INVESTMENT

Investment hubris a handicap in pandemic era

Tahn Sharpe August 3, 2020

(Clockwise, from top left) Graham Rich, Joe Fernandes, Maroš Servátka and Rob Prugue

In light of the havoc caused to markets and models by the coronavirus pandemic, a panel has discussed the need for critical thinking about investment beliefs and the importance of intellectual humility over hubris in our assessment.

Presenting on the Portfolio Construction Forum's '*We don't know what we don't know*' webinar recently, Principal consultant at Callidum Investment Research, Rob Prugue, said we need to look outside the previous models and see what's best for clients today and tomorrow, which means adjusting to a virus-plagued market and economy.

"Our greatest challenge is not how we manoeuvre portfolios under Covid-19, rather why do we insist on using the same metrics and tools we used under different scenarios and presuppose they can be used today?" Prugue posed.

These worked in the past, he continued, but the market is "totally different" now. There is comfort in using the same systems and tools, but investors need to get uncomfortable.

"Covid-19 is clearly unique [and] none of us have made forecasts under similar scenarios," Prugue said. "We've morphed from a period of volatility to a period of uncertainty. Volatility you can forecast, but uncertainty is unknown."

According to fellow panellist Joe Fernandes, principal and founder of GQF Group, investors should be wary of what they think they already know about markets. In such an unprecedented economic environment, the danger of hubris is amplified.

"We need intellectual humility, we need to question and test our beliefs with the benefit of some diversity of thought," Fernandes said.

Cognitive biases persuade us to think the knowledge we've gained is truth, he explained. We tend to reward the views that we already hold strongly, rather than test them, and it is this motivated reasoning that leads to the kind of "blind followship" that can handic

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"Confidence is not a good predictor of accuracy," he said, before explaining how his team at Macquarie was taking a "pragmatic, almost scientific approach to challenging assumptions".

There is a balance required, Servátka explained, between maintaining conviction and embracing the opportunities to learn. Making mistakes and questioning why they were wrong provides far more value than simply confirming previously held beliefs that may still be held in error.

"Being wrong is actually good," he said. "If we are right it just confirms our former beliefs, when we are wrong we acquire something new."

CALLIDUM INVESTMENT RESEARCH, ECONOMY, GQF GROUP, GRAHAM RICH, INVESTMENT, JOE FERNANDEZ, MACQUARIE UNIVERSITY, MARKETS, MAROŠ SERVÁTKA, PCF, PORTFOLIO CONSTRUCTION, ROB PRUGUE

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