

The Greatest Advantage of Being an Individual Investor

A lot has been written about the advantages individual investors have over professionals, especially the ability to invest in small companies. That is real. But I think the biggest opportunity is something else.

You don't have to conform to anybody else's expectations.

You don't have a tracking error budget or have to worry about the style box. You don't have to explain quarterly, monthly or even daily performance attribution. There aren't clients asking why you are underweight in a large sector, a consultant wondering why you don't own the latest hot stock or enough of it, or a committee questioning every trade.

While this sounds obvious, it is enormously powerful.

Professional investors are surrounded by people with different goals, incentives, and relationships with money. Even when nobody directly tells them what to do, what is expected of them is clear. A fund is expected to have specific characteristics and not stray too far from its benchmark.

One year of underperformance is understood, two years gets you on a watch list, and three years gets you fired. Even if you are doing the right things.

Over time, these pressures quietly shape behavior.

You start buying things because other investors own them. You worry about looking out of step. You focus on what the market is rewarding now. You feel pressure to remain fully invested. You spend a lot of time explaining why you are different.

The individual investor doesn't have to play this game. You can build your process around your unique perspective and experiences, whether that's spotting inflection points, finding undervalued assets, or identifying great businesses in obscure corners of the market.

Whatever your advantage is, nobody has to approve it.

This freedom also extends to how you spend your time.

A professional investor has to do things that have nothing to do with finding great investments. Meetings, conferences, investor calls, benchmark analysis, portfolio reviews, attribution reports, and countless other obligations can consume time without improving performance.

You can spend your morning on a hike or reading an annual report from a \$50 million company that nobody on Wall Street has reason to care about. You can do your research at the coffee shop, at your own pace. You can follow a company simply because you find it interesting.

There is no requirement that your process look professional.

It just needs to work for you.

This is one reason I think individual investors should be careful about trying to imitate professional investors. There is a natural tendency to assume that the people managing billions of dollars must have a better process.

They do have more connections and resources.

But they also have constraints that you don't have.

A manager will need to explain why a stock is down 30%. There will be pressure to capitulate and sell at the wrong time. If appropriate, you can just shrug.

You don't have to beat the S&P 500 every quarter. You don't have to outperform another manager. You don't have to gather assets. You don't have to make your portfolio look good in a presentation.

You can focus on the only thing that ultimately matters: making good decisions with your capital.

You don't have to chase what is popular or justify a decision to someone else.

In a world where most investors are constantly being pulled toward consensus, simply having the freedom to think independently is an enormous advantage.

Years ago, I heard a story about a man, let's call him Greg, who had done very well in the market and retired in Boca Raton. A friend invited him to an investment lunch where someone was pitching a fund. Greg said he had done much better himself and expected to keep doing so.

The fund manager tried to shut him down by asking what his Sharpe ratio was. Greg replied, "I don't know and I don't care. I made enough to retire in Boca." To him, that was the only measure that mattered, and there is a ton of wisdom in that.