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Don't be afraid to be different and buck the markets

If you google March 2, 1962, you will be directed to several links to what many fans believe to be the greatest basketball game ever played.

The Philadelphia Warriors beat the New York Knicks in Hershey, Pennsylvania, by 169 to 147. The star of the Philadelphia Warriors, Wilt Chamberlain, scored 100 points; the most anyone has ever scored in a professional basketball game.

Chamberlain had been, in prior seasons, a horrendous free-throw shooter, but that night he made 87.5% of his shots (another record). He went on to produce a career-best 61% during the 1961-62 season and ended up averaging more than 50 points a game, a record unlikely ever to be broken.

The story of how Chamberlain went from being a terrible free-throw taker to record-setting is incredible. Rather than releasing the ball up by his forehead, as most players do, he held the ball between his knees and flicked it towards the basket from a crouch, often called a granny shot.

But what happens next is inexplicable. Chamberlain stops shooting underhanded and reverts to traditional foul shooting. His percentages plunged, reaching a career low of 38% a few seasons later. Despite the success he had using the granny shot, he later admitted that he felt "like a sissy" when he shot underhanded.

Malcolm Gladwell, in a brilliant podcast about Chamberlain, asks: why would a Hall of Famer reject a proven, simple solution to his most obvious flaw? The answer has far-reaching implications, not least in investment decision-making.

Gladwell draws on work from sociologist Mark Granovetter to explain this decision. Granovetter was trying to explain why people do things out of character. He refers to high-threshold versus low-threshold personalities. A high-threshold personality (like Chamberlain) needs a lot of people to do something to embrace it. He is more likely to allow a crowd to dictate his behaviour, while a low-threshold personality doesn't need the support, approval or company of others to do what they think is right. Granovetter uses riots to demonstrate his theory. He could easily have chosen fund management.

Fund management is notoriously difficult. One only has to look at the statistics of success. Based on the latest SPIVA (S&P indices versus active) data for the US, an incredible 88% of large cap fund managers failed to outperform the S&P 500 over the past five years. These are extremely unfavourable odds. There are many reasons posited for why this is so, but I think Granovetter's threshold model for conformity bears further analysis.

If nine out of 10 engineers tell you how to build a bridge, it's fair to assume that is the best way to build a bridge. Fund management isn't like that. It's a profession where consensus opinions are unhelpful and rarely deliver success. Social influence, an unwillingness to depart from the crowd, plays a role in the mass failure of market professionals to outperform the market.

It's hard to believe money managers are as wilfully blind to the consequences of poor decisions as Chamberlain, but the statistics bear this out. Equally so for individual investors. Capital markets are often praised as marvels of aggregation in which prices are set efficiently and without bias: but prices are not set by individuals acting independently. Just as we might choose a busy restaurant over a quiet one, we are motivated to act in a social way.

In its most innocuous form, conformism allows us to benefit from the valuable ideas of others. A more insidious form of it promotes herding in markets, which can lead to bubbles.

We all make bad choices for noble reasons. Not every decision is a winner. What's harder to condone is when people embrace the wrong decision even when they

have plenty of evidence that doing so is costly.

Jean-Claude Juncker once honestly observed: "We all know what to do, we just don't know how to get re-elected after we've done it." Fund managers also know what to do, but they don't know how to hold on to assets after doing it.

For individual investors, sage advice in relation to investment markets may often appear glib – seek advice, diversify, ignore short-term gyrations – but there's ample evidence to back up their efficacy.

Wilt Chamberlain chose to conform, and paid a clear price. The price we pay for conformity as investors is less obvious, though no less penal. We make enough mistakes by mistake: try to avoid making them on purpose.

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