

Conversations over calculus

Why smart people make money mistakes.

In a previous life, I used to be an accountant. Numbers were central to everything that I did. Consolidated financial statements. Weighted average cost of capital calculations. Detailed tax returns. I used to enjoy all that. So much so, that I ended up lecturing final-year students for four years in the early '90s, helping them prepare for the dreaded chartered accountancy examinations. Then came my lucky break. I was invited to join the equity research team of a large institutional fund manager.

At my first morning meeting, an experienced colleague provided an update for one of the companies he was responsible for. He concluded with a bullish view based on a forward price earnings (PE) ratio which was "simply too cheap".

Even though I had been scanning through the pages of *Financial Mail* for years, I couldn't remember ever coming across that term. PE ratio, yes, that was bread and butter to me – simply divide the market capitalisation of the company by its total reported earnings. But this was clearly too simplistic for the genius members of my new team... they were already basing their recommendations on detailed forecasts of NEXT year's earnings – how clever is that! I thought I had reached the Holy Grail.

Markets are often driven by emotions.

Over the ensuing years, a mild sense of disillusionment started to settle in. I ended up learning that, sadly, most analysts do not in fact have perfect foresight. To be frank, I never really backed myself in that regard either. My early track record of successful investment calls, based on reams of research, could probably be replicated by tossing a coin.

Then, just before we entered the new millennium, a friend gave me a book which changed my life for the better. It was called *Why Smart People Make Big Money Mistakes - And How to Correct Them* by Gary Belsky and Thomas Gilovich. This was my first brush with the world of behavioural finance, which was essentially a brand-new field in the '90s (the first Nobel Prize in Economics for work in this field was only awarded to Daniel Kahneman in 2002).

The message resonated. In a nutshell, numbers may be important, but markets are often driven by emotions and long-term investment outcomes depend more on your psychological traits than in-depth analysis. We are human, after all, which means that greed and fear take turns to rule.

I was a convert. I realised it wasn't a sin to fall out of love with spreadsheets, while being faithful to the spoken and written word. Conversations with clients mean more than graphs and tables to me. I never really mastered the Bloomberg system, with all its weird prompts and shortcuts (thankfully, I have colleagues who can



help with that). And yet, I've been able to craft a career in investing for more than three full decades now.

I am not suggesting that narratives mean more than numbers in the world of investing. There's a place for both; I just know where I fit in.

I'm also not worried that AI will replace me in my role as trusted advisor to clients anytime soon. When the next pandemic hits, or the USA decides to start another war and markets start looking a bit shaky, who would you rather talk to: Claude, with all its "knowledge" garnered from scouring the whole Internet, or a warm body, who has lived through a few crises in his or her career – one who shares human traits with yourself?

I may not have all the answers (I seldom do). But I'm always prepared to discuss with a client how I'm responding to market turbulence – even if it boils down to doing nothing and riding it out (which is probably the best approach, often).

Having entered my 60s recently, I'm still enjoying it – especially the human element. I hope to keep on doing it until I lose my marbles... hopefully later rather than sooner! ■



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