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BE WARY OF THE WORDS 'THIS TIME IT'S DIFFERENT'

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Years ago, the legendary investor Sir John Templeton warned that the four most dangerous words for investors were: "This time it's different." Templeton believed investors tend to ignore lessons from history. They convince themselves that current circumstances are different; that the lessons of history don't apply.

Templeton warned that in most cases their thinking turns out to be wrong – and costly.

Let's take a closer look at why the words "This time it's different" are both tempting and dangerous.

In 2009 two scholars, Carmen Reinhart and Kenneth Rogoff, published research documenting 800 years of financial booms and busts in their book *This Time Is Different*. Reinhart and Rogoff's main points were that major financial crises occur quite regularly, and that a main cause is our failure to adequately take history into account. The trouble is, we think our own circumstances are special. As a result, we neglect the experiences of other people and of former times.

John Kenneth Galbraith concluded much the same in *A Short History of Financial Euphoria*, his wonderfully readable 100-page summary of financial extremes over the past 300 years. Galbraith concluded that all booms and busts share the same fundamental causes. The reason it's usually not really different each time, he suggests, is that the underlying causes are related to our human nature. Our attitudes and beliefs have changed little over the past several thousand years.

Ray Dalio, in his 2021 book *Principles for Dealing with the Changing World Order*, covers 500 years of history in the western world, plus thousands of years in China. Dalio reaches much the same conclusion: "I've come to believe that throughout history there are only a limited number of personality types going down a limited number of paths, which lead them to encounter a limited number of situations to produce a limited number of stories, that repeat over time. The only things that change are the clothes the characters are wearing, the languages they are speaking, and the technologies they're using."

Behavioral finance researchers document a number of biases that cause us to focus too much on what has happened recently and is easily available to our minds; and to ignore probabilities and history. Those biases, hard-wired into our brains, are an example of how our emotional brain can dominate our rational brain. The biases can lead us astray in our decision-making, for example, to booms and busts in our economy.

The biases can also cause us to make three costly types of errors in investing.

The first type is in market timing. We focus too much on short-term movements in the markets. We tend to act as if these moves will continue longer than likely. In turn, this causes us to want to get out of the market after the market has fallen for a while, and to add more to the market after it's had a few very good years. History has shown that we should do the opposite. But our emotions cause us to believe — yet again — that it's different this time. We then make mistakes based on this belief.

Second, these biases cause us to make errors in selecting specific investments. For example, history shows that stocks priced low relative to their underlying fundamentals perform better than those that are higher priced. But our biases cause us to ignore this. We favour companies that have been on a roll for a few years, even though they are priced much higher compared to their fundamentals.

Third, our biases cause us to make errors in selecting money managers and investment strategies. We are drawn to money managers who have had recent successes, even though these successes may have been simply caused by temporary good luck. We avoid managers with great long-term records who have only recently been unsuccessful.

So, what to do? The problem is that, while technology has given us much better access to longer-term history, it has also greatly increased the availability of recent news. That, plus the media's unrelenting focus on sensational and unusual events, has made it much more important to be aware of our biases.

Here's what we recommend. Realize that you are likely to be influenced by recent events more than you should. Spend less time reading and watching the daily news — and more time reading publications and watching documentaries with longer-term perspectives.

Finally, constantly remind yourself of the danger of those four words "This time it's different." Be aware that it's usually not that different.

Those who don't pay attention to, and don't learn from the errors of history are much more likely to repeat them.



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