The Art of Letting Go

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In many areas of life, intense activity and constant monitoring of results represent the path to success. In investment, that approach gets turned on its head.

The Chinese philosophy of Taoism has a word for it: “wuwei.” It literally means “non-doing.” In other words, the busier we are with our long-term investments and the more we tinker, the less likely we are to get good results.

That doesn’t mean, by the way, that we should do nothing whatsoever. But it does mean that the culture of “busyness” and chasing returns promoted by much of the financial services industry and media can work against our interests.

Investment is one area where constant activity and a sense of control are not well correlated. Look at the person who is forever monitoring his portfolio, who fitfully watches business TV, or who sits up at night looking for stock tips on social media.

Financial science and experience show that our investment efforts are best directed toward areas where we can make a difference and away from things we can’t control.

So we can’t control movements in the market. We can’t control news. We have no say over the headlines that threaten to distract us.

But each of us can control how much risk we take. We can diversify those risks across different assets, companies, sectors, and countries. We do have a say in the fees we pay. We can influence transaction costs. And we can exercise discipline when our emotional impulses threaten to blow us off-course.

These principles are so hard for people to absorb because the perception of investment promoted through financial media is geared around the short term, the recent past, the ephemeral, the narrowly focused and the quick fix.

We are told that if we put in more effort on the external factors, that if we pay closer attention to the day-to-day noise, we will get better results.

What’s more, we are programmed to focus on idiosyncratic risks—like glamor stocks—instead

of systematic risks, such as the degree to which our portfolios are tilted toward the broad dimensions of risk and return.

The consequence is that most individual investors earn poor long-term returns.

This is borne out each year in the analysis of investor behavior by research group Dalbar. In 20 years, up to 2012, for instance, Dalbar found the average US mutual fund investor underperformed the S&P 500 by nearly 4 percentage points a year.[1]

This documented difference between simple index returns and what investors receive is often due to individual behavior—in being insufficiently diversified, in chasing returns, in making bad timing decisions, and in trying to “beat” the market.

This type of individual behavior reinforces the ancient Chinese wisdom: “By letting it go, it all gets done. The world is won by those who let it go. But when you try and try, the world is beyond the winning.”

Diversification does not protect against loss in declining markets. It is not possible to invest in an index.

1. “Quantitative Analysis of Investor Behavior,” Dalbar, 2013.

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