Why Intuition is Essential for Investing Success

“A ... reason why science cannot replace judgment is the behavior of financial markets.”

—MARTIN FELDSTEIN
Professor of Economics at Harvard University, president emeritus of the National Bureau of Economic Research, and American conservative

In Chapter Two I discuss the very most important skill of an investor—understanding information. Next I go into detail about why intuition, not factual analysis, is the real source of investment success. Additionally I review the two primary sources of information that investors use when evaluating investments: numbers and words. Both numbers and words have strengths and weaknesses as limited approximations of investment information. Because of these limitations investors need an alternative source of information. In this case, the right brain and its powers of creativity and intuition robustly help to fill in the gaps left by numbers and words. The chapter concludes with self-assessments and exercises designed to give you real world experience.

The Most Important Investment Skill

The most important investment skill is understanding information.

This is because information is the basis for investment evaluation and investment decisions. Understanding information well equips investors to recognize when they don’t have enough information; to rapidly sift through unimportant information; to see what other investors miss; to more artfully
respond to crisis or panic as it affects investments; to properly evaluate the management team of a business to know when it is time to either buy or sell an investment; to uncover hidden risks; to avoid herd mentality. It's quite simple really:

- Having bad information ≠ bad investment choices.
- Having good information ≠ good investment choices.
- Understanding bad information = avoiding bad investment choices.
- Understanding good information = good investment choices.

Just because you have bad information does not necessarily mean that you make a bad investment choice, because you may get lucky. Likewise, having good information does not necessarily result in good investment choices either. If you don't understand that the investment information you have is good, you may fail to act on the information. However, understanding bad investment information does result in the avoidance of a bad investment choice. The preservation of investment capital is a positive outcome. Likewise, understanding good investment information does lead to good investment choices. The appreciation of investment capital is also a positive outcome. The basis for successful investment is that investors must understand information. This interconnection of the investor (i.e., understanding) with the information landscape (i.e., information) is critical and the subject of the remainder of this book.

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**Investing Is As Much About Intuition As It Is Analysis**

Understanding information is the most important investment skill. But unfortunately, most investors suffer from the opposite situation: a misunderstanding of information. Specifically, one of the most important of all investing secrets is that:

*There is no such thing as a future fact.*

In the future, events will occur that will become new facts, but there is no such thing as a future fact. Facts only absolutely answer questions about the past—they only pertain to the past. And the future is unknowable. Thus, which future facts will be important is also unknowable. Yet, investing is an activity whose results unfold in the future. You try to capture future
benefit, traditionally income and/or capital gains, from your investments. But whether or not the fruits of investing are available for you to harvest is unknowable ahead of time. Future benefits realized from an investment are contingent on investment performance and the facts of that performance are unknowable ahead of time. Facts are unknowable ahead of time. What are the consequences of this fact?

Your choices, such as purchasing an investment, are always *emotional* acts, even if facts are involved in assessing your choices. This is because it is your choice to *trust* that past facts are likely to repeat themselves as the future unfolds.

**Therefore, the act of making an investment is actually an emotional act.**

What all of this means is that investing is as much a soft, emotional, subjective, creative, feeling, substantive, organic, right-brained process, as it is a hard, factual, objective, analytical, thinking, structured, linear, left-brained process.

Yet the left brain is massively over-emphasized as the source for excellent investment returns. This is important because the world of investing is a vast, non-linear experience, yet the tool that we primarily use to analyze investments is the limited, linear left brain. It is likely you have spent most of your life educating and training the left brain to make effective decisions. I am assuming you went to school to learn how to think; not to learn how to *feel*. So cultivating your right brain so that it is equal in its capacities with the left brain is one of the secrets of investing success.

Like anything, the left brain has both strengths and limitations. Our analytical brains are excellent when dealing with questions where there is a definitive answer. In investing it answers very well questions such as last year’s profitability, company A’s return on invested capital relative to company B’s, the percentage of a firm’s sales that are international, etc. The left brain is also good at helping to understand linear problems. For example, mathematically calculating the compound annual growth rate of a stock over the course of five years is a problem answered well by the left brain.

Most of what is considered *information* is conveyed in a linear fashion and the two primary tools used to convey experiences are numbers and words. Importantly, there are other means of conveying experiences, including expressing feelings through music, painting, sculpture, architecture, use of color, dance, etc. But for now the focus is on the two most conventional descriptions of experience.
“You may learn all about the sun, 
all about the atmosphere, all about the rotation of the earth, 
and still miss the radiance of the sunset.”
—ALFRED NORTH WHITEHEAD, 
English mathematician and philosopher

Moving Beyond Conventional Descriptions of Our World

As mentioned previously, the two most common tools for describing and expressing the world around you are numbers and words. Numbers are made understandable and powerful by mathematics, whereas words are made understandable and powerful by language. Mathematics and language provide the structure and ordering principles for numbers and words so that your left brain can make sense of the information that numbers and words are trying to describe. Notice the use of the word *structure*. Structure is essential if you want to “speak the language” of your left brain. These two elegant descriptions of the world, numbers with mathematics, and words with language, are analogous to one another.

Advantages of Numbers

*Naming*
Sometimes numbers are used to name things, such as in their use as Social Security numbers, the chapters of a book, and patent numbers.

*Measuring*
Investors are interested in numbers mostly in their measuring role because this is their primary role in conveying investment information to you, the investor. Examples of this information include revenues, profits, interest rates, currency exchange rates, units sold and people hired. More specifically, when you look at a company’s income statement (aka profit and loss statement) you will see entries such as “net sales” or “net income.” Those numbers are absolute. The number is either $213.7 million or it isn’t. Numbers are less ambiguous than words when measurement is called for. The only mathematics involved in recording and reporting $213.7 million is counting.
Comparisons
Because of their unambiguous ability to quantify, numbers are very effective for making comparisons between disparate pieces of information. For example, you can easily compare the total profits of a business with the total profits of its competitors. This is a task that is very difficult to do with words. Without numbers you are forced to say something like, “The profits of the ABC Company are larger than those of the XYZ Company.” What if you want more depth to the answer and you ask of your words a follow-up question: “What makes you so certain of that?” Without numbers the answer is ambiguous: “Well I just have a feeling that the profits are better, because the ABC Company is able to afford a better office space and its office furniture is better and its employees seem happier.” Without numbers you are forced to look for indirect or circumstantial evidence that the ABC Company’s profits are superior to its competitor, the XYZ Company.

Mathematics: The Machinery
By contrast to the measuring and comparing function of numbers, the growth rate of a company’s sales over the past five years is not pure, raw data. Instead an artificial mechanism, mathematics, is used to generate this piece of information. The machinery in this case is a calculation that makes use of the mathematics of calculus (don’t be scared, this is not a math book).

As previously stated, mathematics, its calculations and its mechanisms are ways of describing the world around you. However, mathematics is NOT reality. Instead, it is a method, way, or philosophy for describing reality. The same is true for words, isn’t it? The words that describe the love you feel for someone are NOT the same as the feeling, are they? Your descriptions of things are ALWAYS going to be an approximation of reality and not the reality itself. This is important to know because often decisions that are mathematically derived have the imprimatur/smell/taste/feel/look/sound of fact, when in fact the answers of mathematics are at best theories that approximate reality. In particular, despite the fact that mathematicians study non-linear mathematics, most people know only about the mathematics where the answers are certain, such as geometry, algebra, trigonometry and calculus. But even non-linear mathematics has a difficult time describing particular aspects of life that everyone probably considers to be essential to life experience.
Disadvantages of Numbers

Qualitative Assessment
Numbers are not good at describing feelings or sensations or preferences. Imagine if you asked someone, “How much do you care for me?” and they responded, “17!” OK, whatever that means. True, they could have more effectively answered, “On a scale of 1 to 10, I would rate my caring for you a 7.5.” Here they are conveying a greater amount of information than before because they are invoking the comparative power of numbers. However, the person that you are talking with still did not give you a sense of what makes them care for you. At best they gave you a sense of how much they care for you. Furthermore, for this comparison to work then both parties must agree on the meaning of the scale, or on the point of comparison. In other words, 7.5 relates to what consensual understanding of a 10 on an overall scale? If the two people have a different understanding of 10 or 0 then the information conveyed is still ambiguous and words are likely needed to lend greater meaning to the comparison. Numbers are bad at this kind of thing.

Advantages of Words

Distillation of Experiences
Most peoples’ lives are filled with many complex, multi-dimensional experiences that often overwhelm them. One of the tools used to make sense of these experiences is the distillation of experience into words. This puts experiences into a form that the linear, left brain can more easily examine. Additionally, words put experiences into a form that can be shared with other people. For most people, without words, the communication of experiences is very difficult.

Greater Qualitative Precision
Words, when organized by language, allow you to get very complex in your understanding of, and communicating about, qualitative experiences. That is, words allow you to focus your thought energy very specifically. So, one of the primary strengths of words is greater precision than numbers when describing a qualitative event, such as the nature of the CEO of a business. Words also aid in your understanding of an experience and in your sharing of experiences with someone else. Because the understanding of individual words is often very different, words are combined together into sentences so that there is greater assurance that there is a shared understanding. This, however, is also why learning that focuses on words takes so long. Everyone
tries to get on the “same page” as to the meaning of all of the words so that there is a mutual understanding about ideas and experiences.

**Evocation**

When you understand the true meaning of words then you can direct your consciousness toward those words, recall them from memory, and re-experience their profundity all over again. For example, if I say the word “mother,” even without context, it is evocative. Words also allow different people to focus energy in a similar fashion so that understanding is possible without having had direct experience of the same thing.

**Disadvantages of Words**

**Interpretation**

Even when experiences are described well, words leave the understanding of information open to nearly infinite interpretation; whereas numbers are more absolute—5 is 5 no matter where you are on Earth. This interpretation problem adds noise to an investor’s understanding of information. Not coincidentally, obscuring the understanding of information (for example, by lying) is easier with words than it is with numbers.

**Linear**

Sentences are linear and word order is important. Yes, sentences can be written in many different ways to convey the same information. However, once you start expanding on a topic and sentence builds upon sentence the order of the information becomes increasingly important. Can you read a novel backwards? And I don’t mean simply looking at the last chapter to know whodunit. I mean can you read each and every word, starting with the last word of a novel, backwards? Obviously that’s absurd and all of the meaning would be lost. In this way, words are just as limited as numbers in describing experiences. This is because they rely upon linearity for understanding information from what is a non-linear, organic, multi-dimensional world.

**Approximations of Experience**

Even though most of us can be moved emotionally more by words than numbers, words are still just an approximation of experience. Words are used to describe experiences, but they are not the experience. Have you ever felt something so difficult to describe that you say, “There just aren’t words for it?” Your experience of the world is greater than the ability of words to
describe it. Alternatively, have you ever spoken with someone whose native tongue is not English and she says something like, “There is no word for it in English?” Just because there is not a word to describe something does not mean that it does not exist. Likewise, just because there is not a scientific theory to describe something does not mean that it does not exist.

LIMITED TO FAILURE
Numbers and words are both limited in the same critical way: they are narrow, linear approximations of the vast, non-linear reality. Investment opportunities are also vast and non-linear. So can you imagine evaluating a prospective investment based solely on information described by words? While this may seem more imaginable to you than making an investment decision using just numbers, using only words provides an equally incomplete picture of a prospective investment. Yes, combining numbers with words results in a fuller understanding of investments; but this combination still results in a limited understanding of the information of a prospective investment. This is because the combination still predominately utilizes only one-half of your brain’s capabilities—the left brain. Ultimately, use of just numbers and words is too limited for investment success. What is needed is a way of experiencing the world that is more in harmony with the actual vast, non-linear world. Such a tool would lead to greater understanding of information and greater investment success.

Your Natural Intuitive Tool, the Right Brain

YOUR SOURCE FOR SUCCESS: THE RIGHT BRAIN
Given that your experience of the world is beyond the descriptive power of numbers and words, it is also beyond your left brain’s ability to fully comprehend it. Yet the human mind is in fact well-equipped to deal with the organic, multi-dimensional, non-linear, and unseen aspects of reality. In my years of successful experience as a professional investor it is the use of the right brain where most of the real money is to be made. This isn’t because the right brain is superior to the left brain. It is because most investors overlook the power of their right brain to solve investment problems and to provide them with actionable information. So shouldn’t you as an intelligent investor explore the very real possibilities, and sometime limitations, of your right brain? Who doesn’t want additional and
powerful tools for improving investment returns? Best of all, these natural tools already reside in your right brain; you just need to learn how to access them more regularly.

**WHAT IS THE RIGHT BRAIN?**

The right brain is a resource for understanding the organic, interconnected, multi-dimensional world that you live in. It is also a part of everyone’s natural abilities, even if hardly ever used consciously by most. The right brain excels at connecting into and experiencing the vast, interconnected universe. It also does a nice job of creating the linkages between knowledge and fresh intuition to develop new solutions to problems. The right brain also does a good job of serving as a bridge between intuitive insight and the analytical structuring that turns intuition into money. If numbers and words are the currency of the left brain, then *feelings* are the currency of the right brain.
FEELINGS, NOT EMOTIONAL RESPONSES, ARE THE KEY TO THE RIGHT BRAIN

The key to tapping your right brain and its creative, intuitive, and wealth-manifesting powers is to understand its currency, which are feelings. Feelings are the actual physical sensations you receive as information when you use your five senses. But feelings also are the sensations you receive as information from your intuition. Each person has, what I will call, a feeling-self that allows one to attune to extremely subtle, non-sensory information. People are in tune with this aspect of themselves when they are walking down the street and encounter someone that “just does not feel right,” or when you get a sudden inspiration about what to do next in your life that “feels right.”

Some would call the feeling-self an empathetic state. In an empathetic state you literally take on the same condition of that with which you are empathizing. Thus, when the feeling-self is predominant you can be easily hurt by emotional situations. In my opinion, the ego bodyguards the feeling self by creating behavioral defenses that are designed to be on the look out for potentially hurtful situations that can easily damage this sensitive core. In other words, the ego is the part of the psychic apparatus that reacts to experiences. So the ego is useful. However, if the ego is in operation unconsciously it cuts us off from our feeling-selves with emotional barriers.

It is the feeling-self that receives intuitive information: In investing this could be the character of the management team in charge of a business, the essential timing of an investment purchase or sale, or the future prospects for a company’s products.

Emotional responses are the same feeling-sensations received earlier but with the added content of prejudice. In other words, feelings are clear signals perceived, but are complicated by distorted signals because of the added static of prejudice. Feelings are clear, but the emotions or emotional response become cloudy. Prejudice happens when we take the extra step of assigning preference to our experience of something. An example will help to illustrate the critically important distinction between clear feeling-sensations and clouded emotional response.

Say the weather outside is cloudy and temperatures are lower than normal. Your senses provide you with all sorts of infor-

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6Note: this contravenes most standard meditative and/or spiritual practice. But to deny the ego’s existence is to set oneself apart from it, which simply results in additional duality and, more egoic constructs.
mation about the weather. Your eyes see diminished amounts of sunlight due to the clouds. Sound travels differently on lower temperature, cloudy days. Your skin communicates information about the temperature to you. The moisture in the air due to the clouds leads to a different taste and smell for the oxygen you breathe. Your intuition suggests that you will be fine if you go out for a hike. All of this, however, is just information. But what happens if you have a negative thought about the day’s weather and think or say, “I hate hiking on dreary days?” You turn the feeling-sensations which were simple, clear, pure information into an emotional response by adding your preference for warmer days. Isn't it also possible that another person having the identical feeling-sensations actually likes, and is excited by lower temperature and cloudy days?

Importantly, both people, even the one who prefers cloudy days, turn the information conveyed by their feeling-senses, including intuition, into an emotional response. This occurs because both people choose to respond in a prejudiced way to a feeling received, in a pure and authentic form, via their feeling natures. For isn’t it possible that the person who hates hiking on dreary days will actually have a fantastic time? Isn’t it also possible that the person who likes hiking on dreary days will have a miserable time?

Most significant was that the most important piece of data that either prospective hiker received was the information from their intuition: you will be fine if you go out for a hike. This is because the right brain excels at analysis of the multi-dimensional world. The right-brain’s intuition gives a clear signal, in the form of feelings, of likely outcome.

Here is an example of intuition as applied (or not) from my career as an investor. This was the situation circa 2003:

The legendary and largest insurance company in the world, AIG, is headed up by the more legendary and larger, Maurice “Hank” Greenberg. Hank has been the CEO of AIG for decades and runs it as an independent nation state. I am very impressed with its continued ability to underwrite insurance policies resulting in an excellent “combined ratio.” This ratio is basically an insurance company’s cost of providing insurance.

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So to make money in the long-run your “combined ratio” needs to be less than 100% of revenues. All of the analytical measures of AIG look, and always look, wonderful. Not only that but also the stock is trading at a discount. But what about management? Hank Greenberg is a management legend; albeit very gruff. My intuition tells me that something is fishy with AIG. In fact, my co-manager Andrew Davis and I have several conversations about Greenberg’s gruffness and arrogance. AIG’s CEO reminds me of a little, constantly agitated, Napoleon. However, the annual business performance is always outstanding.

Unfortunately, for my shareholders I don’t act on my intuition. Investors began selling off AIG due to mounting suspicions of deep malfeasance as it becomes public knowledge that Hank Greenberg and other executives have created a secret compensation club within the company that defied regulatory scrutiny and defied upper management.

I didn’t honor the clear and potent information provided to me by my feeling-self/intuition because I thought I must be wrong. After all, who was I to question Hank Greenberg who was THE scion of the insurance industry? In other words, I let my thought-based prejudices of the situation get in the way of my intuitive insight and unfortunately my decision lost a lot of money for my shareholders.

Pure feelings are delivered to you by your senses, including intuition, and only become emotional responses and part of your ego when you add judgments and preferences. I believed the extant analysis about Hank Greenberg that he was a management legend above reproach and preferred to believe everybody else about him and AIG, rather than my own intuition—this was not a real assessment, but was my buying into prejudice. Consequently, my ego got in the way of my feeling-self and prevented me from making the correct decision for my shareholders.

So the secret to tapping into your intuition is to strip away the noise of our emotions to get at the clear, true signal of the feeling-sense that intuition provides. This subject is covered in detail in chapter twelve, but along the way I will be laying the essential groundwork to help you become an Intuitive Investor.
In truth, the right brain and the left brain are equal in importance. The goal is to strive to make your right brain the equal of your left brain: to let it become a critically important part of your complete investment repertoire. The sum of the two distinct aspects of your brain is greater than the sum of its parts. When the two halves are functioning in concert it results in a synergistic display of intelligent and prudent investment decisions whose results can be fantastic. Yet if you use a grand cosmic scale to weigh the amount of literature dedicated to the analytical aspects of your mind relative to the creative/intuitive aspects of your mind, I am certain a gross imbalance will occur in favor of the analytical. After all, most of you have heard of “financial analysts,” but how many of you have heard of “financial intuitionists?” So there is some catching up to do.

The Intuitive Investor and You: Self-Assessment

Here are some questions to ask yourself to engage your mind and to help you reflect on how you approach investing.

Consider how your understanding of information affects your investment decisions. Have you lost money by not understanding a critical piece of information? Are you overwhelmed by information and uncertain of how to make sense of it all? When has understanding information worked to your advantage? What are your primary sources of investment information? How do you interact with this information—do you take it as gospel, or do you have a questioning attitude about it?

What proportion of your investment decision making relies upon facts? Have facts ever definitively answered an investment question for you? If so, what led to you trusting those facts? Have you ever lost money on an investment because facts you trusted didn’t repeat themselves in the future?

Beyond numbers and words how do you describe your world? What are the advantages of these other descriptions of your life? What are the disadvantages? Do you find that numbers and words capture most of your experience of the world? If not, what critical information is left out by numbers and words? When you have examined investments in the past, what proportion of your research relied upon numbers and words?

Have you ever had the experience of another person having an entirely different experience of an event than you did? What were some of the
sources of those differences? What proportion of your daily experience do you have no opinion about? Where do your preferences come from?

Your right brain and its creativity, intuition and wealth manifestation can be developed more easily than you believed. Experiment with the simple exercises that follow to nurture and grow the effectiveness of your right brain.

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**Exercises**

**GAINING CONSCIOUSNESS OF THE LEFT BRAIN’S TENDENCY TO IGNORE THE RIGHT BRAIN**

**THE FEELING OF TEMPERATURE** Start taking deep, full-bodied breaths until you feel relaxed. Tune your senses into the temperature of the space that you are in. Take a moment to reflect on your experience of the temperature.

How did you reflect upon your experience of temperature? Did you translate your sensory experience into numbers, such as degrees Fahrenheit or Celsius? Perhaps you translated it into words? If you translated the sensation of temperature into either numbers or words, did this happen without you noticing it?

Repeat the exercise, but in this go-around make a conscious effort to not translate your sensation of temperature into either numbers or words. Just experience the temperature for what it is. Did you still have a conscious feeling of the temperature even without the use of numbers and words?

Write down your experience in your notebook. For the rest of the day, make an effort to notice your experience of the world and how much of it you automatically translate. Try to gain the capacity to interrupt the automatic translation.

**THE LIMITATIONS OF NUMBERS AND WORDS** Remember the most beautiful sunset you have ever experienced. This may be the sunset on the night of your honeymoon. It may be the sunset that included a gorgeous double rainbow after a depressing day of rain. The sunset may be the one you witnessed the day that you retired. Whatever the specifics of your sunset, put it into your mind now. Re-experience it fully. Now, in your notebook, write down the number that describes all of the wonderfulness
of that sunset. If you showed your number to a stranger would they be able to share your experience of your greatest sunset?

Now return to the image of your sunset and all of the feelings associated with that gorgeous play of light and clouds and countryside. In your notebook begin to describe with words your experience of the sunset. How does relating your experience in words differ from that of numbers? Now share your description with another person, someone not present during the real sunset experience. Ask the person to reflect back to you their experience of the sunset based solely on your words. Don’t cheat by filling in gaps in your friend’s understanding by talking with them. How close is their re-telling of the sunset to your actual experience of the sunset? Were they able to convey the powerful sensations and emotional content that you specifically experienced that evening? What parts of your experience did they leave out or not understand?

If you haven’t done so already, write down the emotions associated with your sunset. This may be the temperature, the light, the smell of flowers, or the sounds. Most importantly, write down any non-sensory emotions you experienced; perhaps relief, love or awe. What part of your sunset experience do you most directly relate to? In what ways are sunsets and businesses similar in their complexity? Can you imagine evaluating a prospective investment based solely on information contained in numbers? How about solely in words?

**REVIEW**

In this chapter we learned the following information:

» The most important investment skill is *understanding information*.

» Because *there is no such thing as a future fact*, investing is as much a soft, emotional, subjective, right-brained, creative, feeling, substantive, organic process, as it is a hard, factual, objective, left-brained, analytical, thinking, structured, linear process.

» While germane to the left brain, *numbers and words are both limited and linear* approximations of an unlimited and non-linear experience of reality.

» In order to understand information better we need the right brain to connect with the unlimited, non-linear reality.