

September 30, 2019

LOL: Big 5 Creativity Conditions – IQ/Expertise (Creativity, volume 4)

Jim Ware, CFA & Jason A. Voss, CFA

We have been on a trajectory to map the crucial, but underappreciated, investment subject: creativity. In short, there is not a single investment problem that cannot benefit from a healthy dose of creativity. It is a competitive advantage. In this edition we tackle the next of the Big 5, IQ/Expertise. The Big 5 are necessary creativity conditions that we know (based on science and experience). If they are in place innovative ideas are more likely to flow.

Let's put some pieces together that have been accumulating in our other editions, because they are key to understanding the import of IQ/Expertise to creativity. First, we have defined creativity as:

[The ability to produce work that is novel \(that is, original, unexpected\), high in quality, and appropriate \(that is, useful, meets task constraints\).](#)

Next, we also quote neuroscience work on creativity that said that:

[Creativity is greatly facilitated by being able to combine our current experiences and our need to solve a problem with the vast knowledge we have accumulated over the years.](#)

Permutations

One type of creativity is the recombining of existing knowledge in new and different ways. Here there is not a Eureka bolt of lightning, just the sewing together of different bits of our knowledge. An example is using the concept of a P/E ratio in real estate to come up with the similar concept of [the capitalization rate](#), which is essential the inverse of a P/E ratio. But you see what is at work here? Yup, knowledge. Having the IQ/expertise of the P/E ratio likely greased the creativity machinery behind the idea of the cap rate. Our IQ/expertise are the raw ingredients that lead to new and innovative investment recipes.

Relevancy

Our IQ/expertise also helps us to satisfy the necessary conditions implied up there in that definition of creativity: "work that is novel," and "useful, meets task constraints." Were it not for those many years invested in accumulating our knowledge we would not know if a new stroke of genius is "novel."

We've all been there. Likely, early in our career when we had a flash of inspiration, maybe something like, "There, embedded in the prices of a couple of bonds I can build an entire yield curve!" We jump up and down, our pride swells up, we tell a colleague who says, "Yeah, that's called bootstrapping, here's a book on it." Cue: [sad trombone](#).

Our IQ/expertise also allows us to rapidly evaluate the usefulness of an insight. This is crucial because the world moves fast and we have limited resources. We cannot always slow down to engage in laborious testing of a new idea. Savvy experts usually know right away if a novel thought is useful. That said, when evaluating the usefulness of a new idea we also need to ensure that our, "no, that's not especially useful" is a rejection of the real merits of the idea, and not just a bow down to "business as usual."

Using IQ/Expertise to Increase Creativity

Want to get more creative? Well, if we understand the bits above then there is a clear pathway for how to use IQ/expertise to become more creative. How?

Up the Knowledge to Up the Creativity

First, attain more knowledge, and develop more skills and abilities. The more IQ/expertise, the more raw ingredients at your disposal for novel and useful ideas. Here we recommend both a depth and breadth approach. Yes, it is important to deepen our expertise of economics, business, finance, and investing topics.

These contexts are narrow, though. By broadening our IQ/expertise outside of the same spaces in which our competitors also operate helps to increase our ability to have novel and useful ideas. An example is that a love of history and geography and the appreciation of geopolitics that is likely to follow can inform a macro investing call, or a generate a new risk-management insight.

One hint is that if in the course of our day we find ourselves feeling ignorant, rather than indulging in feelings of shame (since knowledge workers are, well, supposed to be knowledgeable), go out and get more knowledge. This takes some work, but feelings of ignorance are powerful because they indicate that an IQ/expertise boundary has been reached.

Caution! It is also our IQ/expertise that is the root of all our biases. It is only natural that our informative experiences shape our personalities and our approach to problem-solving in life. While this is certainly necessary, it is important that our IQ/expertise does not operate on auto-pilot. We recommend revisiting sacred cows frequently because they can make the tastiest hamburgers. This is one of the reasons why we believe so strongly in our FCG CQ (Consciousness Quotient) effort. Our self-awareness allows us consistently to improve.

Creativity Sum > Parts with Groups

Second, groups and teams, if constructed with cognitive diversity in mind can amplify an organization's IQ/expertise. There is only so much time in a life, and thus, only so many experiences that any of us can possess. That is why a cognitively diverse organization is so important. We can gain a breadth and depth of IQ/expertise--creative raw stuffs--by thoughtfully choosing our employees. This assumes that the group is managed well and that each participant's contributions are probed for and encouraged then IQ/expertise is increased, too. In short, group think is not helpful think when what you need is innovation.

Translation: The Hidden Creativity Skill

Third, and last, one of the most overlooked skills needed for creativity to flourish is what we call 'translation.' You won't find this skill listed in research, books, or articles on creativity. But this is based on our lifelong interest in the subject. What we mean by translation is that we have all had the experience of having a creative inspiration just out of reach of our ability to describe it. There is a flash of an idea, and yet we are not quite able to describe it. We say things like, "It's on the tip of my tongue." Sometimes these inspirations disappear back into the innovation mists, frustrating us. If only we could ground the idea in something familiar! Here our IQ/expertise helps us to *translate* the inspiration into something with which we are already familiar. Said another way, one measure of the success of your knowledge is the gradual minimization of the "tip of the tongue" phenomenon.

Similarly, sometimes we have an inspiration, but the thought is not quite complete and we are aware that it needs more work. It could be that the innovation is insight into a hidden relationship between one market-driving

variable and another. Yet, it requires the grounding and operationalization of our mathematical understanding. Here again, our IQ/expertise helps us to *translate* our creativity into something useful.

Summing Up

IQ/expertise aids our creativity by providing the raw stuff of new permutations/recombinations. Not only that, but IQ/expertise helps us to rapidly evaluate the import of new creative ideas. Create teams or groups that bring depth and breadth of IQ/expertise to the organization. Last, recognizing that we have a lack of IQ/expertise is a good thing with a ready-made solution: go get more IQ/expertise. Go get more creative!