
STALKING FOR FISH & FISHING FOR STOCKS

Investing lessons from a day of fishing

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A few years ago, I had the incredibly good fortune of fishing in a very remote part of Maine with a genuine local fishing guide named Les. Not only was he born in town, he was born in one of the rooms at the local hotel, which in turn was a family run business.

Les was a real pro, having fished the area lakes for over 80 years. Over the two full days of fishing with him as my guide, I could not help but notice the similarities between his craft, stalking for fish, and mine, fishing for stocks.

Like the market itself, the lake was huge, with numerous coves, marshes, and wide open areas to fish. For someone who never fished one of these vast lakes before, knowing where to drop your line seemed impossible. I asked Les if there was a particular strategy for catching fish. He wryly offered “Fish where the fish are, and don’t fish where they’re not!” That’s good advice, I thought! Sounds like relative performance!

On the first morning, Les was adeptly positioning our locally handcrafted wooden canoe precisely where he wanted it, hovering just over the edge of an underwater cliff, hidden to all but him. Just then, I noticed a fleet of sport fishermen, decked out with the latest watercraft, fishing gear, and high-tech equipment, racing off to the *other side* of the lake. I asked Les, probably with a lot of anxiety in my voice, “Who are they? Where are they going?” I clearly broke his concentration, for he hadn’t even noticed them. He was too busy doing what he did best. “Huh? Who? Oh, them? That’s a professional fishing tournament. They don’t know what they’re doing. There are no fish over there.”



I didn't have much time to process his pithy reply, because no sooner did I drop my line to the precise depth of his recommendation, I was reeling in a fish. "That's a perch" Les said, before I was even able to crank my reel twice. "Really? How do you know?" "I can tell by the way the fish hit, and how the rod responds. Reel this one easy, they fight, but not a lot," he tutored me. Hmmm, sort of like a low volatility stock, I thought.

Sure enough, I reeled in a 13 inch perch, big enough to keep. I didn't have much time to revel in my early success, since my second line was quickly hit. "Another perch!" Les said, taking the first pole from my hands so I could reel in the second fish. Indeed, it was another Perch. Alas, this one was only 11 inches, so we had to release it. "Really?" I asked. "Oh yes, if I get caught with a fish under the legal size, I lose my license to guide, so it ain't worth it. There are plenty more fish in the lake!" he assured me. That was reasonable risk management, it seemed. Stick to the rules. Don't be greedy. Be patient. Got it.

As I handed him my second pole, he returned the first one with fresh bait. "Here," he said, "drop this one to the bottom. I'll tell you when."

After setting the bait at his discretion, I relieved him of the second pole, and followed his instructions again, leaving this bait also at the bottom, but on the other side of the canoe. BANG! Another hit! "That one's a good sized bass!" he knowingly said with a smile. No sooner did I begin reeling in the fish, BANG! The other rod hit! "Another perch!" Les said with excitement.

Bass are prone to surface and put on quite a show. "Make sure you keep this line tight," he sternly informed me. "If you let it go slack, the bass will jump off!" Ahhh, a biotech stock, I mused to myself. True to form, the bass dove under the canoe, probably chasing the perch on the other line, only to surface on the opposite side of the canoe, a good two or three feet in the air. Having come to the end of its line, the fish's flight was redirected to the canoe, and it literally landed in my lap! Yep, just like biotechs in 2013!

This went on all morning. We rapidly filled the fish stringer hanging in the water off the side of the canoe, leaving us with no choice but to let the bottom of the canoe overflow with fish.



In a rare moment of quiet, I asked Les if he kept everything he caught. He said “I do, but that’s just me. As long as it is big enough, I keep it. To me, they are all good eatin’, but some folks prefer bass over perch, or the other way around.”

Funny, I thought. He sounded like a trend follower who will buy anything as long as it was outperforming, whereas a growth manager might struggle to buy a utility, a value manager won’t mess with biotechs, or a quality manager might balk at owning a gold company.

Another brief lull was suddenly disrupted by a rather large hit to one of my lines. “Oh no,” Les said, “not one of those!” “Not one of what?” I asked, with a tone of apprehension. “That’s a lake eel!” he said, revealing his disappointment. “A what? A lake eel? Those exist?”, I asked, clearly baffled by the idea.

“Yeah,” he said, “stay away from them! They are very slimy and it’s nearly impossible to get it off your hands and clothes! We’re going to just cut the line, so don’t tell anyone we caught it. We’re supposed to make you rookies clean it if we catch one!” Ugh. Reminds me of the proverbial falling knife, stay away!



Another line was hit that triggered a similar emotional response from Les. “Uh oh, now what?” I queried. “That’s a catfish,” he moaned. “They dwell on the bottom. They’re really good tasting, but not worth the trouble. Full of bones, and if you’re not careful, they will sting you!” Yikes! Sounds like a value trap!

After two full days of fishing with Les, I walked away with some invaluable reminders:

- 1) “Fish where the fish are, not where they ain’t.” This is relative performance. Fish in the strongest regions and sectors and avoid the weakest. You’ll catch more fish.
- 2) Just because someone looks like they know what they’re doing, doesn’t mean it’s so. Stick to your own process and avoid the siren song of the opinions of others.
- 3) “There are plenty more fish in the lake!” Manage your risk, follow your rules, be patient, and respect your stops!
- 4) If you catch an eel, don’t even touch it! Cut it loose! Don’t catch a falling knife!
- 5) If you catch a bottom-dwelling catfish, release it as well. They are not worth the trouble, and like value traps, there is a good chance you will be stung!
- 6) And finally, as with most things in life, when fishing, “Les” is more!

