

TRUE CIRCLE OF COMPETENCE

One day, Sir Arthur Conan Doyle, famed detective author, walked into Harry Houdini's library. Houdini had devised a new illusion tailor-made for Doyle.

Houdini produced what looked like a typical slate. He also produced a saucer with four cork balls, an inkwell filled with white ink, and a tablespoon.

Sir Arthur Conan Doyle inspected the slate.

Houdini then asked Doyle to hang the slate anywhere in the room, but to choose a spot where the slate could swing freely.

Doyle chose to hang one hook on a picture frame and the other end onto a large book on one of the bookshelves. Houdini then cleaned the slate.

Next, Houdini handed the saucer with four cork balls to Doyle for examination. Houdini encouraged Doyle cut a ball in half to ensure they were untampered. Doyle obliged and cut one ball in half with his pocket knife. It was plain cork. Houdini then asked Doyle to select another ball and, using the spoon, dip it into the inkwell and stir until the cork was saturated in white ink. The ball was left to soak.

Houdini then asked Doyle if he had a piece of paper and pencil in his pocket. Doyle said yes.

Houdini then gave Doyle his last direction. Doyle was to leave the house, walk in any direction as far as he'd like; take his paper & pencil out; write a question or sentence; put the paper back in his pocket and return to Houdini's house.

Doyle obeyed. He exited the house, walked 3 blocks, took the paper & pencil out and wrote the biblical quote, "Mine, mine, Terkel, upharisn." He folded the paper into his pocket and walked back.

Upon arriving back at the library, Houdini asked for Doyle to stir the cork ball, pick it up with the spoon and then hold the spoon against the slate. Doyle did so and magically the cork stuck to the slate and proceeded to roll, all by itself, writing out the letter "M," then "e," and before long Doyle couldn't believe his eyes. The cork ball spelled out "Mene, mine, Terkel, upharisn" and fell to the floor. Doyle was awestruck.



In the late 1800s & early 1900s, Spiritualism was in full force. Fortune tellers, psychics and mediums flourished in the U.S., Canada and United Kingdom. Many of those charlatans sucked hundreds of millions of dollars from the pockets of the grief stricken. Oftentimes those poor souls paid their life savings to hear one more word from their deceased loved ones.

Ironically, Sir Arthur Conan Doyle was one of the largest proponents of Spiritualism. It's paradoxical because Doyle was the creator of Sherlock Holes, the prototypical rational detective.

Doyle's belief in Spiritualism was all but rational. Evidence of fraud laid out by many skeptics couldn't sway Doyle's belief.

Doyle went as far as trying to convince Harry Houdini to endorse Spiritualism.

Houdini, despite his abilities, was human too. By the time the two men met, Houdini's mother had recently passed away. Houdini would have given all of his money to hear her speak. Houdini attended 100s of séances led by many of the top mediums fo the day with an open mind. He wanted to believe them but what he observed were illusions, many of the same tricks he and other magicians used to entertain.



*"Sir Arthur, I have devoted a lot of time and thought to this illusion; I have been working on it, on and off all winter. I won't tell you how it was done, but I can assure you it was pure trickery... **Do, therefore, be careful in the future, in endorsing phenomena just because you cannot explain them.**" - Harry Houdini*

We all could learn from this story. Circle of competence is paramount. Everything else is an illusion.

Sir Arthur Conan Doyle's competence was writing detective stories. His character Sherlock Holmes is a household name worldwide, even today. We all possess true competence in some random area. It might be wide and narrow, or shallow and deep. But when you walk into Houdini's house, a field outside your circle, you better be careful. You have gamblers odds at best. Lottery odds are the norm.

In investing, a true circle of competence is one thing. In other domains, it is another. But it is not parroting Warren Buffett or selecting for investment the few companies you can understand.

Buffett's definition of circle of competence works for him because he has what 99% of other investors don't have, he has true competence in investing. Most people don't. He was born with the goods. He picked the game that best suited him. He knows he has house odds in investing, and gambler odds in everything else.

"The first principle is that you must not fool yourself, and you are the easiest person to fool." - Richard Feynman

Buffett, Houdini and other masters see the world as it is, not how they want it to be. Houdini wanted to believe in Spiritualism to hear his deceased mother but that is not how the world works. He didn't fool himself. He saw greed in the mediums and psychics and leveraged his competence in illusions to see the fraud.

Too often, people fool themselves. Like Sir Arthur Conan Doyle they don't see the world as it is. They don't see their true circle of competence. They try to shoehorn their wants onto the world, but the world always wins.

For instance, I spent a large chunk of my life mastering the guitar. It didn't come easy. It was like running bleachers with a gorilla on my back. When I went to Berklee I saw people dancing circles around me. I realized I was the patsy at the card table, fooling myself. I wanted to be a great guitarist too badly, but music wasn't my true competency. I wasn't born with **it**. I had something else.

There is a large cohort of investors who fool themselves too. Those investors lose because it doesn't matter if they find companies they "understand." It doesn't matter if their IQ is 140. The gray mass between their two ears is suboptimal for the task. Their brain connections for patience and other investing necessities are weak, pale, vanilla.

To overcome such flaws, they conform. They look to others for ideas and conviction. They outsource decisions to screens, checklists, spreadsheets and gurus. But no one ever became rich following a script. A script means it has been done before. And by the time you come along to follow it, the easy money is gone.

"The leader is leader precisely because he did something remarkable - and that remarkable thing is taken now - so it is not remarkable when you decide to do it."

Seth Godin



“What a wise man does in the beginning, the fool does in the end.” - Warren Buffett

Illusions of Competence

When you step outside your circle of competence like Sir Arthur Conan Doyle did, you step into your blind spot. All of the illusions suddenly appear real and truth becomes indistinguishable from fiction.

Here is another trick the incompetent use to overcome their ineptitude: tools and comforts. Amateur guitarists spend lots of money on signature guitars - guitars played by their favorite players. That was me when I was younger. I had Eddie Van Halen’s signature guitar. I had John Petrucci’s signature guitar. But none of those guitars made me play any better. Nor did Michael Jordan’s shoes help me jump higher or score more points on the basketball court. Those things are all illusions.

You can’t put a \$4,000 guitar in an amateur’s hand and expect beautiful music to come out.

The differentiator isn’t a shortcut, tool or trick. It isn’t spreadsheets. It isn’t quotes. It isn’t 10Ks, Qs, skin in the game, scuttlebutt, FinTwit, podcasts, Substacks, mental models, reading 500 pages a day or anything else. Those are all illusions. The differentiator is the human being.

Tools to the true master are not the end to the means but the means to an end. A true writer can write using a typewriter, pen, pencil, or anything else they choose. A true magician, like Harry Houdini, can perform using cards, handcuffs, straight jackets, a prison, a casket, etc. The art isn’t inside the tool, it is inside the

The \$100 Guitar

Many years ago Joe Satriani, one of the top rock guitarists of the last 50 years, did an interview with a teenager. The young interviewer asked Satriani to play his \$100 guitar, crappy effects and cheap amp. Joe obliged by playing the kid’s favorite song - Surfing with The Alien. Joe made what most would consider a crap guitar sing beautifully.
{See video}



artist. Give a \$100 guitar to a master they will make it sing.

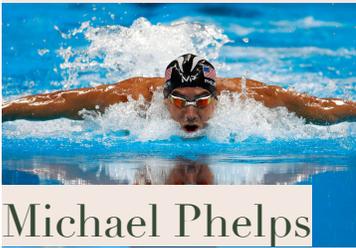
Success in any skill boils down to the gray mass between **your** two ears. Nothing else matters. Everything you are working on is internal to you. It is about the quality fo the signals and connections in your brain developed over long, deliberate practice. It is about the quality of your genes, habits and lifetime of varied experiences. All of those affect how you interpret and react to situations. And how you react determines your results.

For example, what does an incompetent investor see when the market crashes 3% in a day? They react like my wife does when she sees a spider. It's a crisis. But in reality, it is an event. No more, no less. We humans assign meaning to the event. Those with true competency distinguish the opportunity from the pitfall with better accuracy.

Just like a \$4,000 guitar doesn't make a great guitar player, a great company can't make a great investor.

Investors can invest in the same company and achieve wildly different results. I know people that lost money investing in Xpel. I know people who understood the business, considered it inside their "circle," yet passed on Xpel and missed out on a 1,500% gain. I know some people that got a 300% gain and never touched it again. I know people who made life changing returns and some who are sitting on a 100 bagger. The only differentiating factor in this equation is the investor. Same inputs, yet different outputs.

In music, if you can't hear it in your head loud and clear, you can't play it. In investing or business, if you can't picture it in your mind's eye as clear as day, you can't achieve it. The true greats rehearse successes happening in their head over and over until it becomes a reality.



"One of the things about my naps is this: If I'm sitting there right before I doze off or immediately after I get up, I can visualize how I want the perfect race to go. I can see the start, the strokes, the walls, the turns, the finish, the strategy, all of it. It's so vivid that I can vividly see incredible detail, down even to the wake behind me ... Visualizing like this is like programming a race in my head, and that programming sometimes seems to make it happen just as I had imagined it."

The losers do the opposite. They rehearse excuses over and over until that's exactly what happens. They lose.

The human nervous system doesn't know the difference between imagined and real.

"Countless times, before the event, I have pictured a heroic sale to a large department store every step of the way and the picture in my mind became a reality."

Estée Lauder



Self-Awareness & “Mistakes”

True competence only comes with self-awareness. One must be awake and present to see the world and see yourself.

Amateurs are asleep to reality. They’re oblivious of their inner uniqueness. They’re one dimensional and predictable.

Here is an example. One of my first jobs was as a banquet waiter and bartender at Cornell University. Toward the end of a wedding one night a guy approached the bar asking for a non-sweet wine. We only had one bottle of Riesling left. The guy was visibly buzzed, so I just poured him a glass. Surprisingly, he loved it. I asked if he liked other semi-sweet Rieslings or just detested the really sweet dessert wines. He slammed the glass down and shouted, “Actually, I don’t like it. I don’t like sweet wines” and stormed off.

The guy probably had a PhD in Astrophysics, but was asleep to his senses and reality. His mind, like most of our minds while we eat, was in a totally different place and he slavishly followed a script, “I don’t like sweet wines” when in reality he did.

I see the same snobbish droning in investing, music and elsewhere. If it’s not pure value investing, they won’t read it. If it’s not shredder guitar rock, they won’t listen. If it didn’t come from Warren Buffett or Charlie Munger’s mouth, they don’t care. This is a follower’s mindset.

There is comfort in the crowd because it takes courage to be yourself. You could make a mistake. But, the greats know there are no wrong “notes”.

In the Middle Ages, the third and sixth intervals were considered horrible sounding and avoided at all costs. By the 15th Century, those same intervals became accepted and found in almost all popular music.

As I said before, each of us assign meaning to events. Meanings can change. For example in the 14th century certain music was considered wrong. Then, in the 15th century, those wrong notes became right.

Similarly, a generation ago it would have been insane for a professional basketball player to shoot from +35ft. Now, that shot is acceptable in the NBA since Stephen Curry does it all the time. The problem is only Stephen Curry can make those shots consistently.

“..stop tagging me in all these horrible basketball clips of people taking bad [long] shots, telling me I ruined the game. I did not tell y’all to shoot that shot.”



Stephen Curry

Self-Discovery

So you want to build a true circle of competence?

If competence is built internally, then wake up. Open your eyes to reality.

Self-discovery is the only way to true competence. Self-discovery begins with who we are and an understanding that we are unique. Only after figuring out those can you start to define **your** boundary.

Define your competence well, see the world as it is and you won't end up getting taken advantage of like Sir Arthur Conan Doyle.

Want to "jam out" on this or any other big ideas?

Feel free to email me at siddings@gmail.com

No strings attached