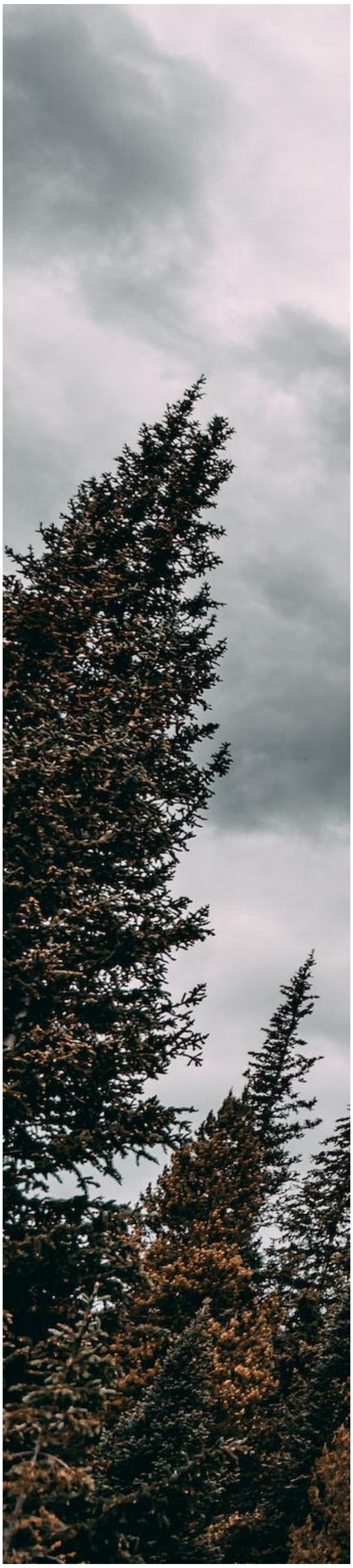
The Role of Anomaly/Asymmetry Observance in Batonics' Investment Philosophy



In philosophy, the concept of the 'first cause' exists, meaning 'the first anchor in the chain of effects'. In mathematics, we have axioms, the building block assumptions from what all else is derived and in logic, 'a priori': a prior belief from which the consequent one is deduced or followed

When uncovering the fundamental blocks where the principles of our investment philosophy rest, one must be Anomalies and Asymmetries.

In the physical world, asymmetry is an underlying necessity for any change to happen. For example, the 'death of the universe' happens when all energy gradients are exhausted, and there are no asymmetries to create a gradient for energy to flow.

If it weren't for the micro asymmetries in the very early universe, nothing interesting like structures would form. Nothing but a uniform plump of inanimate space-time or matter that is expanding would exist. All values, as humans perceive them, rise from asymmetries and their interactions. I would think asymmetries should be a mental model or worldview. Entropy is a fight against asymmetry: chemical interactions happen due to asymmetry, biological diversity is a play of asymmetries, comedians employ asymmetry, wars and civilisational development are asymmetries too. I can go on.

The sphere of wealth-making is no different. It is a sub-system that belongs to the same logic and dynamic. Asymmetry of information creates value, asymmetry of value creates wealth, and asymmetry of wealth creates all economics and much of the social dynamics.

Investing based on models, be it fundamentals, momentum, or growth-based modal, are also utilities of the concept of asymmetry. You, through these models, are hunting for asymmetries and deviations between what the model predicts and the current market value.

Detection of an anomaly or an asymmetry does not necessarily mean opportunity, for the value trapped in it may be hindered by a more expensive cost. Therefore, the calculation required by the investor is to figure out when the trapped value will grow to exceed the cost, or when the cost diminishes and deems the opportunity economical.

It is already inbuilt in the reptilian sense and professional routines of investors to seek asymmetries, even ifs not always clear as an abstract. I am advocating for it to be 'clearer' as an abstract in our investment methodology. Namely, the following protocols can be actionable points in the context of tactics:

- Monitoring global and local macro indicators for statistical anomalies

- Monitoring derivatives of macro indicators for statistical anomalies

- Qualifying high-level anomalies and asymmetries to be the constituents of the opportunity pipeline rather than a micro-context of certain discounted assets or profitable deals. The high-level anomalies must be translated and implemented as an asset-specific transaction, often with a micro-instrument, but the pipeline itself should be categorically high.

- The investment transaction memos should clearly state the underlying anomaly or asymmetry it stems from. Whether someone is investing in an early-stage venture deal, or a more mature or traditional allocation, the memo should clearly state if it was a spike in demand for a particular currency from treasuries, or a new policy that promotes securitisation of a particular asset class, an FDA approval of a sector of products, a sudden drop in the cost of a specific technology leading to more adoption, a start-up that is valued much cheaper than our valuation models, a stark unreasonable economic disparity between geographically close demographic areas, or other factors.

The asymmetry can also come in a subjective form: i.e., we, or our investees, have a particular asset, skill, knowledge, process or a mix, and a concentration of them that the external environment does not.

The memo should also state why we think that a particular anomaly or asymmetry exists, and why it has not been discovered by the market till now.

Much of this anomaly detection can be done through the widespread availability of economic data on the internet, either in the public domain or dedicated terminals and data providers. Analysts are expected to be more generalists than specialists and have a broad scope and oversight, thus expanding the detection umbrella and leading to more opportunities.

Given that geo-bridging is one of our five pillars, it is vital to have local presence and representatives to help detect anomalies that haven't arrived (and perhaps won't arrive) in electronic databases. These could be gas queues, a surge in a social trend, a political rumour, or other points of potential inflexion.