



Attention Traps

February 2026

Dear Investors,

The Brazilian equity market started the year with an unexpected rally, driven by foreign capital inflows. The most plausible explanation is that this move was not due to improvements in Brazil itself, but rather a side effect of growing concerns about the U.S. economy, prompting global investors to seek diversification in emerging markets. While this hypothesis aligns well with recent developments, it offers little help in predicting what comes next.

Six months from now, will global investors be more or less concerned about the U.S. economy than they are today? Among emerging markets, will a preferred destination emerge, or will capital remain broadly dispersed? And what developments in Brazil over this period will contribute to attracting—or repelling—foreign capital?

The natural impulse is to try to understand the situation as thoroughly as possible and infer the next move in global markets. However, effort is only valuable if it leads to actionable insights, and these questions are inherently broad. Before committing significant time to analyzing such issues, it is worth asking whether it is possible to reach conclusions that are sufficiently robust to support an investment thesis.

The Scarcity of Time

The first challenge is that it is impossible for a single individual to absorb all the information generated around the world. The time required to read and process everything would far exceed the hours available. As a result, one must strike a balance between depth and breadth: either develop a detailed understanding of a narrower set of topics or maintain a broader, more superficial awareness across many areas. Each choice comes with its own trade-offs.

Prioritizing depth reduces uncertainty in the conclusions reached but increases the risk that external factors—outside the analyzed sample—may intervene in unexpected ways and render those conclusions irrelevant. For example, if the goal were to estimate the life expectancy of a young person, detailed medical exams might indicate that he is perfectly healthy and likely to live for many decades. However, if that individual is a

soldier in a war zone, the risk of natural death becomes almost irrelevant to the question at hand.

Emphasizing breadth creates the opposite problem: it reduces blind spots but increases uncertainty due to the lack of analytical depth. One could study the young person's broader life context while relying only on routine medical exams. In doing so, a serious but still asymptomatic condition might go unnoticed—despite being easily detectable through more detailed testing.

For the purpose of investing successfully, this dilemma has no obvious solution. Different strategies may favor depth or breadth and still produce strong results. We will outline the approach that best aligns with our investment philosophy—one focused on generating long-term returns with a strong emphasis on risk control.

We dedicate time to developing deep knowledge only in areas that are central to our activity—companies with a high likelihood of becoming investment candidates—and in topics with long-lasting relevance that can enhance our ability to assess future situations. We study the dynamics of economically relevant industries, analyze business cases that may inform future theses, follow technological trends that could permanently reshape certain sectors, and read about the history of companies and countries.

This effort builds what is known as apperceptive mass—the body of knowledge, experience, and memory that enables individuals to recognize patterns and quickly understand complex situations analogous to those they have encountered before. This mechanism allows a skilled physician to rapidly diagnose a patient's condition and enables a disciplined investor to identify which opportunities may be promising and warrant deeper analysis.

The remainder of our time is devoted to staying informed about market developments, but we apply a strict filter before allocating meaningful attention to any piece of news. We focus on events with the potential for significant or lasting impact—such as major regulatory changes affecting target industries, the outbreak of wars, large trade agreements, or substantial political shifts.

We do not spend time watching routine interviews with political leaders, dissecting minor details of standard macroeconomic reports, or speculating about the evolution of everyday political disputes. Our approach is to keep the radar on at all times, but only act when something truly meaningful appears on the horizon.

The Limits of Working Memory

Beyond the constraint imposed by how quickly we can absorb new information, our minds are only capable of focusing on a limited number of elements at the same time. When assembling a puzzle, for example, we retain the shapes of only a few pieces at once and scan the remaining pieces in search of a match. The task is far more demanding than it would be if we could hold all previously seen shapes in immediate memory. A study conducted in 1956 by the psychologist George Miller found that the human mind can retain between five and nine simple items simultaneously—and even fewer when dealing with complex information.

This limitation is highly relevant to the investment analysis process, where the challenge often lies in the sheer number of variables that can influence a given situation. Since it is not possible to consider all of them at once, it becomes necessary to rely on methods that work around this constraint.

The primary approach is to break down the problem into smaller components that can be managed within our cognitive limits and, after analyzing each one, condense them into simplified representations that function as single units of information. We do this intuitively when summing multiple numbers. Rather than adding everything at once, we perform several smaller additions—two or three numbers at a time—then combine those intermediate results, again in small groups, and so on. This process creates a pyramidal structure of compartmentalized information. At the top of the pyramid lies the final conclusion, supported by a few key components in the layer below. Each of these, in turn, is supported by additional subcomponents in the next layer down, continuing until the base is reached.

Even with the technique of condensing information into pyramidal logical structures, our minds can only handle a limited number of layers before confusion and reasoning errors begin to arise. In more complex analyses, it becomes necessary to externalize working memory—through writing, diagrams, and similar tools. By doing so, we can extend our capacity to handle complexity far beyond what would be possible using mental processing alone. In other words, writing is one of the most effective ways to fully leverage human intelligence. This has been known for millennia, yet it seems to receive far less emphasis than it deserves.

Market Biases

High-quality analysis of investment opportunities, economic scenarios, geopolitical conflicts, and related topics requires significant time and effort. Few people are able to dedicate themselves fully to this task, so they resort to the most convenient shortcut: relying on expert opinions or assuming that whatever gains the most media attention must be the most important development.

Even with the best intentions, experts and media outlets must package their messages into highly simplified narratives, leaving little room for the nuances and caveats that would be necessary under more rigorous analysis. Most people want to stay informed in 15 minutes and retain a few key takeaways, rather than engage with complex, multi-layered reasoning structures laid out across hundreds of pages. This creates several distortions.

The first is that certain narratives become dominant based more on their elegance and appeal than on strict rational merit. Ideas that sound coherent and align with the major events of the moment tend to gain traction. As more people repeat the same argument, an “echo chamber” forms, and within a short time, a large portion of the market adopts the same view.

The second issue is that the importance attributed to these widely shared narratives tends to be overstated. Since our attention is limited, the topics we focus on often appear more significant than they truly are while we are thinking about them.

The result is that simple, elegant narratives dominate attention and influence investment decisions for a period of time—until a new narrative emerges and takes their place. Anyone who follows financial markets long enough will recognize this dynamic clearly.

What to Do

In the current environment—complex and influenced by a vast number of external factors—trying to fully understand everything happening in the world and predict short-term market movements is a futile exercise. Plausible hypotheses point in every direction, and the pace at which events evolve is inherently unpredictable.

Our approach is to identify areas of greatest uncertainty—or those highly exposed to binary outcomes—and avoid them. Investors tend to incur their largest losses when they hold strong convictions in hypotheses that ultimately prove to be wrong. Admitting ignorance and avoiding unnecessary risks has never led anyone to ruin.

What we believe will generate solid returns in such an uncertain environment is focusing on analyses with the highest likelihood of being correct: the microeconomic dynamics of each business and a limited set of macro factors where we have genuine clarity. From these perspectives, the best strategy for each investment opportunity remains the traditional one: buy when prices are meaningfully below intrinsic value and sell when they become excessive—without speculating on how capital flows, politics, or commodity prices might push an already mispriced asset even further away from fair value.

This approach does not prevent our portfolio from experiencing short-term price volatility alongside the broader market. However, over time, we have learned to focus our concern only when the underlying earnings of our companies fall short of expectations. Short-term price fluctuations are merely attention traps—noise that does not matter over the long run, yet consumes investors' time as they attempt to explain movements that have already occurred and are unlikely to repeat in any predictable manner.