

# What you don't want to hear from your financial adviser

## Money Matters

Mark Williams

Investors hate ambiguity and seek certainty, which is why we dislike the idea of randomness. We want our advisers to know what is going on.

Financial experts must speak confidently and explain what is driving markets. Every day "confident" market commentators explain why the stock markets went up or down.

You don't want your adviser saying he has no idea why markets changed for the day. So we mistakenly focus on the latest event to explain or rationalise market movements.

But it's chaos out there. The very same share can go up 3% in the

morning and 5% down in the afternoon for no plausible reason. Top forecasters never win an award twice in a row; the best they can hope for is to get it approximately right.

Investors must overcome their inherent aversion to ambiguity. Expect surprises, because nobody truly knows. Yet we spend vast amounts of money trying to forecast the future.

Ironically, even if you could accurately predict an occurrence, how the market reacts is anyone's guess. So it's unlikely you'd profit from this information, even if you knew.

Humans are emotional; we're always switched on, probably due to our prehistoric days when our emotional response was the difference between being and having lunch.

These days, the threat of risk of losing or the opportunity of making money on the market produces the same emotive response, overriding rational thought processes. Therefore, it's difficult to "swim upstream". It's counter-intuitive to our instincts; we are comfortable following the "herd".

Investors prefer to buy shares when the price is rising and sell shares when it's falling. By buying when everyone else is buying we avoid the risk of being different or wrong alone. We take comfort in knowing if we are wrong, everyone else is also wrong, which is irrational investor behaviour.

Sir John Templeton said: "An investor who has all the answers doesn't even understand the questions." – [www.mwwealth.co.za](http://www.mwwealth.co.za)



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