THOUGHTS FOR THE WEEK

ROMO

October 13, 2023

Most know the term, FOMO – fear of missing out. FOMO can incite irrational behavior, people make decisions based on what other people are doing, instead of what is in their own best interest, or in the case of investing, what is financially prudent. Not all FOMO is bad, of course, but the bad outcomes stick out, because with hindsight, it's easy to spot the mistakes. We consider our team to be a "temple of rationality," to steal a phrase from Warren Buffett, but we too have occasionally been swayed by FOMO, manifested in a poor investment decision. We're far from perfect.

But if FOMO can lead to regret, then FOMO's alter ego, ROMO – relief of missing out – has the opposite effect, a sense of, "phew, glad I missed that one." We didn't coin the acronym, ROMO. We ran across it while reading an article on "Gstaad Guy," an Instagram account that parodies the jet set (just saying "Gstaad" sounds jet-setty, right?).

Life is full of ROMO moments. If you've watched "Fyre" on Netflix, about the infamous Fyre Festival, a music event scheduled to take place in the Bahamas in 2017, you can sense the palpable relief of the people who couldn't get tickets. The event was heavily promoted as a "luxury music festival," but ended up a poorly planned nightmare with no music, no luxury accommodations, and attendees stranded and struggling to find a way back home. However, it was not obvious through the pre-event marketing blitz that Fyre would "flame" out (no pun intended). Social media stars, supermodels, beaches, luxury villas, and musicians, packaged together, can inspire a lot of FOMO. The ROMO felt by those who "missed" it was likely strong.

FOMO permeates the investment world. Heck, one of the major factors exploited in factor based investing (identifying factors such as yield or relative price, and linking them to price movement) is momentum, or the tendency for directional price changes to create a feedback loop, reinforcing that directional change. This is essentially FOMO, as the feedback of higher prices induces investors to "get on board", lest they miss out (this effect is also at play when prices are falling, too). To us, this is a shaky foundation on which to base an investment decision, as it's not grounded in much other than the actions of others. It's not supported by revenue growth, or cash flow, or any of the factors that, to us, support an asset's value. But it nevertheless exists.

Too often though, FOMO's effects on investment decision making ends in tears. Take the prices of former private market unicorns (private companies with a value exceeding $1 billion). An example, Instacart went public last month at a value ~$10 billion, down from peak private market value of $39 billion, and today the company fetches a value of $7 billion (source: the Bloomberg). We don't have a strong view on Instacart as a business. We use the service. It's a business that picks up groceries and delivers them, and its profits lie in the arbitrage between what someone is willing to pay for delivery and the cost of going to the store themselves. We're investors in venture funds, and some of those funds are investors in Instacart. But $39 billion for Instacart strikes us as evidence of FOMO. Which, of course elicits a keen sense of ROMO that we don't have a material holding on behalf of clients. It may have felt painful to miss out on much of the unicorn action, but that pain dissipates once ROMO sets in.

Warren Buffett often remarks, "there are no called strikes in investing." This simply means you don't have to swing your proverbial bat if you don't want to. You can wait. There is no umpire that will send you to the dugout for "watching" too many pitches. In many ways this describes our investment process. We review countless opportunities. We rarely act on them, either because we can't see the promised returns through the haze of risk, or the opportunity cost of giving up something a client already has and needs (capital, an asset with a track record of returns) for something the client doesn't have and (probably) doesn't need (a new investment featuring greater uncertainty). We, of course, do not always get this right. There have been a few investments on which we've passed that turned out to be home runs. But our experience has been that the benefits of ROMO outweigh those few instances of regret stemming from not participating.

There is no clear signal of FOMO. It can be extremely difficult, when analyzing an opportunity, to cut through the fog of anticipation, the fear that others will prosper while you sit on the sideline – in financial assets, in life events. But it can pay to stop and consider the benefits versus the costs – measure your downside. Often the potential costs outweigh the benefits. And at times, that can lead to the sweet feeling of ROMO.

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Source: Barrons.com (Awarded 2017-2022). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

2013-2020 **Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:
Awarded 2013-2020; data 12/31/12 - 6/30/19

2019-2020 & 2022 **Forbes Best-In- State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.
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