Successful investing despite 115 million worries and Truth Decay

It may seem that the worry list for investors is bigger and more confusing than ever before. Some of this may relate to US President Trump's disruptive and "open mouth" approach as highlighted by the "trade war" and his frequent and sometimes contradictory tweets.

For example, on 24th July Trump tweeted "Tariffs are the greatest!" But 12 hours later he tweeted "The European Union is coming to Washington tomorrow to negotiate a deal on Trade. I have an idea for them. Both the US and the EU drop all Tariffs, Barriers and Subsidies!"

We think we know where he was coming from, but all this noise can create a lot of uncertainty for investors. But noise around Trump is part of a broader issue around information overload and broader again in terms of what a report by the RAND Corporation – a US non-partisan research organisation – has called "Truth Decay."

As we have observed in recent years, there seems to be a never-ending worry list for investors that is receiving greater prominence as the information age enables the ready and rapid dissemination of news and opinion. But we need to recognise that much of this is just noise and ill-informed and that there is a big difference between information and wisdom when it comes to investing. The danger is that information and opinion overload is making us all worse investors as we lurch from one worry to the next resulting in ever shorter investment horizons in the process.

Truth Decay – what is it and what are its consequences?

Truth Decay as analysed by the RAND Corporation report is characterised by: disagreement about facts and their analytical interpretation; a blurring between fact and opinion; an increase in the volume and influence of opinion and personal experience over fact; and declining trust in traditional sources of facts such as government and newspapers.

It's evident in: declining support for getting children vaccinated despite medical evidence supporting it; perceptions crime has increased when it's actually declined; and a lack of respect for scientific evidence around global warming. Elements of Truth Decay were evident in past periods like the 60s and 70s, but increasing disagreement about facts makes the current period different.

Why is Truth Decay relevant for investors?

Truth Decay is relevant for investors because: it could lead to less favourable economic policy decisions which could weigh on investment returns; and investors are subject to the same forces driving Truth Decay such that it explains why the worry list for investors seems more worrying and distracting.

First, just as with the broader concept of Truth Decay various behavioural biases leave investors vulnerable in the way they process information. In particular, they can be biased to information and particularly opinions that confirm their own views.

Secondly, thanks to the information revolution we are now exposed to more information than ever on both how our investments are going and everything around them. In some ways this is great as we can check facts and analyse things very easily. But the downside is that we have no way of assessing all the extra information and less time to do so. So, it can become noise at best, distracting at worst.

Five ways to manage information and opinion overload

To be a successful investor you need to make the most of the power of compound interest and to do that you need to invest for the long term and not get blown around by each new worry. And the only way to do that is to turn down the noise on the worry list.

First, put the latest worry in context. The global economy has had plenty of worries over the last century, but Australian shares still returned 11.8% pa since 1900 and US shares 9.8% pa.

Second, recognise how markets work. Shares return more than cash in the long term because they can lose money in the short term. Short-term volatility is the price wise investors pay for higher long-term returns.

Third, find a way to filter news so that it doesn't distort your investment decisions. For example, this could involve building your own investment process or choosing a few good investment subscription services and relying on them.

Fourth, don’t check your investments so much. On a day to day basis the Australian All Ords price index and the US S&P 500 price index are down almost as much as they are up. So, it’s a coin toss as to whether you will get good news or bad on a day to day basis. The less you look the less you will be disappointed and so the lower the chance that a bout of "loss aversion" will be triggered which leads you to sell at the wrong time.

Finally, look for opportunities that bad news and investor worries throw up. Periods of share market turbulence after bad news provide opportunities for smart investors as such periods push shares into cheap territory.

Source: AMP Capital