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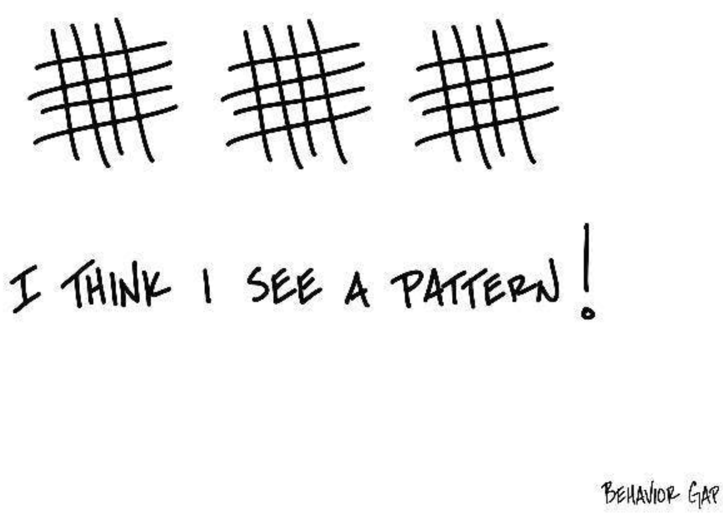
# The Only Investing Pattern That Matters is Behavioral

June 2021 | Prologue by Michael Bird, ASI Wealth Management

As financial professionals, we are frequently reading articles and watching webinars to stay educated and up to date on current events. From time to time, we will share with you content from sources we are consuming which we believe you may find valuable. The article below comes from Carl Richards at Behavior Gap and speaks to the desire to follow predictive analytics that may make sense on paper, but often do not play out favorably in reality.

Investing is a difficult game to play – not only is it technically complex, but it also has an emotional and behavioral component to it which provides additional depth. Oftentimes our emotions can lead us to make poor investment decisions if not appropriately controlled. Allow this to be a reminder to maintain discipline and patience – both of which can be difficult virtues to hold in investing.

*The article below is from the May 13, 2021 newsletter sent to Behavior Gap subscribers.*

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Humans are pattern-recognition machines. We see patterns everywhere! In fact, we're so good at recognizing patterns that we often see them where they don't even exist. This shows up frequently anywhere there are big bodies of data. And while well-intentioned, this is one of the big behavioral mistakes we make time and again in personal finance. We look for patterns. And guess what, they absolutely exist, right up until the point where you try to invest your money based on the pattern. Then *Poof!* they vanish into thin air.

One of my favorite examples of this was some research done by David J. Leinweber at Caltech. Apparently, he figured out how to predict the stock market using just three variables:
1- Butter production in the United States and Bangladesh.
2- Sheep populations in the United States and Bangladesh.
3- Cheese production in the United States.

This is amazing! Right?

It turns out these three variables predicted 99% of the stock market's movement!
#TimeToStartAHedgeFund.

There's only one problem: The joke's on us.

In our very human pursuit of patterns, we start seeing things that aren't really there. We think if something happened a certain way in the past, then it will surely continue into the future. We start to believe—we desperately want to believe—that this pattern will have predictive value. But it doesn't. And that's the thing about most patterns—they don't predict the future; they just describe the past.

While some of these silly data mining tricks might be interesting to talk about, they don't actually help us. Believe me, I've gone down the rabbit hole many times. For years, anytime someone approached me with this type of pattern, I would feel like I had found the Dead Sea Scrolls. But each time, the same thing happened. The pattern existed right up until it was time to invest… and then it didn't.

Now, when people approach me with this research—and it's always called "research"— promising to show me a new pattern in the data, I come back to them with a magic pattern of my own.
"It turns out," I tell them, "that the only pattern that will influence your investing success is your behavior."

- Can you break the pattern of buying high and selling low?
- Can you break the pattern of chasing after the next "big" investment?
- And perhaps most importantly, can you buy low-cost investments in a diversified portfolio based on your values and goals and then simply ignore it?

Now that's a pattern I can endorse.