

The first great debate



TONY BELL,
VUNANI FUND MANAGERS

Last year, the Nobel Prize in economic sciences went to three individuals for their work on asset prices: Eugene F Fama, Robert J Shiller, and Lars Peter Hansen – two of which have completely opposing views. Fama espouses market efficiency and the wisdom of crowds while Shiller believes that behavioural aspects materially impact price levels and that markets can be subject to extraordinary popular delusions and the madness of crowds. The Nobel deliberations tease out the plethora of conflicting views and philosophies that comprise the investment landscape.

Ten years ago, *Collective Insight* was created for exactly the same reason – to tease out differences in a way that would add to the discourse – while at the same time informing all readers of the publication.

As the first edition was published in the summer of 2003, it should come as no surprise that economics and investing, followed by asset allocation in the second

edition, formed the focal point. This was clearly important given the magnitude of the equity market decline between 2001 and mid-2003. But was the thinking critical enough to provide a framework that would identify the boom and bust cycles that lay ahead?

Deon Gouws provided an excellent foundation by setting out the differences in philosophy and approach in much the same way as the latest Nobel Prize has done. His assessment of George Soros hits the mark: “No discussion of the link between investing and economics can be complete without . . . the theory of reflexivity, as explained by Soros in *The Alchemy of Finance* . . . Soros contends that economic reality does not only influence market prices but that the relationship simultaneously also works in the opposite direction – i.e. markets can influence the events they anticipate.”

Consider for a moment how relevant this is today as markets grapple with cen-