Inflection point

Money Matters

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Expectations regarding the future are usually an extrapolation of the recent past; in behavioural finance this is known as hindsight bias, which is one of the most common mistakes made by investors and I am not only referring to Mr Joe Soap investor, but the professionals alike.

I would like to make a case that the next decade will be nothing like the past. What worked well for investors over the last 10-plus years will not work over the next 10 years. You may be better-off investing in the loser trades of the last decade.

Truth be, I do not have any more insight than the next investor, but as a student of investor behaviour I have seen this "movie" before. Investors are unable to recognise an inflection point until long after the fact, notwithstanding the obvious indicators at the time.

We are currently at an inflection point, which most investors are ignoring or unwilling to accept. I am referring to the end of global liquidity as central bankers begin to unwind the extraordinary stimulus unleashed during the Covid-19 crisis as global growth takes over and inflationary pressures build. The handover from liquidity to growth is unlikely to be a smooth transition and will surprise investors blinded by hindsight bias.

The ensuant crisis and volatility will once again provide long-term investors with an opportunity to exploit the irrational market behaviour as investors adjust to the new normal.

What will make this inflection point particularly painful is the length of time the market has been skewed by unconventional central bank policy, which has now become widely accepted and even celebrated.

Sandy McGregor of Allan Gray said: "Central banks have so aggressively manipulated asset prices, seeking stability at any cost, that the way the economy is changing is more hidden than normal." – *www.mwwealth.co.za*