

# A Useful Lesson from the American Election

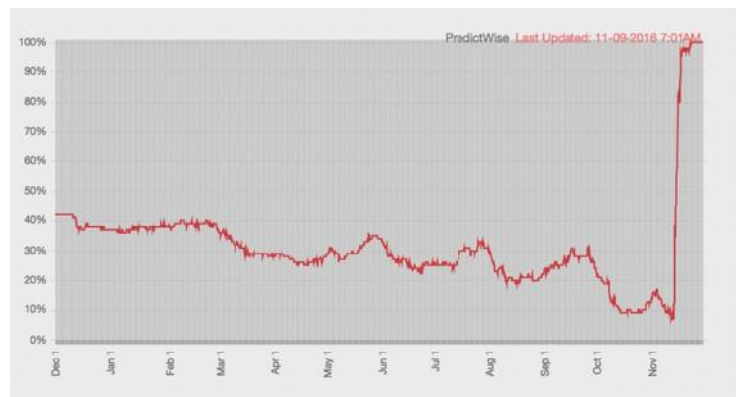
Psychologist Daniel Kahneman \* once said, "The idea that what you don't see might refute everything you believe just doesn't occur to us." This was true of the election, when many of us — on both sides — were surprised with both the direction of the campaigns and the outcome on election night, because we didn't see the world through the lens of what other Americans saw.

This can be true in many areas. You cling to an idea that you know must be true without realizing that what you see, in your world, may be a fraction of what's actually out there, and what you don't see might refute everything you do see.

The solution, once proposed by Kahneman himself, is to talk to as many different people as you can, and bounce your beliefs off of people who are in different emotional states than you are. A roomful of like-minded people will never truly understand where the world is heading next.

Consider what happened on the US Share Market. At midnight EST on the night of the election, market futures indicated the Dow would open the next day down 800 points, as traders rushed to sell. Instead, the market finished the day up more than 250 points. This is an example of how much money people can lose attempting to bet on the short-term direction of unknowable events. History shows that few periods cause people to make as many emotional, regrettable decisions with their investments as the days and weeks surrounding elections.

These (seen at right) are the betting odds that Donald Trump would win the election. You would think stuff like this would humble our willingness to predict what might occur next in the economy and stock market. Alas, it has not. To quote Kahneman again, "When we are surprised, we try to learn what happened, but "the correct lesson from surprises is that the world is surprising."



Big data is powerful and important. But as hundreds of polls and predictions showed us, it's not infallible. Nassim Taleb \* once said, "The calamity of the information age is that the toxicity of information increases faster than its benefits." This is so true, and it's relevant to investing as well. The best investors I know obsess over data, but don't pretend it has all the answers. Einstein said it best: "Not everything that counts can be counted, and not everything that can be counted counts." The power of things like brands, passion, cooperation, and values often can't be quantified, but make a tremendous difference in outcomes.

Information provides whatever you're willing to take away from it. It's crazy to think that more information is making us less informed. But that seems to be the path we're on. And I suspect the reason for this is that the truth is not what people are seeking out. After all, it's easier to confirm what you think you already know than it is to learn and accept something you don't already know. And given the abundance of sources on the internet, people have tended to find their news and information where it most conveniently confirms what they think they already know.

\* I've referred to both Daniel Kahneman and Nasim Talib in previous issues of my newsletter. Both have written excellent books I highly recommend.

- Kahneman <http://www.bushwalkingholidays.com.au/newsletter69.shtml#think>
- Taleb <http://www.bushwalkingholidays.com.au/newsletter62.shtml#swan>  
<http://www.bushwalkingholidays.com.au/newsletter65.shtml#anti>

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