# The Playing Field

Over the last decade, I've interviewed and assessed more than 5,000 investment managers. One of the most important things I've learned in that process is what separates the great investors from the rest. The great ones view investing as a game, and they know exactly what game they're playing. It brings to mind an observation from the philosopher Kwame Anthony Appiah:

*"In life the challenge is not so much to figure out how best to play the game; the challenge is to figure out what game you're playing."*

One great portfolio manager I know told the story of being driven somewhere by an analyst on a rainy night when a truck swerved and almost ran them off the road. "Why is stuff like this always happening to me?" the analyst instinctually responded. But to the portfolio manager, that response reflected a terrible mindset, whether on the road or in the market: a sense that the world is acting on you as opposed to your acting on the world. It is a mindset that is hard to change. But from what I've seen, great investors don't have it. Instead, they've come to understand which factors in the market they can control and which factors they cannot.

One way to relocate your locus of control is to frame investing (and even life more generally) as a game. This allows you to experience luck as luck, to separate the hand you drew from the playing of that hand. As David Milch, the creator of the HBO show *Deadwood*, put it, he realized late in life that "it's the way you learn to play the cards you've been dealt, rather than the hand itself, that determines the worth of your participation in the game."

For investors, I've come to think of five levels of the game:

1. Apprentice—learning the game

2. Expert—mastering the game you were taught

3. Professional—making the game you were taught fit your own strengths and weaknesses

4. Master—changing the game you play as part of your own self-expression and operating at scale

5. Steward—becoming part of the playing field itself and mentoring the next generation

**Level 1: Apprentice—Learning the Game**

Each year around 100,000 new college graduates apply for internships at investment banks. Around 10,000 get a spot. After three years of banking boot camp, roughly 4,000 of these analysts want to become investors. Add in some analysts from management consulting and accounting firms, plus a handful of lawyers, and you get around 6,000 talented candidates interviewing for buy-side positions. About one in six gets a seat. So imagine a new cohort of roughly 1,000 twenty-somethings joining 15,000 existing analysts and portfolio managers at hedge funds, and another 30,000 long-only investors.

This new cohort steps onto the field with some training in accounting and valuation, but each member is otherwise a blank slate. At this level, the most efficient way to learn the initial craft of investing is to find a mentor. This is what Robert Greene has called the "apprenticeship" stage, and the person you are apprenticed to is extremely impactful.

I have observed that people who begin on the sell-side or in mutual funds seem to retain that initial frame on how markets work for much of their careers. Years after working at Fidelity, an analyst will still refer to "sector rotation" as an explanation for why one set of stocks is ascendant, whereas someone who began their career at Goldman Sachs would never think of sector rotation as a useful concept. Learning how to model and value companies, to diligence and interview industry sources and management teams, and to identify, with the help of a mentor, the key drivers of a company or a stock.

**Level 2: Expert—Playing the Game You Were Taught**

The survivors of a reasonably difficult transition from analyst to senior analyst or portfolio manager reach the second level, usually in their late 20s or early

30s. The analyst moves from processing other people's research agendas to generating the ideas.

Many investors plateau at this level, particularly if they practice their craftoutside a "cognitively diverse" city like New York or London. They often have a somewhat static sense of identity, such as "I am a value investor like Warren Buffett." This puts them in competition with the index, playing a game that is defined entirely by their peers. By constructing their identity as an "expert" atinvesting in certain sectors or companies, they limit their ability to observe change in those areas.

Some Level 2 investors who are traders feel like impostors next to their more analytical peers. But over time some may come to see that filtering otherpeople's ideas represents an ability to identify key drivers of the game. This type of senior analyst can actually more easily become a portfolio manager who owns ideas through his analysts, while the more "analytic" senior analysts, who do their own deep research on each investment idea, are less able to build out a full portfolio.

While traders still need to train themselves to dig deeply, the essential skill isspotting the key drivers of a situation—seeing the underlying reality—not coming up with the raw analysis. Pride of authorship is an obstacle when it comes to making money.

Attrition at this level is high. Each year ten percent or more of this cohort either peels off into non-buy side roles (marketing or operations) or leaves the industry. The system sorts the more relationship-oriented "fast twitch" people into roles as dedicated traders or marketers.

### Level 3: Professional—Fitting the Game to Your Own Strengths and Weaknesses

Level 2 investors who evolve to Level 3 shed habits of imitation in favor of their own investment styles with their own idiosyncratic strengths. Many of the most successful portfolio managers of any age or tenure are at this stage.

At this level, an investor begins to consolidate multiple influences into a unique strategy, going beyond his or her original mentor. Warren Buffett may have been at this phase of his development in the 1980's when he said. "I'm now 15% Phil Fisher and 85% Ben Graham." He elaborated: "Charlie [Munger] shoved me in the direction of not just buying bargains, as Ben Graham had taught me…it took a powerful force to move me on from Graham's limiting view. It was the power of Charlie's mind, he expanded my horizons."

One game that is currently operative among many skilled investors is buying quality companies in the midst of short-term difficulties. When Rupert Murdoch was forced to split News Corporation into two after the phone-tapping scandal, its high-quality media assets were available at a discount—and smart investors grabbed them. The same playbook worked for Moody's as it struggled through lawsuits after the financial crisis.

But a game like this will likely work for several years, before it becomes such a common approach that these "quality" stocks will become less volatile during periods of stress (many high-quality consumer stocks in Asia currently seem immune to sell-offs based on macro uncertainty). So an investor who uses only one game will have less sustainable returns than those who reach the next stage: putting in the time develop new games even while playing the existing one.

The critical challenge for Level 3 investors is to find a way to be exposed to Level 4 investors. If their world consists of only Level 2 and 3, they may stay where they are for the rest of their careers.

An analogy from competitive swimming is useful here. The sociologist and coach Daniel Chambliss has observed that what he at first thought of as different levels of swimming are in fact different worlds:

*Beyond an initial improvement in strength, flexibility and feel, there is little increasing accumulation of speed through sheer volume of swimming. … instead, athletes move up to the top ranks through qualitative jumps:noticeable changes in their techniques, discipline, and attitude, are accomplished usually through a change in setting, e.g. working with a new coach, new friends, etc.who work at a higher level. What I have called "levels" are better described as "worlds" or "spheres."*

In the investing field, there are also sub-worlds. An analyst who apprentices and then achieves expertise or professionalism within a certain sphere might define what level of game is possible based on how his or her portfolio manager and peers' portfolio managers define "world class." But from a higher balcony one might view even excellent process and results as actually just the best at a given level.

Most managers take in capital in excess of what their game permits them to manage in a world-class way. Only someone with the confidence born of a long-time horizon can resist the urge to make more money in the short term while risking mediocrity in the medium term. It is only as managers transition into level 4, that their skills allow them to manage capital at scale.

**Level 4: Master—Changing the Game You Play**

TS Eliot observed that "only those who will risk going too far can possibly find out how far one can go." Getting to level 4 requires what one investor I admire calls a "belief in what's possible." The small minority of managers who reach this level are truly "absolute return"-oriented: they define success in terms of what they believe they can achieve over decades, not relative to what others are achieving at a given moment.

David Tepper is a good example. If you invested $1 million with Tepper when he opened his fund in 1993, it is worth well more than $150 million today.

Tepper appears to be using multiple mental models when he invests, choosing what works for a moment or context rather than being constrained by his historical role as a "distressed debt investor." If you monitor the 13F filings of the stocks he owns, he appears to move effortlessly across sectors and asset classes, scooping up dollars as he goes. You would have a difficult time deciding what benchmark or comparable fund to judge him against.

In my interactions with investors at this level, there are several attributes they seem to share:

**Open-minded with a point of view**

When we interact with a Level 4 investor, the dialogue is different from the traditional "pitch" or "update" we get from others. Harvard professor Bob Kegan has the best description of the mindset:

*People with self-transforming minds are not only advancing their agenda and design. They are also making space for the modification or expansion of their agenda or design. Rather than inquiring only within the frame of their design (seeking information that will advance their agenda), they are also inquiring about the design itself.They are seeking information that may lead them or their team to enhance, refine, or alter the original design.*

I see this "open-minded with a point of view" mindset reflected in the way someone grips his or her investment ideas or strategies. Lower level investors are sometimes surprisingly definitive in the way they describe an investment opportunity; they have a too tight grip.

When my partners and I connected one Level 3 manager who was long a stock to a Level 4 manager who was short it, the Level 3 manager viewed the conversation primarily as an occasion to convert the short seller to his point of view. His evangelical approach to the conversation meant that he failed to elicit a number of important data points from the short-seller. Even worse, he failed to take the opportunity to learn subtle elements of the other manager's research process that might be useful in his own short oriented research in the future.

Keeping score in dollars extracted from the market, rather than whether a piece of analysis was correct, is one of the most effective strategies for maintaining the optimal "grip" on your investment ideas. While any fixed identity may constrain someone's viewpoint, the identity of "I am great at making money" allows greater flexibility than "I am smart and therefore I make money" or "I am an expert at investing in financial stocks."

Level 4 investors seem, at one moment, to focus on the businesses themselves, then switch perspectives the next moment to see the business as a "stock," then switch again to identify the moments in time when one factor is driving the entire stock market.

Robert Greene notes that the “Master” is observing not just “the moves of the pieces on the chessboard but the entire game, involving the psychologies of the players, their strategies in real time, their past experiences influencing the present, the comfort of the chairs they are sitting in, how their energies affect each other—in a word, everything that comes into play, all at once.”

Sometimes the ability to shift perspective involves an empathetic mindset.

Paul Tudor Jones has described how in 1990 he was able to put himself in the shoes of a typical Japanese fund manager under intense pressure to return at least 8% a year. When the market corrected by 4% that January, Jones’ empathy helped him realize that the fund managers would be risking their jobs to double down; he was thus able to predict, correctly, that they would shift to bonds and the stock market would continue to sell off.

Level 4 investors relate to other market participants, their employees, and their investors as chess pieces in a game of their own invention, a game that is “for” them.

**Relationship to time**

Level 4 investors display the full range of urgency and patience, of aggression and conservatism, of trying to make money now but also knowing they will be investing for decades. They adapt their tempo to the pace of the market and decide how and whether to position themselves based on whether they “see the ball” at that moment.

You can gauge this orientation toward time by how an investor thinks of success: is it primarily in terms of an internal rate of return or as a multiple of money? Analysts often begin with a MOM mindset—success is doubling their money on an investment over any time horizon. But skilled portfolio managers have at times a sense of urgency—they want to pull that time horizon forward as much as possible—and at times a sense of patience—they wait to participate until the moment of sharpest appreciation (or decline) in a given security.

An investor’s relationship to time also influences how he or she views periods of recovery or quiet. Good investment management comes from a mindset reflecting the assumption that the manager will be investing for decades, but that investment activity is as a series of sprints and recoveries rather than one extended marathon. As Lenin once said: “There are decades where nothing happens; and there are weeks where decades happen.” The tempo of a strong investment culture is in sync with the reality of long periods of inactivity.There is often a shared mood that the game is afoot, but not a rushed feeling to do something based on fear or greed. Then, when the moment is right, top investors are startlingly aggressive.

**Relationship to risk**

Sometimes an investor’s vocabulary reflects a desire to expand what is possible around risk taking. Stan Druckenmiller said once, “There is a phrase on Wall Street that I think is completely wrong: bulls make money, bears make money, and pigs get slaughtered. It takes courage to be a pig, but you want to be a pig with discipline. Three or four times a year you have conviction, and it is when your conviction is high that you have to bet big.”

Investing ultimately requires a nuanced relationship to fear and greed. As investors mature, they can sometimes push those emotions into conscious awareness and manage them better.

David Tepper notes, “We’re value-oriented and performance-based like a lot of funds. But I think what differentiates us is that we’re not afraid of the downside of different situations when we’ve done the analysis. Some other people are very afraid of losing money, which keeps them from making money.” In my experience, Level 4 investors are more tolerant of risk than other market participants.

This greater risk tolerance may come in part from the fact that the Level 4 investor does not view his identity as at risk in a given investment, and instead sees interacting with the markets as an occasion for rapid feedback on his own development. The philosopher Paul Tillich defines power as “the drive of everything living to realize itself, with increasing intensity and extensity.”

The Level 4 investors I have met have an unusual intensity and see their interactions with the market to more fully realize themselves. This sense of equanimity and a certain fearlessness—a form of wisdom—that emanatesfrom a Level 4 investor is perhaps what the markets are recognizing as they hang on the every word of David Tepper.

**Level 5: Steward—Becoming Part of the Game Itself**

Level 5 investors have achieved a mastery at investing, and a level of financial success, that allows them to turn some of their attention to taking care of the playing field itself. They may have preferred to keep a lower profile in earlier stages, but have since become willing to influence those outside their immediate orbit, including by acting as role models and mentoring younger players. They have begun exploring how they relate to the system itself—and how their actions help shape it.

There are very few Level 5 investors, but Warren Buffet is certainly among them. Buffett has steadily increased his public presence over the last several decades and he was even more present in the media than usual during the 2008 financial crisis. He regularly went on CNBC and Charlie Rose to try to calm market participants and encourage Congress to act on fiscal stimulus. He used metaphors designed to appeal to a broad swath of the public, in the hope of building support for congressional action: "Look, the patient is undergoing cardiac arrest right now and the first thing we have to do is to stabilize the patient." His authority had reached a level that allowed him to take responsibility for the system itself—to assert our collective reality, operating in an entirely different realm from the participant who preferred to remain at his desk shorting financial stocks.

Buffett has also waded into the more philosophical end of discussions of income distribution, offering an elegant parable that makes John Rawls' veil of ignorance accessible to financial-market participants:

*"It's 24 hours before your birth, and a genie appears to you. He tells you that you can set the rules for the world you're about to enter—economic, social, political—the whole enchilada. Sounds great, right? What's the catch?*
*"Before you enter the world, you will pick one ball from a barrel of 6.8 billion (the number of people on the planet). That ball will determine your gender, race, nationality, natural abilities, and health—whether you are born rich or*

*poor, sick or able-bodied, brilliant or below average, American or Zimbabwean.“This is what I call the ovarian lottery. You’re going to get one ball out of there, and that is the most important thing that’s ever going to happen to you in your life. That’s a good perspective to have when setting the rules for our world.“We should be designing a society that doesn’t leave behind someone who accidentally got the wrong ball and is not well-wired for this particular system.”*

No matter what ball you got in the ovarian lottery, what card you were dealt, what game you are playing or think you’re playing, I think it’s useful—even for those of us who aren’t masters—to occasionally zoom out for a bird’s eye view of the playing field.

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