Recently, we at Daruma got our inner spook on – we attended a two-day seminar held by ex-CIA types. The purpose of the class was to help us get better at gauging “truthiness” in our interactions with the outside world, without resorting to advanced techniques such as waterboarding.

While I can’t tell you the precise details of our training (I’d have to kill you), I can share some of the valuable reminders that the training brought home to me about selective attention and mental filters and, in particular, why these matter in investing.

To kick off the session, we played “find the liar” in a group of people. There was wide disagreement among us. Two days later, at the end of the session, we took the test again. This time, we were all on exactly the same page regarding who was the Pinocchio in the bunch.

But why? How could we see the exact same thing twice yet come to a radically different conclusion the second time around?

The answer, in large part, has to do with filtering. The world is a sensorily rich place – our heads would explode if we tried to process everything our senses take in. In order to cope, our brains decide (sometimes at our behest, sometimes not) what to pay attention to and what to ignore. We tend to notice what has meaning to us and ignore everything else, a predisposition that leads to attentional blindness.

A walk in the woods with a lumberjack, for example, is going to give you a different perspective on trees than that same walk would with an arborist. Or a mushroom forager. Or a bird watcher. It’s the exact same walk but you will "see" a different forest because the brain of each expert filters things differently.

Back to our friends the spooks. Once they taught us what to look for, our attention was focused on the things that mattered relative to truth-telling. (Hint: It’s not the body language clichés you learned in
The second time we took the test we gleaned signals that had before seemed random (and had therefore gone unnoticed).

So it goes with investing – you find what you are looking for.

If you direct your attention only to the facts that support your investment case, you will be blinded to possible risks. If, by contrast, you direct your attention only to things that would disprove your investment case, you will fail to see the full range of upside potential. It's an occupational hazard. There's too much information coming way too quickly. We cannot escape attentional blindness, despite our best efforts to do so.

The solution, of course, is to notice only what's important. But what is important and how do we know when we are looking at it or ignoring it?

The answer, IMHO, is to make these choices consciously. By choosing our filters deliberately, we can be more aware of how our experiences and perspective color our judgment. Specifically, I recommend:

1. **Acquiring new filters.** If a company is a forest, what are the business equivalents of a mycologist, ornithologist or arborist? What does a supply chain expert see about this company? What does a pricing expert see? What does a human resources expert see?
   We can't, as investors, acquire a lifetime of expertise in every business domain, but we can seek to learn from those who have. For me, that means hanging out with supply chain experts at one conference and digital marketers at another. In both cases, my hope is to learn what these folks pay attention to and use this to inform my own filters.

2. **Reading broadly across disciplines.** Just as reading fiction has been shown to promote empathy by putting you inside someone else's head and letting you see things from that character's point of view, expanding your reading to more than just investment (or even business) books will ensure a passing acquaintance with a wide variety of filters.
   My recent read of *Hannibal and Me: What History's Greatest Military Strategist Can Teach Us About Success and Failure*, for example, helped broaden my perspective regarding the interplay between strategy and tactics. In it, author Andreas Kluth explains how despite Hannibal's tactical brilliance, he was the biblical era poster-child for winning the battle but losing the war. He won every battle against the Romans, but failed to reach his strategic objective: the demise of the Roman Empire. These insights have helped me toggle my own filter to make sure that in our business we are successful in both tactics and objectives.

3. **Paying attention to what's new and different.** I'm halfway through reading *The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success*, by William Thorndike. To me, it's a terrific reminder that many of today's conventionally accepted truisms about capital allocation best practices were not just misunderstood initially, but were vilified by Wall Street.
   There are new business models and new mental models about business being created all the time. It's one of the reasons I like learning about Initial Public Offerings, even when the valuations may not be attractive – I go out of my way to learn about disruptive technologies,
innovative business tactics, new markets, and the like.

The point is, it's important not to dismiss the novel or the anomalous, because those challenges to the status quo force us to create new filters.

Doing these three things has many benefits, not the least of which is nurturing an agile, more flexible mind. The deliberate practice of trying on new filters helps us derive more meaning from chaos, a skill that has benefits for both the investor and the truth-seeking spook (assuming there's a difference).

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