THOUGHTS FROM THE FRONTLINE

A Philosophy of Investing

By John Mauldin | August 30, 2025

A Philosophy of Investing
Austin, Dallas, and Houston

I was in Newport Beach two weeks ago doing several video interviews with David Bahnsen. At the end of the interview, he mentioned the importance of having a proper "philosophy of investing." Time was running out so I didn't have the ability to unpack that.

As I was on a long walk back to my hotel, I began thinking about what a true philosophy of investing is. As you might imagine, I have lots of ideas and thoughts about investing both in specific and in general. I reached back out to David about what he specifically meant by the term "philosophy of investing."

I was fascinated. It is actually part of the book he is writing that will come out next year. I asked him if he could crystallize those thoughts for our letter this week as I am fishing in British Columbia with Shane and 34 friends. I had the privilege of reading this beforehand and then corresponding.

David's piece below will make you think and give you insights into what the actual process of investing should be at its very beginning, using a term from my seminary days, the actual ontology of investing. So, let's put on our thinking caps and let David do what he does best: inform and expand our thinking.

Another way to expand your thinking is with a membership in my *Over My Shoulder* service. Each week members get 2–3 research notes from the financial and economic experts in my ever-growing network, plus a selection of useful and enlightening charts. Mindful of your time, we give you a quick summary *and* the full text if you want to go deeper (you usually will, too).

Just in the last few weeks, we've shared wisdom from Howard Marks, Louis Gave, Barry Ritholtz, Mark Grant, George Friedman, Peter Boockvar, Lacy Hunt, and of course David Bahnsen. With *Over My Shoulder* it's almost like you're reading, well, over my shoulder.

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Now, on with David Bahnsen's philosophy of investing.

A Philosophy of Investing

By David Bahnsen

One of the most rewarding friendships I have enjoyed over the last 15 years has been my relationship with John Mauldin. Besides the privilege of being asked to do things like write this week's *Thoughts from the Frontline* newsletter, I have enjoyed numerous lengthy meals and discussions with John (and other mutual friends) that were intellectually stimulating and personally fulfilling.

Yet as John has shared on numerous occasions, our friendship's roots actually predate the time we met on set at CNBC nearly 15 years ago. Coincidentally, John had (in his past life) been involved in the publication of some of my late father's materials back in the 1980s. As Greg and David Bahnsen share a pretty unique last name (according to ChatGPT it is the 156,421st most common last name in the world, meaning one out of every 2,603,625 people has it—so you know, 3,000 out of 8 billion people) it was not hard for John to piece together that we may be related.

The reason I bring up Greg Bahnsen to start this letter is not to further contextualize John's and my friendship, but to set the table for why I view investing as a practice that *requires a distinct philosophy*. Greg Bahnsen was a Christian intellectual whose doctoral work at USC focused on epistemology—the study of the nature and limits of human knowledge. He had an uncanny ability to ask what was real (metaphysics), how we know things (epistemology), and how we should then live (ethics), *in all domains of human experience*. Now this may not be painting the most attractive picture of Greg Bahnsen, because he was also an incredibly fun person (who had a nearly identical taste in music to John Mauldin, I should add). But he took the task of philosophy very seriously: to question how we know what we know, and what we ought to do about it.

What does this have to do with our investment portfolios? Where does the inquisitive curiosity that has driven great philosophers for millennia fit into asset allocation? Is there a benefit to having a philosophical framework around one's portfolio management decisions? Perhaps an even better question may be: Is there *really* anyone who manages money without *some* investment philosophy? Does one's own lack of self-consciousness about their governing framework mean they do not have one (as weak or implicit as it may be)? Much as my late father taught me that all people have some worldview they use to critically assess the world and interpret human experience, all investors have some philosophical framework—some network of beliefs that govern decisions they make in allocating capital.

The question is never whether or not there is a philosophy at play. Rather, the question is how thoughtful, cogent, coherent, and defensible that philosophy may be. Of course, as is the curse of my chosen profession, a cogent investment philosophy does not relieve us of the burden of diligent execution and wise decision-making, as well. But I would suggest that diligent execution and wise decision-making are pretty futile if not rooted in a coherent investment philosophy. And in addition to coherence, it seems to me that conviction can only come from self-awareness and critical scrutiny that ought to be table stakes for serious asset allocators.

Bottom line: *If one is investing capital without knowing what they believe about investing capital, they are not likely to be very good at investing capital.* They may very well enjoy seasons of strong returns (or not), but sustaining results over the period of time that coincides with one's actual financial objectives is far less likely if the basis for decision-making is disconnected from a cogent foundation.

A lot of possibilities exist in asset management where one can benefit from circumstances outside of their control (good luck is as real as bad luck), but investors are not only more likely to have a sustainably positive result when tethered to a solid philosophy, they are much more likely to maintain their sanity throughout the process.

The idea that one ought to have a discernable investment philosophy when they invest money is a necessary but not sufficient condition to sustainable success. Not all investment philosophies are created equal. A substantial number of people genuinely believe that the key to investing capital is to follow trends, to chase momentum, and to use their own savvy (and other indicators they believe in) to know what markets will do next. It is, I believe, a flawed philosophy. *But it is still a philosophy.* Presumably, those who believe and practice such things have some idea as to why they believe it to be true. Some premises brought to that particular conclusion will be more sensible than others, but I have had many conversations with adherents to such a belief system where their own convictions and bases were defended and presented well (even if unpersuasively).

I would suggest an important distinction is in order. There needs to be a delineation between an **investment strategy** and an **investment philosophy**. A strategy is a *plan* that includes *factors for decision-making*. There are good strategies and there are bad strategies, and certainly strategies ought to be tethered to a philosophy, but they are not one in the same. "Buy and hold" is an investment strategy… The philosophy behind it seeks to answer *why* a strategy may work the way one believes it will. It reflects the "presuppositions and conceptual beliefs" that inform one's belief or advocacy of a given strategy.

I am not convinced many people have thought through the presuppositions behind momentum investing. The idea that "what goes up will continue to go up" is not something I find great foundation for, but I do believe that many believe in a strategy of momentum the same way they believe in laws of gravity (sometimes they actually connect the two quite specifically). My intent in this letter is not to critique competing philosophies of investment (though I may go there a bit). Rather, it is to suggest that much like the critical analysis we do in any number of serious topics in life, a prudent investment manager does conduct a critique of the philosophy that underlies various investment strategies, and furthermore, has diligently conducted an internal critique of his or her own investment philosophy. This is the way a building is built—especially a building that is going to stand tall for a long time: *with a foundation that has been challenged, analyzed, and found formidable.*

When I entered the investment business as the son of a philosopher, I was flummoxed by the lack of a foundation in so much of what passed as investment strategy. To this day some of the greatest minds on Wall Street (think of dealmakers in private equity or M&A investment bankers) are intellectually complacent about *why* a market functions the way it does. I am sure there are doctors out there who are incredibly good at doing XYZ without really understanding why XYZ functions the way it does (but truth be told, I wouldn't want that person as my doctor). When it comes to decisions around allocating your own capital, let alone the capital of others (as professional capital allocators do), such intellectual complacency leads to a particular destructive outcome over and over again: *abandonment of strategy because it lacked foundation.* Why would someone abandon their chosen investment strategy just because they couldn't philosophically defend it? Because certain strategies vacillate in seasons of performance, and the lack of a foundation makes one susceptible to the wind. *This is the de facto investment philosophy of most people: invest in whatever just finished working.*

That may not seem like a very coherent philosophy, and, indeed, it isn't. But it is what one will uncover if they scratch under the surface of a large, large portion of the investing public's strategy.

My investment philosophy has at its core the belief in human action as the driver of wealth creation. My reasons for believing this are connected to the theological normatives I believe in, but without taking you down that path let's just say that there is a long tradition in classical economics of viewing the human person as the proactive agent in economic activity.

I believe humans act out of their own God-given instincts, reason, and rational faculties (and yes, as image-bearers of God), and that in these actions we get what we call "markets." Humans function as individuals with their own subjective preferences, tastes, goals, and abilities, but they do so as social animals, cooperating with others to optimally survive and thrive. Since the beginning of time every advance in standards of living—every investable development—every bit of material progress—has come about as a by-product of human action. There are all sorts of discussions this invites as the primacy of human action in driving economic behavior has policy ramifications (it serves as the framework for the Austrian school, for example, which prioritized human agency over central planning). It also has investment implications as one seeks sources of "risk premia."

Seeing the innovation, creativity, and productivity of the human person as the bedrock of economic calculation centers my investment philosophy around bottom-up activity that creates value. In my belief system, I do not see wealth created by chance, or gaming arbitrage opportunities in perpetuity—I see the production of goods and services as human beings do what they have done since the beginning of time as the *sole source of wealth creation*. This causes me to seek *investment strategies* that follow from an *investment philosophy* that recognizes human action as the bedrock of economics.

Nothing I have said so far is systematic, let alone comprehensive. It is the beginning of what one may consider "investment philosophy fodder." I plan to more systematically present my own philosophy in my forthcoming book, *Profit from the Profit: The Past, Present, & Future of Dividend Growth Investing* (coming out in the summer of 2026). A systematic presentation of my philosophy will take a book and is difficult in a short newsletter. What I can say is that my own philosophical journey in investing has led me to believe that:

- Human action drives economic activity.
- Wealth creation is not speculative; it comes out of the organic activity of profit-seeking enterprises that learn from failure, take risks, and create goods and services that meet the needs of humanity.
- Macroeconomic conditions impact the conditions of entrepreneurial endeavor, naturally, but do not supersede them.
- The human tendency to follow the crowd (for psychological, social, and emotional reasons) leads to over-crowding that intensifies risk in some investment spheres and under-investment that magnifies opportunity in others. These things do not always play out in the timelines we wish.
- Mathematical relationships between different asset classes that existed in the past are not assured of continuing because human activity created the relationship to begin with, and human activity is dynamic. Therefore, the mathematical relationships are dynamic. In other words, expectations that "gold and silver are supposed to trade in XYZ ratio to one another" are hogwash (there are more examples where that came from).

- That which has no internal rate of return (a yield that comes either from the price of time, like interest, or the creation of value, like profits) is called a "speculative investment."

- Human beings are innovative and capable but can also be self-interested and corrupt. The ideal is to find systems where there is the most alignment between business managers and business owners.

From private equity to venture capital to small-cap investing to emerging markets equity, and yes, to our bread-and-butter belief in public equity dividend growth, we have a strong bias towards the bottom-up activity of business innovation, action, and calculation. The source of risk premium is the profit-making activity of human beings. We are not looking at relative value arbitrage of one traditional relationship to another. Those econometric and quantitative strategies may work for some (until they don't), but we can't get animated by anything as much as we get animated by business enterprise—the production of goods and services that profitably meets the needs of humanity. Many, many different strategies exist within that basic premise, but it is our north star. It has also become rather contrarian in this day and age.

I have avoided significant investment pain over the years, not because I always picked the best strategies or because I was always right in rejecting others, but because I was raised to do an internal critique of the presuppositions of that which passes for investment advice. Those internal critiques have, time and time again, caused me to be skeptical about various things that warranted skepticism (shiny objects, momentum fads, unsustainable pipe dreams, that which was devoid of human ingenuity and freedom, and I could go on and on).

It has also created a burden for me and my team to rigorously and vigorously question, challenge, and defend our own presuppositions about investing. Those beliefs and metaphysical assertions about reality permeate all we do. I do not suggest that every investor needs to geek out on philosophy before placing a trade. But I will close with this suggestion for anyone who holds or manages an investment portfolio.

Ask yourself:

- Why do you own what you own?

- What are the reasons you believe they make up a cohesive investment strategy?

- What do you know of human experience and knowledge that validates this strategy?

- What do you know of human experience and knowledge that might contradict it?

Starting with these four questions is not any more comprehensive than this article, but it is a really good place to start. Curiosity gave birth to philosophy. Ongoing intellectual curiosity is still driving investment success thousands of years later.

Austin, Dallas, and Houston

I'm writing this from Haida Gwaii, an island in far northwest British Columbia where I am fishing with 34 readers and friends. Shane and I fly back on Labor Day. In two weeks, I fly to Austin to be with even more friends at Brad Rotter's birthday party for two days, then fly to Dallas where I will be having dinner with readers and friends. If you are interested in joining us, drop me a note at business@2000wave.com. A good group has already replied so it will be a lot of fun and cool people. The next night is in Houston with David Bahnsen, but we are overbooked.

The West Coast Fishing Lodge tells us that this is the best weather they have had all season. I just told them Shane brought the sun with her from Puerto Rico. Now if she could just make the fish find my bait.

We come back home to Shane's son Dakota and some of his friends for a special time together. You have a great week and spend more time with family and friends. That is the best dividend of all!

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Your thinking about my own epistemology analyst,

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