

Context versus Conviction



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Whenever I get overwhelmed by the macro outlook I remind myself of the phrase: “Macro for Context, Micro for Conviction”.

Though a vast amount of time is spent on macro analysis, my sense is that the pursuit of investment returns (at least for an active equity manager) is best served through understanding the micro.

It’s a little like life.

We could waste endless time fretting about the state of humanity (the macro) while the quality of our life will largely be determined by the few good friends we make (the micro).

Irrespective of how troubling or uncertain the macro may be, we always retain the choice to patiently pick our spots.

Think of the macro environment as a variable game of ‘snakes & ladders’. At times the board will be infested with snakes. But why worry? An active investor doesn’t have to roll the dice. Simply avoiding the snakes is a winning strategy. Holding out for a long ladder (a good friend) is the way to play.

In a sense we are exploring an extreme version of the 80/20 principle which explains the tendency for a just a few key variables to be responsible for the lion’s share of results.

For every handful of micro realities that drive actual results, there are likely hundreds of inconsequential contextual macro considerations.

When it comes to allocating our time, I guess we should look to “notice the macro but know the micro”.