

The Art of Contrary Thinking – Humphrey B. Neill

Notes and Takeaways

Summary

"The Art of Contrary Thinking" by Humphrey B. Neill is a classic investing book, written in 1954, on the challenges of bucking against conventional wisdom in the financial industry. Neill argues that the key to successful investing is to think differently from the crowd and to be willing to take contrarian positions. He believes that the market is driven by human emotions and that by understanding these emotions, investors can profit from market movements that are driven by fear and greed.

The book outlines Neill's approach to investing, which is based on his contrarian philosophy. He provides numerous examples of investors who have been successful by going against the prevailing wisdom of the market. Neill also provides practical advice on how to identify market trends and how to make informed investment decisions. Overall, "The Art of Contrary Thinking" is a thought-provoking and insightful book that challenges conventional thinking about investing and offers a fresh perspective on how to succeed in the market.

Detailed Notes

The art of Contrary thinking is to thrust your thoughts out of the rut. In a word be a nonconformist

If one develops a way of thinking that is the opposite of the herd, one will be right more often than wrong

One has to adapt thinking to modern interpretations

The art of contrary thinking consists in training your mind to ruminate in directions opposite to general public opinions, but weighing your conclusions in the light of current events and current manifestations of human behavior

It is essential to look upon both sides of public and economic questions to avoid being entrapped by propagandism

A list of human traits that make contrary opinion work:

- o Habit
- o Customization
- o Imitation
- o Contagion
- o Fear
- o Emotion
- o Greed
- o Hope
- o Credulity
- o Susceptibility

- o Irritability
- o Pride-of-Opinion
- o Wishful Thinking
- o Impulsiveness
- o Conceit

A crowd always yields to instinct and leans toward fear and emotion as a rationale to act
Manias and waves of mass sentiment – and widely held beliefs- sweep across nations when least expected

- o History does “rhyme if not repeat” so it pays to know these trends have occurred before

If you wish to learn about any subject, there is nothing better to do than to write about it as well as to study it

When past markets and investments are scrutinized, it becomes clear that market losses are always borne by the individual investor versus the market in general

Learned and experienced opinions (my own as well as the next man’s) are of little value because forecasts are frequently wrong

- o Human traits (listed above; most commonly fear, hope, greed...) are so strong in the human breast that they prevent one from being objective
- o An objective analysis of economic trends is imperative, as subjective reasoning will tend to lead to opinionated conclusions
- o If one relies stubbornly on his own opinion and viewpoint, he is likely to stand on his opinion right or wrong and more likely to incur losses
 - The courage to adjust and reevaluate ones thinking is imperative

Even with contrarian opinions as a guide, we still have to fight against personal viewpoints

- o Remove any bias you can identify:
 - Political
 - Emotional
 - Psychological

When all forecasters agree that it is a very good time to do something, then it is definitely time to “watch out”

An Example:

By 1951 market speculation was rife and reckless predictions were commonplace. Perhaps the most common viewpoint was that inflation would continue in high gear - contrary analysis took deflationary factors into consideration and in this instance the contrary view proved correct

An Example:

When everything looked the blackest – practically hopeless for Great Britain, as she was to be alone fighting Hitler in 1942-1944, British stock market prices started to slowly climb upward – and never stopped their dogged advance until January 1947, a full 18 months after World War II ended.

Whereas an individual may act after reasoning and analysis, a crowd acts on feelings and emotions and is spurred on by mutually reinforcing behavior

The human factor is a potent force in the business cycle

- o Monetary factors are powerful, and country productivity or GDP is the basic support, yet what “people” decide to do must always receive earnest consideration

For a long time, I believed there was no sound and valid way to predict either major turns in the business situation or larger/intermediate turns in security prices. I am still convinced of this, but of all the imperfect methods, the contrarian strategy offers the greatest promise

Time after time through history we find that when nations encounter financial difficulties the popular solution is always, “What we need is more money.”

- o The immediate result of printing and circulating more paper money was of course successful. For a brief time, business picked up and people were happy.
- o A false illusion emerges that “inflation is prosperity” and comes into vogue
- o Then cracks appear and issue upon issue follows as the paper money created devalues the currency
- o Finally comes a collapse and a recession and an adjustment to a state of balance where more certainty of REAL returns to capital and labor emerges. Ultimately, comes a new era of prosperity

Since 1973, when the United States fully abandoned the gold standard, the money supply has been regulated by the Federal Reserve banking system

Is the public always wrong?

- o The public is right during trends, but wrong on both ends of the spectrum
- o The average investor arrives too late and stays too long to profit from the market move

It is to be noted that using contrary opinions will frequently result in one’s being early or late in terms of turning points in market events

- o A contrary opinion will seldom “time” the market turn accurately
- o It is probably safe to say in most economic decisions, that it is wiser to be early than to be late

It can be very difficult to stick to contrary opinions because it is uncomfortable to be so far away from mainstream thinking in one’s own thoughts and actions

It is also difficult to find a common philosophy between those with the habit of depressed contrarian thinking and those who grew up in an era of enthusiasm, prosperity, and individualism

- o Any sequence of mental action which has been frequently repeated tends to perpetuate itself throughout life

The majority copies or imitates the original adopter, who is in the minority. This establishes the long-run developments and socio-economic evolutions that emerge

Paradoxical as it may seem, rich nations often experience the most drastic and severe crises, but then emerge much stronger for the experience

In making investments it is foolish to do just what other people are doing, because there are almost sure to be too many people doing the same thing

Paradoxical as it may seem, the starting point for crises and depressions may be found in abundance rather than in scarcity, whether of money or capital

It is good to be alone occasionally, because when solitary we actually think deeply through a given subject, instead of taking the other fellow's word for it

- o DK Note: It is important to find time for deep independent thought

The vast majority of people acquire information and form opinions second-hand from something they read hurriedly or hear with half an ear

National and international policies, as well as everyday business affairs, are ruled more and more by short-term events – reactively – instead of being based upon long-range planning

Attacking the incomes of the higher groups will likely decrease the incomes of those all the way down to the bottom – why?

- o Standard of living tends to roll downhill, owners of successful businesses earn more, then hire and pay more to more employees to do more business, the reverse also happens
- o Pareto's law applies in that larger incomes are received by comparatively fewer people and then inverts as you move down the scale

Look to ask “what is right?” instead of always “what is wrong?”

- o People have what is known as “depression psychosis” or always-looking-for-trouble habit
- o Viewing things in an opposite direction tends to be contrarian
- o In personal life, happiness occurs when we “dwarf” our troubles and “magnify” our blessings

The clash between socialism and capitalism tends to be a competition between hearts and minds; between wishes and logic; between appeals to emotion and appeals to reason

People tend to remember the most recent similar experience and are prone to forget causes with a different prior result

In the long history of economic forecasting, it is clear that psychology is the missing key that is often never considered

- o You may have all the statistics in the world at your fingertips, but still, you do not know how or when people are going to act, therefore forecasts are rarely correct
- o DK Note: A perfect example of this is the banking runs happening in March 2023, impossible to predict and determine the gravity beforehand
- o Banking crises and depressions have occurred almost contemporaneously in different countries, under different forms of government, in monarchies, in republics, in countries with free trade and protective tariffs, in those having gold-based money

What causes the business cycle? Entrepreneurs are at times too optimistic or too pessimistic- they either invest too much and too soon, or too little and too late-and these actions cause the cycle of business to go up and down

Money-making minds plus engineering genius equals constant growth

With those who have the natural aptitude for money-making, it makes little difference whether “conditions” are rising, falling, or stabilizing.

- o Their minds grasp opportunities to make money despite the economic backdrop, which is to say they have the faculty to craft their own opportunities

Equality for all and a goal of “equal outcome” tends to bring inferiority and subpar performance in its wake and doesn’t work well in a capitalistic society

One of the principles of contrary thinking is to avoid-wishful thinking and preconceived opinions

You cannot control or regulate the laws of demand and supply and at the same time retain the freedom of action which is the fundamental concept of the American system of private enterprise

Prominent economists are quick to suggest that the government must be quick to intervene when something goes wrong, this is misguided advice

It is best to doubt all propaganda before you believe it, consider the source of all information you are assessing before concluding anything

We are built to not want to change our outlook until well after the trend turns

- o It takes us average humans a considerable time interval to shift our viewpoints
- o Try to anticipate a change in the river current, and be vigilant for the change because it would be ignorant to assume that if “the river is smooth here it must be smooth all the way” to the end

Pay very close attention to business and public psychology

As I browse over the opinions which have been published through the years – in eras of good times and bad – I was struck over and over again by how often the prevailing conditions produced the opinions; how what was happening at the time was looked upon as the cause of events continuing to happen in the same pattern

- o We are unconsciously influenced by what is now taking place

Government intervention in a given socio-economic situation is caused by a prior condition of maladjustment

- o DK Note: Inflation in 2022 / 2023 caused as a catalyst from the huge government Covid stimulus programs

When economic affairs are booming and “everybody” feels cheerful, optimistic, and prosperous, no one wants to hear disparaging remarks or bad news about how things are going

- o When the economy has been slumping and times are bad, the opposite psychology prevails

Thrust your thoughts out of a rut. Be a non-conformist in your thinking

In this regard, the contrarian needs to be aware of history because changes in trend occur before the masses are consciously observant of the change

When studying opinions to learn how they germinate, we find that they commonly sprout from influences outside the mind

- o Seeds of thought are planted by some happening or propaganda, from which they often blossom into colorful opinions
- o Thus it is: mass opinions tend to follow, rather than to lead “events”
- o Opinions will vary in accordance with the degree of thought or emotion involved, steer towards thought
 - A crowd is swayed by emotional viewpoints rather than by reasoning or reason
- o When slumps occur, toxic seeds of thought take over people’s opinion - fear, irritability, indecisiveness, incredulity, doubt - prevail

The crowd is most enthusiastic and optimistic when it should be cautious and prudent and is most fearful when it should be bold and decisive

Despite all the statistics and data in the world, you can never be sure how and why people will act

When speaking of manufactured news, don’t overlook the government agencies and their role in affecting opinion. Opinion building is constantly at work

- o Propaganda is skillfully engineering to manipulate opinion: many believe that the mainstream media is in the business of doing this right now
- o Be careful not to extrapolate current patterns/trends endlessly out into the future, a real-life and common occurrence

There is a vast difference between an open mind and a gaping mind

- o An active-open-mind is ready for ideas pro and con
- o A gaping mind is not focused on important issues, just plodding forward without thinking deeply about events

The fatal flaw of economists is the pernicious desire to always forecast - to be oracles

Economists are rarely right and never revisit their forecasts in the future to determine the accuracy of them

To be contrarian is to realize that no one can pinpoint tops and bottoms of cycles whether they be stock-market cycles or any other cycle

- o The purpose of thinking through the opposite approach is to see through a given problem and thereby gain a fresh and different approach to a solution

A paradox of a contradiction

- o People are commonly slow to change their mind
- o Yet they quickly pounce on a new fad or shift to a new fashion
- o Quick to conform, but slow to differ – not an ideal mindset to make money

The time has come to think contrarily, more constructively, and less defensively