



Investment Insight

Friday, 6 April 2018

Bad behaviour: Investing is inherently probabilistic, and no one knows exactly what the future of a company or the broader economy might hold. In order to navigate this uncertainty, investors need to avoid behavioural biases in their decision making. As human beings we are exposed to emotional bias that can result in making the wrong decision at the wrong time. However, avoiding these biases is, for many people, easier said than done.

In **The Inside Track** we remind you of an old test from *Behavioural Investing 101*...even if you've seen it before there's no guarantee you'll get the "right" answer this time!

It's over. The recession's over. Winter isn't. How do we know? The weather has replaced the economy as Ireland's top casual talking point. The 2017/18 winter feels like it has been long, wet and cold, but is this just a misplaced perception or is it actually the case? While the relevance to investment and finance isn't clear even to us, it's come up so often recently that we thought in **Pic of the Week** we'd take a look!

Quoted...

"Of all the hazards, fear is the worst" – Sam Snead

The Inside Track

How emotionally disciplined are your investment decisions? Here's a simple test to help you find out.

You are going to win some money. You have two doors in front of you and you can only choose one. Door A offers a guarantee that you will win €300 – you can take it away right now. Door B offers an 80% chance of winning €400 but with a 20% chance of winning nothing at all. Which door do you choose?

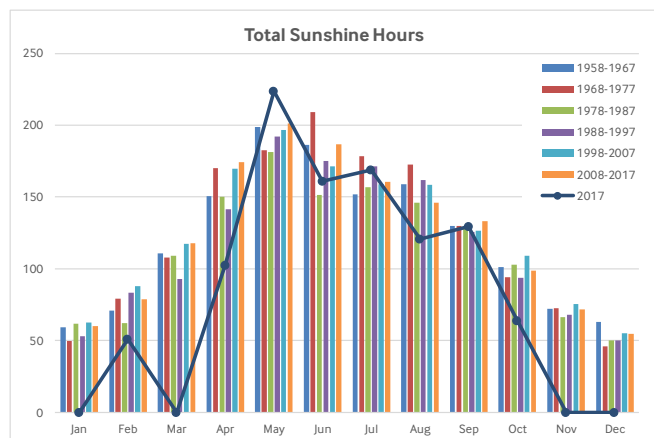
Now, the same doors, just this time you are going to lose money. Door A offers a certainty that you will lose €300. Door B offers an 80% chance of losing €400, but there is a 20% chance of losing nothing at all. Which door do you choose?

The majority of people choose Door A first and then Door B the second time. However, the emotionally rational investor *should* choose precisely the opposite in order to maximise their expected returns. Door B in both cases offers a probabilistic outcome of €320, winning or losing. The majority of people choose certainty in the first example, when taking risk is appropriate, and yet they take risk in the second example when no risk is appropriate.

We are hard wired to take risk at the wrong time, and in investing, when we have to make continual investment decisions, we need a disciplined process to help lean the statistics of getting it right in our favour. Or, simply put, to get the best outcome we need to take the emotion out of our investment decision making.

Pic of the Week

With temperatures still regularly falling below zero and Met Eireann issuing seemingly continuous weather alerts (at the time of writing there are two Yellow rainfall alerts), we decided to see how recent weather has compared with historical patterns. If your gut sense told you that 2017 wasn't a great year for sunshine, you were absolutely correct. As the chart shows, not alone were sunshine hours (measured at Dublin Airport) 30% below the 60-year average, every single month apart from May and July was below the last-10-year average. And to help explain why this Winter has felt like a very long one, refer to the November and December sunshine hours...zero! Now, time to investigate some travel agent stocks!



Week ahead: Key events

- 09/04 Japan Consumer Confidence
- 09/04 UK House Price Index
- 10/04 US Labour Statistics & Retail Sales
- 11/04 UK Trade Data & US CPI
- 12/04 Eurozone Industrial Production
- 12/04 US Consumer Comfort Index
- 13/04 Japan Retail Sales & Germany CPI Data

Market View

	Last 7 days (€)	Last 12 mths (€)	YTD (€)	5Y Ann. (€)
Global equities	+2.0%	-0.2%	-3.5%	+10.7%
US equities	+2.2%	-0.4%	-3.4%	+13.7%
European equities	-0.5%	-0.9%	-5.5%	+7.2%
EM equities	+2.7%	+7.7%	-0.0%	+6.0%
Irish equities	-0.1%	-1.1%	-7.0%	+10.8%
Commodities	+0.9%	-9.1%	-3.0%	-7.8%
Hedge funds	+1.0%	-0.1%	-1.4%	-1.2%

Currencies	Current	YTD Δ
EUR:USD	1.2251	+2.1%
EUR:GBP	0.8739	-1.7%
EUR:CNY	7.7231	-1.1%
GBP:USD	1.4018	+3.8%
Bitcoin	6,813	-53.0%

Commodities	Current	YTD Δ
Gold	1,326.58	+1.8%
Copper	6,625.00	-7.4%
Oil	69.55	+4.4%
Wheat	460.00	+7.8%

Central Bank rates	Current
Eurozone	0.00%
USA	1.25%
UK	0.25%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.9%	+0.5%	+7.2%
Germany	+0.5%	+1.4%	+2.9%
USA	+2.8%	+2.2%	+2.2%
China		+2.9%	+6.8%

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