

It's Better to be Lucky and Stupid in Investments

By KeeWee TAN
April 25, 2020



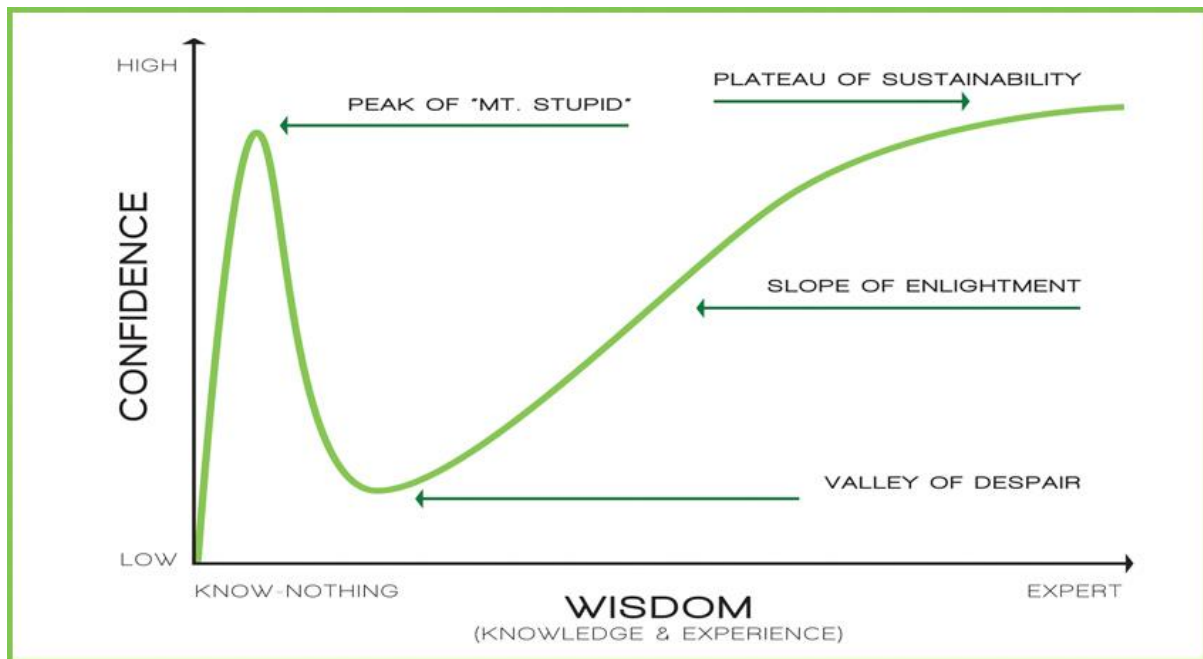
Lieutenant Dan and Forrest Gump made a fortune in the shrimp industry.

It's always dangerous for new investors to make too much money too soon. Why? It's simply because when success comes early, it normally gives the new investors false confidence that they are better than they think they are.

Sometimes, it is better to be lucky and to think that you are stupid.

After Forrest Gump and Lieutenant Dan (from the movie) sold off their shrimp business for a small fortune in the mid-1970s, they reinvested their money in what Forrest Gump thought was a fruit company – Apple Inc.

Assuming they put in US\$100,000 into Apple, when it was looking for venture capital funds, that would be about 3% of the company. Today Apple Inc is valued at US\$1.238 trillion. Their share of Apple would be worth US\$37 billion.



People suffering from the Dunning-Kruger Effect have low abilities and they also overestimate their abilities (Peak of Mt Stupid) as shown in the diagram above.

Two psychologists (David Dunning and Justin Kruger) published this Effect in 1999 after a weird incident involving a serial bank robber by the name of McArthur Wheeler.

Apparently, Wheeler thought that by covering his face with lemon juice, the banks' surveillance cameras would not be able to identify him. He read somewhere that lemon juice rendered his face invisible. When he was subsequently arrested, and very easily, he was shocked that what he read about lemon juice didn't work.

The reverse of the Dunning-Kruger Effect is also food for thought. People who have some knowledge usually lack confidence (Valley of Despair). But with even more abilities (knowledge and experience), the confidence of these people with abilities would grow (Slope of Enlightenment).

It's probably unfair to single out President Trump as an example. There are many unknown reasons. But as a high official with all the advisors at his beck and call, why not check with them? Perhaps, like most politicians, they surround themselves with yes-men. And yes-men will never say "No".

ooo000ooo