

2021 Local elections: Why some voters are staying away

Opinion: China's slowing growth and massive debt threaten stock and bond investors worldwide

IMF sends growth warning to South Africa

Here's what will happen when the Fed's 'tapering' starts, and why you should care

Supply bottlenecks, labour shortages slow US growth: Fed

Are you ready for an interest rate hike?

to review mortgage deals and investment portfolios

Taiwan

China warns against 'wrong signals' as Biden suggests US would defend Taiwan

COVID vaccine immunity is waning – how much does that matter?

As debates about booster shots heat up, what's known about the duration of vaccine-based immunity is still evolving.

Unilever warns of more price hikes as inflation worsens

of Dove soap and Knorr soup warns inflation is likely to accelerate in 2022

UK's slow growth and rising inflation gives BoE headache - PMIs

Canada inflation hits 18-year high amid supply constraints

Hot inflation readings of the past six months are headache for governor Tiff Macklem

In a world of information overload, making investment decisions is complex. In my last article, I explored navigating this complexity by avoiding noise through consuming less information but ensuring information intake is done intelligently. I explored the use of mental models like inversion thinking to assist and improve the decision-making process.

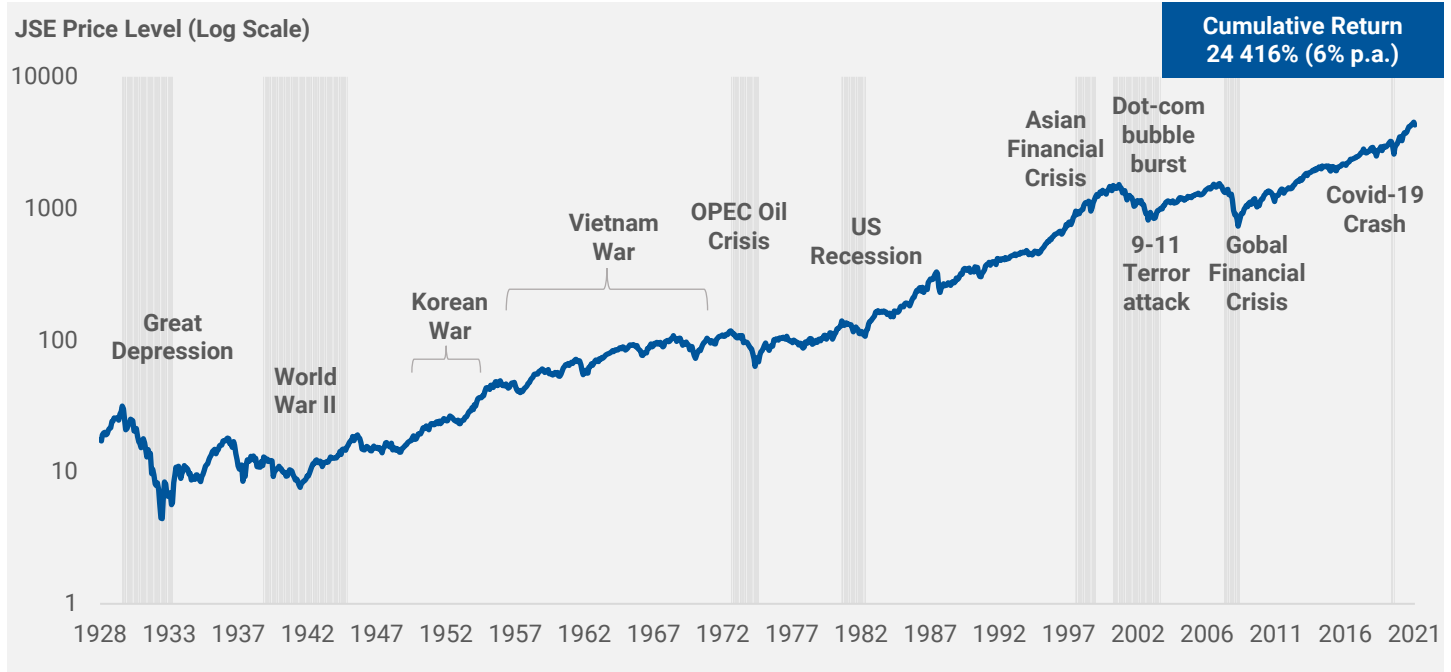
The constant barrage of negative news adds to information complexity when looking at investments. It is hard to not be pessimistic about the financial situation given the kind of headlines we are exposed to daily.

Morgan Housel wrote about the seductive power of pessimism, dedicating a chapter in the book *The Psychology of Money*. Pessimism sounds smarter and gives the impression of someone trying to help you, whereas optimism sounds more like a sales pitch and is easily viewed as being oblivious of risks. As such, pessimism attracts more attention.

Financial pessimism is prevalent given that money is universal, and something bad happening affects everyone and captures attention. Furthermore, it is easy to extrapolate current trends into the future without accounting for how markets adapt, human innovation and resilience. Despite an awareness of how powerfully we've changed in the past, it is easy to underestimate our ability to change in the future, a phenomenon psychologists call the end of history illusion.

Gains tend to be long-term in nature and progress can be too slow to notice, while setbacks happen quickly and more frequently to ignore. This makes pessimism easier to recall. The long-term growth in market price of the S&P 500 typifies this as illustrated in Chart 1. There is a long-term growth trend, but the various market crashes are normally top of mind. With hindsight, past market crashes are viewed as opportunities, but future crashes are mostly seen as a risk to be avoided.

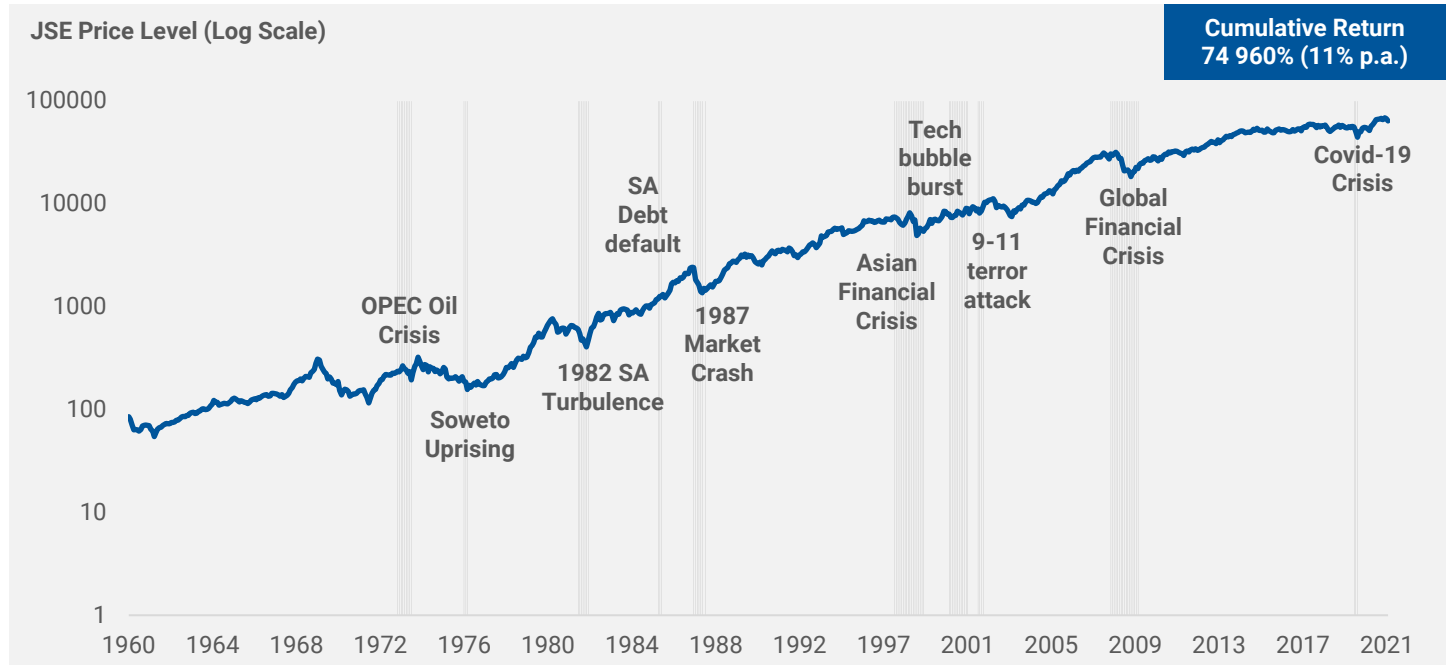
Chart 1: Long Term S&P 500 Price Level (Log Scale)



Source: Morningstar Direct (30 September 2021) / Return in US Dollars

The South African market shows a similar trend, through various challenging times which make it difficult to visualise where future market growth will come from.

Chart 2: Long Term FTSE JSE All Share Price Level (Log Scale)



Source: Morningstar Direct (30 September 2021) / Return in Rands

Current challenges mean headlines of deteriorating economic and market conditions, politics, and geopolitics continue to dominate. Though easy to be pessimistic about the market environment, it is important to remember that people respond to adversity and problems with novel solutions. Necessity is the mother of all invention and humans are endlessly innovative. As with history, threats incentivise solutions. Shocks and pain are the fuel for advancement and the cost of admission to enjoy the benefits of long-term improvements.

The fruits of investing are enjoyed with a long enough investment time horizon. Volatility is the price you pay for long-term investment success. With Seed as your partner, guiding you through the investment journey, even the volatile periods are manageable.

Kind regards,



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Head of Research

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