

Down the Rabbit Hole of Cognitive Dissonance

By Mariko Gordon
April 10, 2012

Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.



The last time I was on a cruise ship, I wore a bunny suit. Before you try too hard to wrap your head around that visual, let me add that I was two years old and carrying a large, fake carrot.

So it was ironic when just a few weeks ago, on a cruise industry research field trip, I found myself once again behaving like a two-year old.

Allow me to explain...

This time, I was in Miami with a group of investors led by Steve Wieczynski, an insightful [Stifel Nicolaus](#) sell-side analyst. We were meeting with [Carnival Cruise Lines](#) CEO Micky Arison, who patiently answered our questions over sandwiches. It was during that lunch I misbehaved.

No, I didn't bite anyone or snatch their cookies. Instead, I found myself absolutely unable to stop staring at our host.

Micky Arison is urbane, clever, articulate and clearly the guy in charge, as was evident from the moment he was ushered into the room. Arison grew up in the business (his father was the company's founder) and he wears the mantle of authority lightly on his shoulders.

In short, he looked the part of the stereotypical CEO - white, middle-aged, well-groomed, wearing a fancy watch and a discreet Cartier wedding band. Clearly these are not stare-worthy attributes.

But it was what *didn't* fit the conventional image of a CEO that made me behave badly - on the fourth finger of his right hand he wore an onyx and gold ring the size of South Dakota.

Seriously, it was so big that you could have served breakfast for two on that thing.

So while Arison was gamely answering an endless stream of questions about the shipwrecked Concordia, I kept trying to reconcile the ring to the man:



Since his clothing and other accessories were conservative, he clearly wasn't a flashy, bling for bling's sake kind of guy.

Maybe the ring had sentimental value of some kind. Could it be a *class* ring? And yet, what school could be so full of itself that it required its graduates to wear a five pound weight on their hand as a sign of fealty?

Having eliminated Harvard (the swath of gold inlaid in a vast expanse of onyx was not shaped like the telltale shield) and West Point (having had my hand crushed by more than one ring-bearing West Pointer I would have recognized it), I finally concluded that it must be some school in Texas. ("Everything is bigger in Texas.")

Enormously pleased with my powers of deduction, I settled back, content to wait until later to ask Steve where Arison had gone to college, and to put some closure on the mammoth school ring question.

Steve looked at me as if I'd just landed from Mars. "Micky owns the Miami Heat" he answered. I stared right back at him and shrugged. Enunciating slowly, as if speaking to a slightly dense two-year old, he then added, "It's an NBA championship ring."

Oh.

At least that small moment of humiliation had some benefit - it brought home to me a very important reminder about investing: how easy it is to misinterpret signals and leap to the wrong conclusions, and how vital it is to keep working until you get to the truth.

Here's how it happens:

1. The signal is flashed. In this case, though I didn't know it at the time, it said, "I am a champion."

Likewise, interpreting the news flow from companies and how it affects their stock is our job as investors. Sometimes the flashed signal is understood right away by everyone; sometimes not.

2. The signal is difficult to decode. Arison doesn't wear a lot of jewelry and he doesn't look like a current or former professional athlete (no offense, Micky). Because of the cognitive dissonance of an over-the-top hunk of jewelry worn by a CEO, I labor to find an answer that fits and conclude that it has to be a school ring.

When a piece of company news is unexpected or puzzling, we go into analytical overdrive to find an answer that works.

3. The signal is forced to fit. Like Cinderella's stepsisters I squander a lot of energy trying to make an answer fit the glass shoe of a question. Having invested the better



part of lunch working out the origins of the ring, I now feel relief that once again, the world makes sense.

In stocks we can work very hard gathering more and more data, or using more and more valuation formulas to justify an answer that fits our preconceived notion of what makes sense.

Here too we feel a sense of relief. Often, however, we are still wrong.

4. The signal is vetted. Thankfully, 26 years of experience pays off and I seek a confirming data point from a different source (Steve). I discover that my thesis is incorrect, and I learn the true meaning of the signal.

Cross-checking company signals against other companies, be they competitors, vendors or customers, is an excellent reality check, one that can save us from reaching logically sound but analytically flawed investment conclusions.

A cautionary tale, and one worth remembering. Successful investing, at least of the bottom up, stock picking kind, is less about rocket science calculations than it is about avoiding the psychological traps that cognitive dissonance sets for the unwary.

In fact, one should be MOST careful when evaluating a piece of news that doesn't "fit." That's when we're more vulnerable to mistakes, in our haste to get rid of that uneasy feeling that comes with reconciling two contradictory things.

As for me, the picture of an NBA championship ring that I now keep at my desk reminds me not to don my rabbit costume and go down the hole of logical but wrong conclusions, all because of the discomfort that comes when facts refuse to fit preconceived notions.

Mariko O. Gordon is founder, CEO and CIO of Daruma Asset Management, a NY-based small cap investment management firm. Subscribe to her free monthly e-newsletter On Daruma's Watch [here](#).

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>