BUSINESS INSIDER

Dennis Lynch shares his secret weapon for unlocking massive investment opportunities and crushing the market

Author: Joe Ciolli
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- **Dennis Lynch is the Head of the Counterpoint Global Team at Morgan Stanley Investment Management**

- **In an exclusive interview with Business Insider, he shares what's long served as his secret weapon when analyzing companies and industries.**

Sometimes being an expert on a topic can be a detriment — at least when large changes are afoot.

This may seem like a surprising statement, but the logic is pretty straightforward: You get so used to one set of circumstances that when the status quo is altered, it can be difficult to recalibrate your point of view.

It's for this reason that so many seemingly entrenched ideas have found themselves uprooted over time, often to the chagrin of those tasked with predicting and avoiding those very shifts.

Dennis Lynch realized this early in what's shaped up to be an immensely successful investment career, and made a move that's informed many of his biggest decisions ever since — he hired a "disruptive change researcher" to insulate his portfolios from this phenomenon.

It was 2004, and the recruit's name was Stan DeLaney, who'd just finished up his MBA at Stanford. Lynch, who serves as Head of the Counterpoint Global team at Morgan Stanley Investment Management, where he's lead manager of six funds and directly oversees $27 billion, remembers the inaugural topic he assigned to DeLaney. It was about 15 years ago, when Lynch needed a pair of fresh eyes to analyze the radio industry.

On the surface, radio looked to be fine. Stations were local monopolies with regulatory advantages, and there were plenty of reasons to think revenue would continue to grow going forward. And if you asked executives and analysts, they delivered the same rosy message.

It was DeLaney's express purpose to challenge these comfortable, insulated opinions and recognize elements of change. In this case, that disruptive force was the internet, and you know what happened next — music migrated online, and radio stations became a shell of their old selves.

And Lynch was right on top of it not just because he saw it coming, but because he was willing to challenge conventional thinking around a legacy business. DeLaney still works with Lynch a full 13 years later, having worked his way from associate to managing director — and their partnership is as formidable as ever.

"When you spend a lot of your career developing expertise, it then becomes hard for an individual to jettison all they've learned and realize they might need to learn a whole new set of ideas or details," Lynch told Business Insider by phone. "When things start getting disrupted, experts can actually become a liability."

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The elimination of bias is crucial for beating the market

The use of a disruptive change researcher makes total sense when you consider that one of Lynch's core investment tenets is the elimination of bias. As Lynch told Business Insider for a previous article, part of being a good decision-maker is being self-aware and understanding why you're making certain decisions.

Creating a position in order to challenge these types of biases would seem to be a big step in the right direction. And if Lynch's performance is any indication, it was the right move. Here's a look at the wild success he and his team have enjoyed in two of their top funds:

Disruption as a core investment tenet

Part of understanding what makes Lynch tick as an investor is realizing that he eschews the traditional growth-versus-value model. Sure, he's looking for sustainable long-term growth stories, but he's not keen to limit his universe using such artificial constructs.

Instead, Lynch looks at disruption — and that can mean that a company is either responsible for creating it, or insulated from it. In the end, it serves as the connective tissue between all of his investment ideas.

> *"It's not always obvious what a cheap price is"*

And while Lynch wants to buy stocks at attraction valuations, he doesn't subscribe to traditional ideas of what "cheap" is, which once again informs his decision to shun value investing. In order for Lynch to see if a company is attractively priced, long-term growth potential must be considered to an extent not normally reflected by valuation multiples.

"When companies are highly unique and have long-term growth potential, it's not always obvious what a cheap price is," he said. "Instead of bucketing or thinking about high- or low-growth, our first step is to ask whether a company benefits from disruption, if there's something permanent about it that will insulate it from disruption, or if the company is vulnerable to it."

Ultimately, Lynch's approach makes it so he can comfortably buy and hold stocks with high conviction. And it's his diligence and steadfast approach — largely informed by disruption research — that allows him to sleep easy at night, even during volatile market spells.

"Investing is not a game of perfection — it's a game of being approximately right," he said. "We're trying to collect these unique companies and then own them as they grow into much larger businesses."

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