



Entropy and Investments

I would hazard a guess that very few investors consider investments and strategy through the lens of **entropy** – a concept that influences every aspect of our lives. Once understood, you will begin to see entropy everywhere, including in the financial markets. It is equally important to recognise the people, companies and systems that effectively combat entropy.

What is Entropy?

Entropy is a term from physics that relates to the second law of thermodynamics. This law states that in a closed system, **disorder or randomness will increase over time**. The concept has also been adapted in information theory, where it measures the **randomness of a set of information**.

In essence, entropy represents the natural tendency of system to move from order and functionality toward greater disorder unless energy is introduced to counteract this process. Entropy explains why ice melts, why your desk becomes more cluttered over time, why organic matter decays, why a spray of perfume disperses in a room and why buildings deteriorate.

Examples in the Financial World

In economics and finance, entropy manifests in various forms that we often discuss, including market price volatility, currency devaluations, company bankruptcies, high inflation and financial crises, etc. Entropy in investments represents the inherent disorder, uncertainty and unpredictability of financial markets.

Counteracting Entropy

Human ingenuity, technological advancements and scientific discoveries all play a crucial role in countering entropy. This is evident in fields like energy, medicine and construction, it is also visible in the many businesses that develop innovative products, solutions and scalable systems.

Entropy as an Opportunity for Profit

Companies that successfully innovate and push back against the effects of entropy on a large scale can add value and generate sustainable profitability. An example:

1) Amazon

This company exemplifies the battle against entropy through its sophisticated logistics and supply chain management systems. By optimizing its operations, Amazon minimizes waste and ensures timely delivery of millions of products worldwide.

2) Amazon Web Services (AWS)

A significant part of Amazon, AWS consolidates huge amounts of decentralised computing power and offers accessible, reliable and scalable cloud services globally.

Conclusion

Understanding entropy's impact on the world and on investments highlights the importance of strategies that mitigate its effects. These strategies include risk management, efficient data handling, access to quality information, diversification and continuous monitoring of asset allocation. By addressing entropy proactively, investors can better navigate the complexities of financial markets.



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