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Comparison may be the thief of joy but nostalgia is the tar trap of investment



was in the car a few days ago when *Valerie* by Steve Winwood came on the radio. It's one of those songs that causes me to look back with nostalgia on the Eighties. Carefree schooldays, cars and girls – it's easy to get lost in the nostalgia. The only problem is, I didn't particularly enjoy the Eighties, and I was glad to see the back of it.

Now you may wonder why a financial planner is writing about misplaced nostalgia but it's a concept which is important, maybe critical, for investors in the stock market today. This isn't something that only just occurred to me – I've been conscious of it for a few years. There is a mismatch between the actual past and how we think about the past, and it causes problems with how we think about life and about investing.

I recently came across an article by Morgan Housel, titled *A Message from the Past*, that tackles the issue. His thoughts on this may be useful for investors or indeed for anyone thinking about how satisfied they are with life.

Housel describes talking fondly to his wife about their early twenties in Seattle, only for her to ask what he was talking about, as it was in her view a period in which he was "more anxious, scared and probably depressed" than he had ever been. On deeper reflection he agreed that this was definitely the case. So how could he misremember it so badly?

According to Housel, when we recall a past period in life we may remember it with fondness, even if we weren't at all happy during the period in question. This is because we know what eventually transpired, which most of the time is that it worked out fine. This makes it difficult, almost impossible, for us to recall how we felt at the time. Instead "we remember how we think we should have felt, given what we know today".

When investing there are multiple factors that can cause us to process information incorrectly and which can cause us to act in ways that will hurt rather than help our investments. As Benjamin Graham, the economist, said:

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"The investor's chief problem, and even his worst enemy, is likely to be himself." These flaws in the human thought process are called behavioural biases.

I once heard someone say that in order to be a successful investor you have to be an optimist. When you think about misplaced nostalgia, you can see how this could be the case.

A person who has been invested in a

passive global equity fund or indeed the S&P 500 index for the past 15 years has made a lot of money, and it feels like it was easy. When they compare that easy run to what may be ahead, they may be starting to feel like this is a good time to get out of the market.

So was it really an easy run? If the investor examined the situation more closely, they would realise that nothing could be further from the truth.

During the early years of his investment, we had the European sovereign debt crisis. In 2010 we had the flash crash with one of the most turbulent days in the history of the stock market. In 2011 the S&P 500 entered a bear market between May and October, declining by 22 per cent. We had huge uncertainty caused by the Brexit vote in 2016. The S&P fell by almost 20 per cent in late 2018 and by 34 per cent in 2020 at the start of the global pandemic. In the first six months of 2022 the S&P declined by almost 21 per cent. We had the global supply chain crisis from 2021

to 2023 and the inflation spike from mid-2021 to mid-2022.

The investor has largely forgotten all the events that caused sleepless nights in the past but looking forward they are thinking about the Russian invasion of Ukraine, unrest in the Middle East, the huge US debt pile, concentration risk caused by the march of the so-called Magnificent Seven tech stocks, and a potentially damaging world trade war – and that's only the known unknowns.

A client of mine considering a large investment recently asked me whether it was a wise move, given the gains in the stock market since its nadir in March 2009. It's a common sentiment.

My response was to quote Housel, who said: "The past wasn't as good as you remember. The present isn't as bad as you think. The future will be better than you anticipate."

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