The Skorina Letter

● Retained Executive Search ●

Our clients: visionary families, transformative nonprofits, Wall Street trailblazers
Our vision: build investment preeminence, create opportunity
Our work: recruit, consult, connect

If it were easy . . .

It takes character to sit with all that cash and to do nothing —Charlie Munger

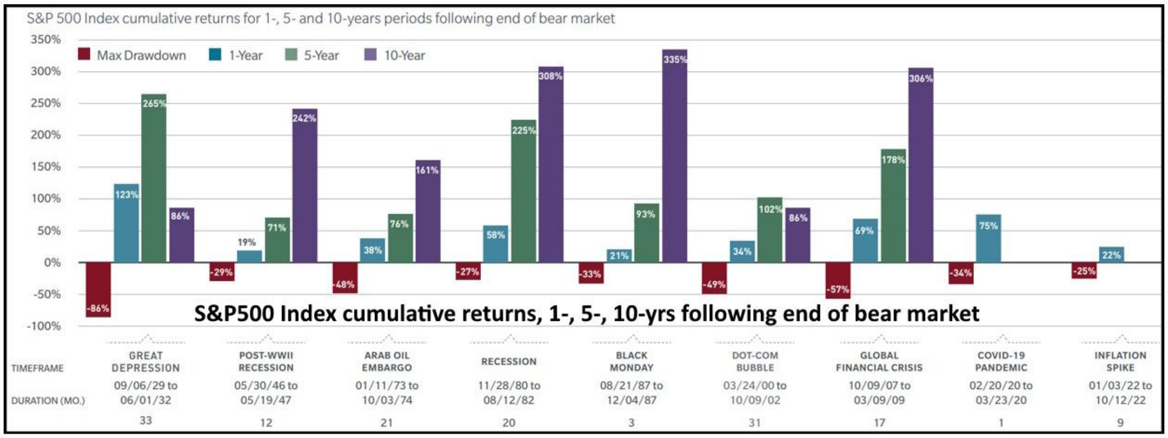
Jason Zweig – columnist, The Intelligent Investor, WSJ – wrestled recently with one of life's enduring puzzles. Why do investors so often fall for the myth of the "dazzling investor" and lure of easy money?

Smart, savvy financiers took heady fliers on the media's latest shooting star, twenty-four year old wunderkind Leopold Aschenbrenner, for example, and so far it's been a white-knuckle ride.

Investment talent can come from the strangest places, we know, we've recruited some zingers over the years. But unless these oracles have had a few hard knocks along the way, they too often believe that this time really is different.

Sooner or later, however, a pesky bear market or related catastrophe gets in the way. Or as Viktor Chernomyrdin, a former Russian Prime Minister once put it, "The thing that never happens just happened again."

Here's a chart on past market declines and eventual recoveries.



Market Declines: A History of Recoveries, MFS Investment Management

Even Berkshire Hathaway, with a compounded annual gain of 19.9%, nearly double the S&P 500's 10.4%, "has had 10 negative return years, four years where it has fallen greater than -20% and six years where it underperformed the S&P500 by more than -20%."

In Charlie Munger's final interview he was asked an interesting question. If he and Warren Buffett were in their thirties starting over again today, did he think they could match their past investment success over the next sixty years? He answered this way. They were very intelligent, they worked very hard, and they were very lucky. But could they do it again? Probably not.

How many times in anyone's life is a person given the opportunity to check all three boxes, he mused. Mr. Buffett, half tongue-in-cheek, once suggested another reason in Berkshire Hathaway's 2022 Annual Report, "And, yes, it helps to start early and live into your 90s as well."

The right stuff

As an analyst at Chemical Bank, back during the Mesozoic era, one of my assignments was to follow our Chicago based trading clients. As I soon learned, staying on top of any trader's book was tough enough. But ascertaining their talent, discipline, and durability was exponentially more challenging. I pored over track records, history, context – statistics not stories, to rephrase psychologist Daniel Kahneman – and still wondered how the best ones did it.

Mr. Zweig's colleague at the WSJ, Spencer Jakab points out that it can take years, even decades to judge the good from the lucky. (Paradox of Skill, Brad Steiman, DFA). Aschenbrenner's sole claim to fame was a 165-page essay titled "Situational Awareness: The Decade Ahead," a paper he wrote in his early twenties.

Markets and economies eventually recover as do great investors like Warren and Charlie — the ones with patience and discipline. We'll see what Mr. Aschenbrenner learns from his debacle. He's still in business managing an estimated $10 billion in assets.

In the end, Charlie's right, it does indeed come down to character, along with brains, grit, and a little luck. As our go-to OCIO maven Jon Hirtle remarks time and again, "serious investors care deeply about keeping their promises." We couldn't agree more.

—Charles Skorina