

# Why things are better than you may think they are



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Money Matters

I just finished reading a book, *Factfulness* by Hans Rosling, who spent the latter part of his life convincing audiences around the world that the world was in a much better place than what they thought.

He used a set of general-knowledge, multiple-choice questions, which he posed to academics, politicians and many other smart people all over the world. He then compared the various group scores to those of a chimpanzee – and no guesses for who scored higher. The chimp won, proving his thesis that world is better than how we may see it.

One of his key reasons for our negative view is our failure to recognise or more importantly measure when factors are improving, and this is particularly relevant when

things are bad. South Africa is a perfect example of this behaviour.

We all know that things are bad, the lost decade under the Zuma administration has left us feeling hopeless with endemic corruption exposed by the Zondo Commission exceeding even the most pessimistic views. The economy in tatters with unemployment, poverty, and inequality at all-time highs with resultant social instability rising. The politicians are seemingly incapable of delivering on any policy reforms to fix the failing economy.

Braai conversations now revolve around “what is your plan B” and we discuss stories of the massive semigration happening to the Cape. What we miss is that things are getting better and that is because we are stuck in the past. Yes, it is bad now, but it is getting better... and therein lies the opportunity and life’s lesson for all of us.

In behavioural finance, we refer to rear-view mirror investing or recency bias, which is when investors mistakenly project past performance into the future expecting the same returns to continue, which invariably leads them to selling low and buying high.

Flatline performance for the JSE over the last five years has set-up the perfect buying

opportunity with attractive share prices on offer, but no takers as most investors expect the poor returns of the past to continue, because “things are bad”; they fail to recognise that prices are cheap precisely because things are bad and most importantly that things are getting better.

As an investor if you wait for the light to turn green and/or rosy consensus before investing you would have missed the opportunity and thus the prospect of outperformance. Just the same as those investors who chase past performance investing in the winning shares of the past expecting the outperformance to continue and more likely to be disappointed with below average future returns owing to having bought expensive.

Another behavioural finance bias, which goes hand-in hand with recency bias is confirmation bias, this is when an investor will only look for and see information, which supports their view. No better example than South Africans who have immigrated feeding on negative South African news.

As investor you need to engage your rational brain and you can do this by measuring changes in key drivers of future returns and try block out the noise, which is everything else. –

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