

## The Disciplined Investor Podcast – Guest Interview Summary

Guest: Clare Flynn Levy

Show Date: April 12, 2026

TDI Podcast Episode: 968

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### **Equity Investing Myths Discussion**

Andrew and Clare discussed Clare's early career path, including her high school jobs at a bookstore and her summer position in the mailroom at Gabelli Funds. They explored myths in equity investing, particularly focusing on stock picking versus index fund performance. Clare explained that even top fund managers have a median hit rate of around 49%, highlighting that their success comes not from individual stock selection but through other factors.

### **Investment Manager Behavior Measurement**

Clare and Andrew discussed how to measure investment managers' behavior when they are winning or losing. Clare explained her company's approach of categorizing trades based on whether they involve increasing or decreasing exposure, and whether the trades are made when stocks are already profitable or unprofitable. They referenced a specific example from Clare's book about Gorm Thomason's investment in Just Eat, discussing how managers sometimes struggle to let losing positions run and may fall victim to the endowment effect.

### **Investment Strategy Adaptation Challenges**

Clare and Andrew discussed the challenges investors face in adapting to the changing role of momentum in investment strategies, particularly for those used to long-term approaches. Clare emphasized the importance of analyzing historical patterns in stock performance to identify when strategies may lose effectiveness. They also touched on the concept of behavioral tribes in investing, as proposed by Clare's co-author Lee Freeman Shore in his book "The Art of Execution," and discussed the distinction between different types of investors, including the roles of wizards and maestros in the investment world.

### **Investment Management Behavioral Strategies**

Clare shared insights from a book about investment management strategies, focusing on different behavioral approaches to managing investments. She described three key tribes: connoisseurs who run winners, quick profit takers, and rabbits who freeze during losses. Clare also introduced a new category called "Lumberjacks" based on research from her

book, which analyzed daily holdings data from award-winning fund managers to evaluate their decision-making across seven key areas including entry timing, scaling, and exit timing. The discussion highlighted how Clare's company, Essentia, conducted this research by analyzing data from managers who agreed to share their daily holdings information under strict NDAs.

### **Trading Behavior and Psychology Patterns**

Clare and Andrew discussed trading behavior patterns, particularly how managers tend to increase trading activity and size during losing streaks rather than reducing it, which is opposite to sports psychology. They explored the concept of overconfidence in trading decisions and the "illusion of control" where traders believe they can influence markets. The conversation concluded with a discussion about Annie Duke's background and expertise in behavioral psychology, which Clare referenced in relation to a recent blog post about cutting losing trades.

### **Investing Maestros vs. Market Wizards**

Clare and Andrew discussed the distinction between stock market "wizards" and "maestros," with Clare explaining that wizards are more traders who make individual trades and concentrated bets, while maestros are portfolio managers who run diversified investments. Clare emphasized that becoming a professional investor doesn't require specific educational background, as demonstrated by the diverse backgrounds of the maestros featured in her book, and stressed that discipline is the key differentiator between successful investing and gambling. The discussion touched on how non-professionals can apply these concepts to their own investing, with Clare highlighting that discipline is more important than formal education or credentials.

### **Systematic Trading Approach Discussion**

Andrew shared his experience with a systematic trading approach, describing instances where he initially felt hesitant about certain investments like Carvana and Gap, but ultimately the system proved successful. Clare referenced a chapter about James Inglis Jones and Samantha Gleeve, who run a European systematic cash flow-oriented fund with impressive performance metrics including a 63% behavior alpha score and a 246 payoff ratio. The discussion highlighted the importance of maintaining discipline and relying on systematic approaches rather than emotional reactions in investment decisions.

### **Investment Strategies and Analytics Discussion**

Andrew and Clare discussed investment strategies and decision-making in fund management. They explored how fund managers approach re-entering positions after exits and the psychological barriers that can prevent this. Clare explained how allocators can better evaluate managers by utilizing daily holdings data and analytics tools like Essentia

Analytics. They also discussed Clare's recent book and its reception, as well as potential applications of analytics tools for smaller firms. The conversation highlighted the importance of discipline and continuous improvement in investment