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With the sun setting over The Hundred Acre Wood, Winnie-the-Pooh and Christopher Robin perch themselves on the branch of a beech tree at the top of a hill. They are deep in conversation about their day together:

Christopher Robin: “Pooh Bear, there's one thing we didn't do today.”

Pooh: “And what thing might that be?”

Christopher Robin: “Mm, nothing.”

Pooh: “Nothing? Christopher Robin, what exactly is "doing nothing"?”

Christopher Robin: “Well, I'm told it means going along, listening to all the things you can't hear and not bothering.”

The need to do something, rather than nothing, is a trait we all share. Perhaps to pick action over inaction lies deep within our evolutionary development, with the former favouring survival in the gene pool over the latter. As is often the case, our behavioural biases can lead us astray in the modern age. Investing is a case in point.

Analysis by Reuters found that in the 1950s, a typical investor would buy shares in a company and hold them, on average for eight years[1]. That has fallen to just six months, with an acceleration of the trend downwards since the 1980s. While the technological revolution at the end of the 20th century has changed our lives for the good in many ways, the instantaneous access to every conceivable piece of news relating to financial markets, economic conditions, and geopolitical events, seems to have swept investors into a whirlwind of activity.

On Good Friday of 1930, BBC Radio’s 15-minute news segment contained two items; the first was the news announcer stating, “There is no news”, followed by the second item, a piece of piano music for the remaining time[2]. While over 90 years have passed since then, it feels outlandish to suggest there are now newsworthy events taking place at a frequency to fill every waking minute. A correlation seems to exist between the patience of investors and access to information.

“Doing nothing” and “not bothering” at first glance, feel negative and fatalistic. “Doing something” implies a positive decision with greater control, and we see this action bias manifest itself all the time. A 2007 study[3] by the Ben-Gurion University of the Negev analysed 286 penalty kicks in professional football, finding goalkeepers decided to jump right or left 94% of the time, when in fact, 29% of penalties were kicked at the centre of the goal. It is much easier for a goalkeeper to explain away a conceded goal through action rather than inaction. By jumping right or left, they can at least say they did something. Telling thousands of angry supporters you stood a better chance of saving the penalty by standing fixed in the centre of the goal is a much more challenging task. The world is bias to “doing something” over “doing nothing”.

There are clearly moments in time when action in investing is the best choice, but I view these as much less frequent than the modern world would have you believe. Instead, “doing nothing” is often the best course of action you can take. A 2015 study[4] by Martijn Cremers found that the best performing investment managers were those that had a combination of high active share and a longer-term holding period for their average stock selections. As Warren Buffett said, “Lethargy bordering on sloth remains the cornerstone of our investment style”. So, the next time you feel the urge to action because of breaking central bank news or a quarterly earnings update, hum this song “busy doing nothing”[5] and be more like Winnie the Pooh.

Sources:
1 https://www.visualcapitalist.com/the-decline-of-long-term-investing/
2 https://www.bbc.com/news/entertainment-arts-39633603
3 Bar-Eli, Michael, Ofer H. Azar, Ilana Ritov, Yael Keidar-Levin, and Galit Schein (2007), "Action Bias among Elite Soccer Goalkeepers: The Case of Penalty Kicks," Journal of Economic Psychology, 28(5), pp. 606-621
4 Cremers, K. J. Martijn and Pareek, Ankur, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently (1 December 2015). Journal of Financial Economics (JFE)
5 https://www.youtube.com/watch?v=zFcxO5_eYYU

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