Making History By Doing Nothing

Morgan Housel
January 4, 2018

Anthony Eden had just finished resigning as prime minister of the United Kingdom. His role in the Suez Canal crisis destroyed his reputation and put Britain's economy in ruin.

In *The Crown* – dramatized but directionally accurate – Queen Elizabeth takes pity on Eden for his experience with risk:

To do nothing is often the best course of action. But history was not made by those who did nothing. So I suppose it's only natural that ambitious and driven men want to go down in history.

The first sentence is great. The second gets it a little wrong, even if it's intuitively right.

Most of history is made by those who mastered the art of doing nothing when nothing needed to be done. This is especially true for business leaders and investors. Their do-nothingness can be more important than their inclination to do something. We just pay more attention to the somethings because they're more obvious and exciting. My basic idea is 99% of investing is doing nothing, 1% will change your life, and that 1% is the only visible part so it's all we talk about.

Doing something contrarian is required to overcome mediocrity, or even to get off the ground in some fields. But bold action alone rarely makes business history, especially big enough for people to remember. Capitalism's job is to allocate competition towards success, which means big and correct ideas plant the seeds of their own decline. Surviving that decline long enough to let compounding do something meaningful requires enough buffer – in both money and reputation – to endure trouble, regroup, and find new opportunities. And those buffers tend to come from strategically doing nothing in a way that builds up cash, prevents rash decisions, and avoid reputational damage. This is the difference between getting rich and staying rich.

Good strategies are rarely black and white. Swinging for the fences and being conservative are not mutually exclusive, and the most enduring businesses and investors have elements of both, usually at the same time, often feeding off each other.

Take Microsoft's early days. Bill Gates chased a bolder vision than almost anyone else in the 20th century. Yet he swung for the fences and focused relentlessly on downside risk at the same time. Gates once talked about how he handled cash management:

I came up with this incredibly conservative approach that I wanted to have enough money in the bank to pay a year's worth of payroll even if we didn't get any payments coming in. I've been almost true to that the whole time.

It’s a barbell: Huge investments in the future of computing on one hand while piling up treasury bonds on the other. And the doing-nothing was as important as the doing something, because it buffered against the risk of recession and competition that, if not defended again, would have stop the doing something dead in its tracks. There is a graveyard of promising companies whose demise was caused by not accepting this cognitive dissonance.

Charlie Munger explained something similar in investing. His dealmaking philosophy is “Look at lots of deals and don’t do almost all of them.”

“In my personal portfolio I’ve sat for years at a time with $10 million to $12 million in treasuries. Just waiting, waiting. A lot of people can’t stand to wait. It takes character to sit there with all that cash and do nothing.”

Doing nothing most of the time is what makes doing something productive some of the time possible.

This might make sense on paper but it is maddeningly hard in practice because of the queen’s observation: People want to make history and *do something*. It’s mental torture to match hands-off patience with decisive action. They are opposite skills, even if they rely on one another. It’s why the Mungers of the world are rare. His not-investing has been as important as his investing.

There’s a passive version of this. Dollar cost averaging means actively doing something (buying every month) while strategically doing nothing (selling in an attempt to get a better price). Neither works without the other, but because of how compounding works the latter (waiting, hands off, doing nothing) becomes more important over time than the act of buying. When you hear rare stories about mom-and-pop investors letting their investments compound for decades, you are witnessing people making history by doing nothing.

A couple things stick out here.

Strategically doing nothing diversifies against a dangerous ego. As Jason Zweig says, “Being right is the enemy of staying right, partly because it makes you overconfident, even more importantly because it leads you to forget the way the world works.” Constant actions increase the odds of occasional luck, which increases the odds of being fooled by randomness in a way that saying no in the name of humility or waiting for bigger payoffs helps prevent. This is why day trading is so difficult.

The pull toward constant action implicitly assumes the best opportunities are constantly presenting themselves to you at every moment. It’s hard to think of living in bigger bubble. Doing nothing gives you options to do something different in the future. And options can be one of the most valuable assets in a world that’s constantly changing and breaking down old rules.