AN EPIDEMIC OF CERTAINTY

4TH QUARTER 2023 COMMENTARY • KORI ALLEN, CFP®

Towards the end of every year Wall Street firms come out with forecasts, often calling them "long term capital market assumptions," or LTCMA. The "long term" part might be their way of hedging bets while appearing authoritative. As numbers people, we love probability and statistics, but really, no one knows exactly what is going to happen. Our expectation is that we will always revert to some mean or pattern. The problem lies in guessing when that reversion will happen. Many assume that these forecasts should lead to investment strategy revisions. We resist.

"The markets" reflect many elements: the underlying economy, governmental regulations, company profits, innovation, and consumer and investor sentiment to name a few. In the midst of financial papers running predictions, NY Times columnist, Jeff Sommer, penned, "Wall St. Loves to Guess, but Nobody Knows What the Market Will Do in 2024". In his column, he advises that predictions, when correct, are accidental and then recounts some 2023 prophecies that did not come to pass. https://www.nytimes.com/2023/12/23/business/wall-st-loves-to-guess-but-nobody-knows-what-the-market-will-do-in-2024.html. If your head is spinning, you are not alone.

During the recent global pandemic, psychologists started writing about an "Epidemic of Certainty." Certainty walks hand in hand with a common behavioral bias, confirmation. Confirmation bias is when a person only notices or accepts the evidence that supports their own beliefs. Shoring up this certainty is how we consume information and how various media serves it. Neurologically, we process information differently if we read on a screen versus paper. From a screen, there are fewer senses involved, so the comprehension and impression tend to be more superficial. Mix confirmation bias, with less nuanced thinking and media algorithms, and it is easy to see why so many of us are certain in our convictions. This certainty, however, is an emotional state, not an intellectual one. The more certain we are, the more focused we become on "our facts."

Everyone loves to hate on Portland these days and often it's related to drug abuse or unhoused. The evening of January 1st, I crossed the street to avoid a couple. She was laying on the ground, motionless, while her male companion was pleading for her to get up. Carrying this predominant Portland narrative, I did not reach out to this couple and rationalized that the companion would reach out to me if they needed assistance. I didn't want to get involved and was fearful of the unpredictability. After watching from my window, I finally called 911. Had I been closer, I would have seen blood pooled around the woman's head. Police arrived and then an ambulance transported her to the hospital for a head wound. Moss is also a dominant Portland theme, and she could have easily slipped and fallen. Humility is one of the best ways to counter certainty and confirmation bias. I had been in an emotional state of fear which overrode logic and most importantly in this case, empathy.

What is certain in 2024? There are wars and geopolitical tensions. We have a US Presidential election in the Fall and one of the candidates is a former president with an unprecedented ninety-one indictments. There is also attention towards interest rates and post-pandemic worries around commercial real estate occupancy and loan balances. Humans, and the markets, are uncomfortable with uncertainty. We will continue to manage portfolios with our team approach favoring diversification and a focus on long term trends and your short and long-term goals. We aim to do this with humility, questioning our assumptions and biases.

The following are a few cognitive biases for reference. Understanding these may be useful at times of stress or overwhelm when markets or politics feel particularly squirrelly:

AN INCOMPLETE LIST OF COGNITIVE BIASES

A cognitive bias is a subjecive rather than objective reality and sometimes can lead to an illogical interpretation, irrationality or perceptual distortion.

1. **COGNITIVE BIAS:** Looking for or overvaluing information that supports our own beliefs.
2. **GAMBLER'S FALLACY:** Believing something will happen because it has not yet happened.
3. **GROUP ATTRIBUTION ERROR:** Assuming one interaction or experience of a member of a group is representative of an entire group.
4. **STORYTELLING BIAS:** Stories appeal to emotions and personal experience. People prefer relatable stories over logic and facts.
5. **LOSS AVERSION:** Humans dislike losses more than gains. This can explain a "disposition" effect, where investors often do not want to sell a losing position. This bias is related to the "Gambler's Fallacy" and sunk cost fallacy.
6. **SUNK COST FALLACY:** The tendency to continue an endeavor when it has cost time, money or other resources and the cost may or may not be greater than the benefits.
7. **PRESENT BIAS:** What is known, or present is favored over the abstract future. This is also our tendency towards immediate gratification over deferred gratification.
8. **AVAILABILITY OR ATTENTION BIAS**: The more we see or hear of a subject, the more we believe in its truth, trustworthiness, or possibility that it will continue..
