

The Investment Odyssey: Avoiding the Sirens of behavioural bias



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“The Odyssey” by Homer is an ancient Greek epic poem that tells the tale of the Greek hero Odysseus and his challenging journey back home after the Trojan War. It introduces the Sirens, mystical beings who entice sailors to their doom through captivating songs that draw them closer to their island, ultimately causing shipwrecks on the rocky shores.

Odysseus’ response to the Sirens’ threat offers a valuable lesson for investors. He sought to protect his crew by instructing them to plug their ears with beeswax, preventing them from hearing the Sirens’ calls. However, he was curious about what the Sirens were saying, so he had his crew tie him to the mast and not release him until they had passed the Sirens’ island.

In the world of investing, investors face their own version of Sirens in the form of behavioural biases. These biases constantly sing their hypnotic songs, tempting investors to succumb to these behavioural pitfalls. There are several ways in which the Siren’s song can lead your investment portfolio to crash on the rocky shore:

Herd mentality: The Sirens encourage you to follow the crowd, which can lead you to buy overvalued stocks or sell stocks with temporary setbacks. In recent years, message boards such as Reddit have encouraged retail investors to speculate in risky stocks. In 2021, after a Reddit forum called WallStreet Bets encouraged the masses to buy stock in AMC Networks to increase the share price and hurt the hedge funds that had shorted it, the stock price grew massively, attracting more investors. Over the year, the share price moved from \$15 to \$387. AMC Networks took advantage by issuing more stock. The hype eventually dissipated, leaving remaining holders watching the diluted share price fall to \$95 within months, and it has continued to fall since, currently trading between \$8 and \$9.

Anchoring bias: Sirens will highlight the current environment and make you believe that it will persist. A recent example would be the COVID-19 lockdowns, with the Sirens’ call pushing stocks that befitted the lockdowns. Zoom Video Communications, the video conferencing platform, saw its share price move from \$67 pre-COVID-19 to \$568 prior to the vaccine being announced. It currently trades back around \$67, as people return to the office.

Fear of Missing Out (FOMO): This fear has led many investors to participate in asset bubbles throughout history. For instance, during the 1630s, Tulip Mania saw tulip bulb prices rise to astonishing levels, with one bulb even costing as much as a house. Eventually, the bubble burst, resulting in significant losses for those involved.

Unfortunately, you can’t simply plug your ears with beeswax or tie yourself to a mast to avoid these behavioural biases. However, you can take steps to mitigate their impact. Strengthen your research, diversify your portfolio, and maintain a long-term investment horizon. By following this advice, you can build immunity to the Sirens’ call and navigate the investment world’s treacherous waters, arriving unscathed at your financial goals, with a well-earned treasure in your portfolio.

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Source: All figures are from Bloomberg Finance L.P.



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Market Focus - 18 September 2023

- » Global equities rose by 0.4% last week
- » All major equity indices other than the US saw positive returns
- » Brent Crude oil continued to trade higher last week, closing above \$93 per barrel for the first time since November 2022
- » Gold rose by 0.3% to \$1923.91 per ounce

US

- » US equities fell by 0.1% last week
- » August headline Consumer Price Index (CPI) came in at 0.6%, driven higher by recent strength in energy prices, whilst the core reading came in a little higher than consensus at 0.3%
- » Headline Producer Price Index (PPI) also came in higher than expected at 0.7% for August (vs. 0.4% expected)
- » Weekly initial jobless claims for the week ending 9 September came in below consensus at 220k (vs. 225k expected), taking the four-week moving average to its lowest level since late February

UK

- » UK equities increased by 3.2% last week
- » July's Gross Domestic Product data showed a contraction of -0.5% (vs. -0.2% expected)
- » We also saw weaker than expected employment data, with the number of pay rolled employees falling -1k in August (vs. an expected 30k increase). The unemployment rate over the three months to July rose to its highest level since September 2021 at 4.3%
- » The Royal Institute of Chartered Surveyors (RICS) house price balance survey for August fell from -53% to -68%, a new post-Global Financial Crisis low

Europe

- » European equities rose by 1.2% last week
- » The European Central Bank (ECB) announced a 25bp rate hike, taking their deposit rate to 4%, the highest level since the euro was launched in 1999
- » ECB policymaker Muller noted that higher inflation in the Eurozone could "yet warrant another hike" and this was followed by comments from ECB President Lagarde that interest rate cuts were not yet on the table
- » The European Commission downgraded its growth forecast for the Euro Area in 2023 and 2024 to 0.8% and 1.3% respectively

Rest of the World/Asia

- » Global emerging market equities rose by 1.2% last week
- » Chinese equities were flat, whilst Japanese equities rose by 2.9%
- » August producer prices in Japan rose 3.2% year-on-year, slowing from 3.4% in the prior month
- » The Peoples Bank of China further ramped up stimulus by adding a net 191bn yuan into the financial system via a one-year policy loan, shortly after announcing another 25bp cut to its reserve requirement ratio
- » Industrial output in China for August advanced 4.5% year-on-year, whilst retail sales grew by 4.6% ahead of expectations of 3.0%

Market Summary - 18 September 2023

Cumulative returns					
Asset Class / Region	Currency	Week ending 15 September	Month to date	YTD 2023	12 months
Developed Markets Equities					
United States	USD	-0.1%	-1.2%	16.9%	15.4%
United Kingdom	GBP	3.2%	4.0%	6.3%	9.5%
Continental Europe	EUR	1.2%	0.2%	12.2%	15.8%
Japan	JPY	2.9%	4.1%	30.2%	27.9%
Asia Pacific (ex Japan)	USD	1.3%	0.6%	2.9%	4.8%
Australia	AUD	1.8%	0.3%	7.1%	10.9%
Global	USD	0.4%	-0.8%	15.2%	16.2%
Emerging Markets Equities					
Emerging Europe	USD	-1.4%	-4.1%	16.9%	48.2%
Emerging Asia	USD	1.2%	0.9%	4.7%	5.0%
Emerging Latin America	USD	3.9%	1.3%	17.1%	18.9%
BRICs	USD	0.8%	1.2%	1.2%	1.0%
China	USD	0.0%	-0.7%	-5.3%	-3.4%
MENA countries	USD	0.0%	-1.6%	1.5%	-8.5%
South Africa	USD	0.0%	-1.8%	-8.3%	0.5%
India	USD	1.7%	4.3%	11.9%	9.6%
Global emerging markets	USD	1.2%	0.6%	5.2%	5.5%
Bonds					
US Treasuries	USD	-0.3%	-1.0%	-0.1%	-1.4%
US Treasuries (inflation protected)	USD	-0.3%	-0.6%	0.5%	-2.3%
US Corporate (investment grade)	USD	-0.3%	-1.1%	1.8%	1.6%
US High Yield	USD	0.2%	-0.1%	7.1%	7.2%
UK Gilts	GBP	0.3%	-0.2%	-3.5%	-7.0%
UK Corporate (investment grade)	GBP	0.6%	0.3%	1.5%	0.4%
Euro Government Bonds	EUR	-0.6%	-1.6%	1.1%	-4.0%
Euro Corporate (investment grade)	EUR	0.0%	-0.4%	2.8%	1.2%
Euro High Yield	EUR	0.5%	0.8%	6.6%	7.3%
Japanese Government	JPY	-0.3%	-0.3%	0.0%	-2.6%
Australian Government	AUD	-0.1%	-0.3%	2.1%	1.3%
Global Government Bonds	USD	-0.5%	-1.7%	-2.0%	-1.2%
Global Bonds	USD	-0.4%	-1.7%	-0.2%	0.5%
Global Convertible Bonds*	USD	0.1%*	-1.1%*	3.7%*	3.9%*
Emerging Market Bonds	USD	-0.3%	-1.2%	2.4%	4.4%

Cumulative returns					
Asset Class / Region	Currency	Week ending 15 September	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	0.8%	-0.3%	4.1%	-1.6%
Australian Property Securities	AUD	-1.0%	-3.3%	3.8%	3.2%
Asia Property Securities	USD	-0.9%	0.3%	-7.6%	-8.0%
Global Property Securities	USD	0.4%	-0.5%	1.4%	-2.1%
Currencies					
Euro	USD	-0.3%	-1.5%	-0.4%	6.7%
UK Pound Sterling	USD	-0.5%	-2.1%	2.5%	8.0%
Japanese Yen	USD	-0.1%	-1.6%	-11.4%	-3.0%
Australian Dollar	USD	0.9%	-0.5%	-5.6%	-4.2%
South African Rand	USD	0.7%	-0.6%	-10.4%	-7.6%
Swiss Franc	USD	-0.4%	-1.5%	2.8%	7.1%
Chinese Yuan	USD	1.0%	-0.2%	-5.2%	-3.9%
Commodities & Alternatives					
Commodities	USD	1.8%	2.5%	3.0%	3.4%
Agricultural Commodities	USD	0.9%	0.7%	4.5%	4.0%
Oil	USD	3.6%	8.1%	9.3%	3.4%
Gold	USD	0.3%	-0.9%	5.5%	15.6%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.
*Global Convertible Bonds figures as at 12 September 2023.

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