

Hindsight is 20/20: The Fallacy of lessons from looking back



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“HISTORY REPEATS ITSELF!” “We must learn from History!”

How often do we hear such phrases? The implication being there are things that have happened in the past that we can learn from and apply to similar situations in the future.

We often look back on our experiences and hopefully learn from our mistakes, well at least that is the smart thing to do we are told.

But hindsight is 20/20 when it comes to finance and investing.

Once the outcome is known, it does not take long for the ‘experts’ to come out of the woodwork to explain to the public at large what an obvious outcome this was, that there was no other possible conclusion but what unfolded given the current situation.

For instance, before the Reserve Bank is due to make interest rate announcements, financial journalists and analysts will list down all the reasons for what they think is going to happen. And really there is a range of opinions.

However, once the announcements are made, isn’t it uncanny that all the experts agree this was the most likely scenario anyway!

In hindsight, the events that unfolded could be logically explained and should have been expected. This is the “Hindsight Bias,” and it can have a significant impact on your investment experience. It is so easy to be an expert after the fact.

We are coming up to the season of forecasts and investment tips.

There will be heaps written about the next hot sector and the top 10 best stocks to invest in.

Be wary of these predictions as speculating can only have one of two equally likely outcomes – you can be right, or you can be wrong.

The big question is do you want to take chance?

But here is where history comes back to rescue us – past data tells us that markets work and over the long-term, you would expect shares to outperform other types of investments.

This simple mantra should hold you in good stead.

With all that noise in the media, find solace in an evidence-based investing approach.

Bring the attention back to your needs and your current situation and do not focus on what some financial journalist or news anchor or even your mate thinks you should be doing. Remember, if things don’t quite go the way they predicted, they will very quickly list down the reasons for what happened and how it was an obvious outcome (Hindsight Bias), but you don’t want your financial decisions to be a “Hindsight is 20/20” situation do you?

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