk decision-making by raising their metaknowledge? One way to do this is by leveraging individual investing talents within a structured team environment. This gives an organizational edge.

Organizational edge is not merely about the sum of individual talents but also how these talents are structured, integrated, and leveraged. A well-designed organization optimizes team dynamics, encourages effective communication, and fosters a culture that supports decision-making aligned with its strategic objectives. Having the right environment and processes in place can amplify individual capabilities which are as essential to success as are market strategies.

Bigger is not always better when it comes to investment teams. Having a large research investment team

does not guarantee good decision making or sound judgement. In fact, it can add unnecessary complexity and inefficiencies into the investment process. Flatter organizations tend to do better. This may be due to more simplified structures.

Leveraging the insights of research analysts alongside those of portfolio managers is the mark of skilled leadership and a supportive environment. Diverse teams along the lines of education, experience, skills, and information can add value when there are shared goals and open communication. Studies also show that gender balanced investment teams may have an increased potential to achieve superior risk-adjusted returns.

Confidence is a necessary but insufficient factor in long-term investing success. Raising the metaknowledge quotient of the investment team can help protect against the surprises that lurk in left-tail events that remain unknown—until they're known!

Thank you to PenderFund Capital Management Ltd for this article: <https://bitly.cx/LpaCq>

BDWM IN THE COMMUNITY

U of Windsor Alumni Golf Tournament



Brian Porter, Kevin Hamilton, Lindsay Lovecky & PJ Dupuis

PJ and Brian joined colleagues Lindsay Lovecky and Kevin Hamilton from TD Commercial Group for the University of Windsor Alumni Golf tournament at Beach Grove Golf & Country Club. It was a beautiful day on the course and the team was edged out by only a stroke for the mixed team championship.

Through their fundraising at events like this, the Alumni Association is able to fund student scholarships and awards programs, as well as numerous other initiatives in support of the community.

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