

### *Rick Barry and Lewis Carroll*

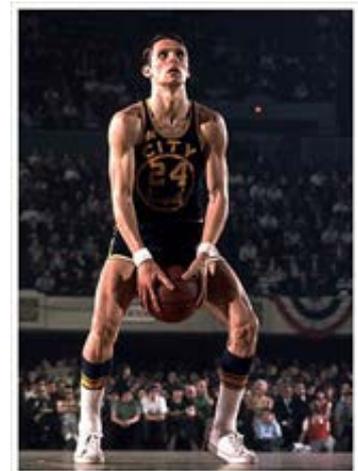
The goal of our business, very simply, is to generate excess returns for our investors without taking commensurate risks. If you take a step back and think about it, another way of stating this is to say this: over time, we hope to generate returns that are well above the average returns of the market, and demonstrably above the average returns of our peers in the same business. In order to achieve these excess returns, we not only need to be right, we need to be willing to be wrong.

The latter is an unnatural skill, and requires a conscious effort to develop.

Our view is that the willingness to be wrong is the key ingredient in the alpha recipe. Mr Market likes to hug benchmarks, hire IBM, and shoot free throws overhanded – because there is so little downside to doing so.

For those of you born after 1980 (or in England at any time), Rick Barry was an American basketball player. He went to the University of Miami, and as a college senior led the NCAA in scoring with a 37.4 points-per-game average. He then went on to a professional career where he was NBA Rookie-of-the-Year, led the league in scoring the following year, became a four-time ABA All-Star, an eight-time NBA All-Star, and was eventually named in 1996 as one of the 50 greatest players in NBA history.

There was one thing very peculiar about Rick. One thing that was very different from his peers, one thing that was extremely embarrassing when he got things wrong. Rick liked to shoot his free-throws underhanded. Or as we say in Indiana, he shot his free-throws “granny-style”. When the 6’7” forward missed his granny-style free-throw, people jeered, ridiculed him, and carried on like he was a circus clown. And about 10% of the time, he really looked like a clown. The other 90% of the time, Rick made his free-throws. Today, Rick is 73 years old and is (still) the fourth best free-throw shooter in the entire history of the NBA, and the very best in the history of the ABA.<sup>1</sup>



*'But I don't want to go among the mad people' said Alice.*

### **But The Consensus Trade is to Be a Contrarian Investor, Right?**

It's certainly very “consensus” to say that you are a contrarian investor. And of course it is just as impossible for us all to be contrarians as it is for all of us to be better-than-average drivers, or to generate better-than-average stock returns. Moreover, before wasting time sliding down Lewis Carroll's rabbit hole where we try to be contrarian to the contrarians who are contrarian; we simply need to recognize that there is a big difference between *thinking* non-consensus and *acting* non-consensus. But even if we get both those things right, we still must advance with caution. Going against the grain for the sake of going against the grain isn't going to get us anywhere in the long run. As Humphrey Neill wrote in 1954, “be contrary to opinion, not fact”.<sup>2</sup>

Merely taking what you believe to be the opposite view of the market is just as likely to tilt the risk/reward equation the wrong way as the right way. You must only advance when you have the advantage. Sun Tzu had it right (and I am paraphrasing) “if your opponent is temperamental, seek to irritate him...and attack him when he is unprepared”. Our enemy is Mr Market. Against him, investors need to engage to fight, and should strive to win more battles than they lose. If you aren't willing to commit to the necessary sacrifices over many battles, you might as well not go to war in the first place.

<sup>1</sup> Mark Price (.9039) and Steve Nash (.9043), and the amazing Steph Curry (.9010) are now ahead of Barry. Curry is still active. For an excellent video about the unconventional underhanded free-throw, we recommend <http://www.sportsonearth.com/video/v31664817/the-rise-and-fall-of-the-underhand-free-throw>

<sup>2</sup> *The Art of Contrary Thinking*, Humphrey B. Neill, Caxton Press, 1954

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