BEHAVORAL & FINANICIAL INSIGHTS

When Smart Money Isn't So Smart

We often hear pundits on TV talking about what the "smart money" is doing. Who are these smart investors? What makes them so smart? And if they are smart, what's everyone else?

Defining "Smart Money"

Terms that Wall Street throws around, such as "smart money" and even "expert", can sound very alluring. However, before we jump and listen to what they have to say, we should first find out more about what makes them so smart or qualifies them as an expert. The truth is, there is no standard definition. Granted, one's education and experience can certainly contribute to their expertise or classification as "an expert". However, in my decades of experience in the financial industry I've developed a high level of skepticism when I hear the reference to "smart money" –
what qualifies someone to fit that bill?

In reality, "smart money" generally refers to a person/institution with a lot of money who makes confident predictions and is right about as often as a weather forecaster…, only about half the time! It can also be used to describe people who are perceived to run complex investment schemes (so complex that it is assumed most "common folk" can't understand them).

Forget Smart Money; Be Smart With Your Money

Historically, "smart money" has not translated into outsized returns. Their returns are often, at best, in line with straightforward (far less complex) investment strategies. In fact, the Barron's Roundtable of Smart Money in 2018 handily *underperformed* the markets (and that was not an anomaly). In 2007, the Greenwich Roundtable, a research organization that educates sophisticated investors about hedge funds, buyout funds and other so-called alternative investments, surveyed its members about how they analyze opportunities before making an investment. More than fifty consultants and investment officers at endowments, foundations, family offices, retirement plans and funds of hedge funds responded; most worked at organizations managing at least $1 billion. Nearly one in five said they "always" evaluate funds or manager choices using an *informal* process. Almost one-quarter didn't even analyze the financial statements before every investment!

Barely one year later, the multi-billion-dollar Ponzi scheme run by Bernard L. Madoff unraveled, catching many previously proclaimed "smart" investors by surprise – humbling them and driving home the point that there is responsibility that comes with being a fiduciary…, that due diligence is a necessity.

Probably the best way, then, to think about "smart" versus "dumb" money is this: The smart money isn't as smart as it fancies itself, and the dumb money isn't as dumb as everybody thinks it is. As one market observer recently opined "the only smart money is the money that knows its own limitations". Warren Buffett said, "What counts for most people in investing is not how much they know, but rather how realistically they define what they don't know."

The Takeaway – Focusing on What You Can Control is Not Just Smart, it's Priceless!

Smart people, and yes, even experts, recognize that it's OK they don't know everything. And neither does the "smart money". Once we define the limits of our knowledge and understanding, we can focus our time and energy on what matters most – those things we can control, such as systematized saving, disciplined spending habits, keeping emotions and our knee-jerk reactions in check, developing a top-notch financial plan, hiring the wealth management professional that will be there for your family, and maintaining a long-term perspective to achieve life-long goals.

As investors, one can establish an investment game plan tailored to a specific set of circumstances; from there one can control decisions and reactions to uncontrollable events and market gyrations.

Committing to a focused, disciplined and deliberate decision-making process is one of the smartest things you can do. And we are here to help you!

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