"Be fearful when others are greedy and greedy when others are fearful"
Warren Buffett

04 October 2021

Understanding human behaviour can fuel our returns

by Gary Moglione

This week, an innocuous announcement from BP about temporarily closing a handful of its petrol stations due to a driver shortage caused panic buying and fuel shortages across the UK. In March, I wrote a blog called "Why we are all hard wired to be bad investors". This week's events are a good example of some of the behavioural inefficiencies highlighted. It is worth looking at the psychology of panic buying events and how these behaviours read across to stock market movements.

If we look through history, it is littered with panic buying events. Some are more understandable, such as food and medicine during the World Wars, Spanish Flu and COVID 19 pandemics, and some more surprising, such as ammunition in the USA when the public feared increased gun regulations. In 1973, a joke on the Johnny Carson show sparked a panic buying spree of toilet rolls in America that created four months of shortages. More recently, everyone will remember the great toilet roll grab in the early months of 2020.

There have been a few studies into panic buying events and many point to heightened anxiety at times of uncertainty. Some have compared it to the basic animal instinct of foraging in that we have an inclination to collect and store food, but we can broaden that instinct to wider products that represent our orderly society, such as fuel and toilet roll. Regardless of what the trigger is, the act of panic buying is driven by the emotions of fear and greed; fear of scarce resources and greed in the form of buying more than you actually need.

These behaviours are inherent in financial markets and can be exploited. At times of peak market stress and uncertainty, fear causes panic selling. Valuation becomes irrelevant as investors rush for the exit creating a powerful downward spiral. On the opposite side, greed becomes apparent at times of market euphoria. Similarly, valuation becomes irrelevant as more and more market participants become over-confident and rush to buy the latest success story. Warren Buffett has made a career from taking advantage of these behavioural inefficiencies. "Be fearful when others are greedy and greedy when others are fearful" is one of his many famous quotes that help to understand his thought process when investing.

In conclusion, the petrol shortages are a further reminder of our behavioural inefficiencies that lead to a loss of focus on the true value of assets. This results in investors overbuying and overselling at extreme points in the cycle. By focusing our attention on intrinsic value and making investment decisions based on whether the price is above or below that value we should be protected from our behavioural biases. Buffett's fear and greed mantra has always struck a chord with me. In my view, adhering to that principal is extremely difficult to implement as you need to work against your most basic instincts. However, if implemented successfully, the rewards can be exceptional. It is not easy to buy stocks during a crisis or sell into a euphoric market. As we cannot predict the future, our timing won't be perfect, resulting in plenty of self-doubt over the short and possibly medium-term results, but exploiting behavioural inefficiencies of humans frequently results in exceptional returns for long-term valuation focused investors.

Market Focus

- **Global equities fell -2.5% last week.**
- **Global gas price pressure continues and is expected this winter with European storage below the five-year average, and increased tight supply-demand has pushed prices higher.**
- **Brent crude gained +1.5% last week to $78.5 a barrel.**
- **Gold gained 0.6% to $1758.3 per ounce.**

US

- US equities fell -2.2% last week, with oil, gas and energy sectors outperforming. Homebuilders, and retail sectors declined.
- Quarter-on-quarter GDP came in at 6.7%, an improvement to the 6.6% forecast. Jobless claims increased to 362k, higher than the 335k forecast and last week's figure of 351k.
- Lawmakers agreed to extend government spending until the 3rd of December; however, the
- House Democrats delayed a vote on a bipartisan $550 billion infrastructure plan.
- At the ECB-Forum, Fed Chairman Powell blamed price pressures primarily on pandemic-related bottlenecks, and his biggest concern is the tension between faster inflation and slack in parts of the labour market.

Europe

- European equities fell -2.6% last week, with oil gas and banks outperforming, while technology and industrial sectors declined.
- Germany's Manufacturing PMI for September came in at 58.4, slightly lower than the 58.5 forecast and down from August's 62.6.
- Christine Lagarde reiterated that spikes in inflation are temporary while warning that climate change poses long-term threats.

UK

- U.K. equities were flat last week.
- UK GDP year-on-year for Q2 came in at 23.6%, better than the 22.2% expected. Manufacturing PMI for September of 57.1 was better than the 56.3 forecasts but lower than August's 62.6.
- According to an Institute of Directors survey, those running small-to-medium-size enterprises (SMEs) were the least optimistic in September since the height of the winter lockdown. In contrast to the summer's confidence, three-quarters of directors are bracing for higher costs in the next 12 months. A little more than half predict higher revenue, and firms expecting to increase business investment are in the minority.
- At today's Conservative Party conference, Rishi Sunak is set to unveil a £500m expansion to the U.K. job support programs, as pressure builds over fuel shortages and living costs.
- The U.K. eased travel rules today, replacing the traffic light system with a simplified red list.

Rest of the World/Asia

- The benchmark Global Emerging Markets index fell -1.4% last week.
- Japan's equities fell 4.3% last week
- Japan's Tankan large manufacturing index unexpectedly improved for a fifth straight quarter to 18 from 14 in September. The consensus was at 13, rising to near the highest level in three years and indicating recovery momentum as Fumio Kishida prepares to start his run as PM this week.
- Bank of Japan Governor Haruhiko Kuroda predicted a "quite small" GDP gain for Japan's economy this fiscal year but said growth would pick up to about 4% in the year from April.
- Trading in Evergrande property services unit and structured products was halted appending 'major transaction' as a new debt test looms.
- China's manufacturing PMI for September fell to 49.6, and the market was not expecting a change from 50.1 in August.

Past performance is not indicative of future returns. Source: Bloomberg Finance L.P., returns in local currency unless otherwise stated.

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Market Summary

Asset Class / Region	Currency	Cumulative returns: Week ending 01 October	Month to date	YTD 2021	12 months
Developed Markets Equities					
United States	USD	-2.2%	1.1%	16.9%	30.2%
United Kingdom	GBP	0.0%	-0.9%	12.8%	24.4%
Continental Europe	EUR	-2.6%	-0.4%	15.1%	26.7%
Japan	JPY	-4.3%	-2.2%	12.2%	24.8%
Asia Pacific (ex Japan)	USD	-1.7%	-0.9%	-3.0%	15.1%
Australia	AUD	-2.1%	-2.0%	12.5%	26.7%
Global	USD	-2.5%	0.5%	13.7%	28.8%
Emerging Markets Equities					
Emerging Europe	USD	1.7%	0.1%	23.3%	51.3%
Emerging Asia	USD	-1.9%	-0.8%	-4.9%	12.7%
Emerging Latin America	USD	-1.4%	1.5%	-4.1%	29.2%
BRICs	USD	-0.3%	0.0%	-6.6%	7.4%
China	USD	0.4%	-0.2%	-16.8%	-7.5%
MENA countries	USD	1.2%	0.0%	27.6%	35.4%
South Africa	USD	0.7%	0.0%	4.1%	25.9%
India	USD	-2.3%	-0.4%	24.7%	53.5%
Global emerging markets	USD	-1.4%	-0.5%	-1.8%	17.3%
Bonds					
US Treasuries	USD	-0.1%	0.4%	-2.5%	-3.3%
US Treasuries (inflation protected)	USD	0.0%	0.4%	3.8%	5.5%
US Corporate (investment grade)	USD	-0.4%	0.4%	-0.9%	2.0%
US High Yield	USD	-0.3%	0.0%	4.5%	11.1%
UK Gilts	GBP	-1.5%	0.1%	-7.5%	-6.7%
UK Corporate (investment grade)	GBP	-1.0%	0.0%	-3.8%	0.2%
Euro Government Bonds	EUR	-0.1%	0.2%	-2.8%	-1.7%
Euro Corporate (investment grade)	EUR	0.0%	0.1%	-0.2%	1.6%
Euro High Yield	EUR	-0.4%	-0.1%	3.6%	8.7%
Japanese Government	JPY	0.1%	0.2%	0.0%	0.1%
Australian Government	AUD	-0.5%	0.0%	-1.9%	-2.1%
Global Government Bonds	USD	-0.5%	0.4%	-5.3%	-3.1%
Global Bonds	USD	-1.0%	0.3%	-4.2%	-1.4%
Global Convertible Bonds	USD	-1.2%	0.2%	-1.0%	10.3%
Emerging Market Bonds	USD	-1.0%	0.0%	-4.2%	1.1%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

Market Summary

Asset Class / Region	Currency	Cumulative returns: Week ending 01 October	Month to date	YTD 2021	12 months
Property					
US Property Securities	USD	-1.0%	1.5%	24.0%	34.5%
Australian Property Securities	AUD	-3.9%	-2.3%	9.0%	19.4%
Asia Property Securities	USD	0.2%	-1.1%	0.6%	8.1%
Global Property Securities	USD	-1.2%	0.6%	13.7%	26.1%
Currencies					
Euro	USD	-1.0%	0.2%	-5.1%	-1.3%
UK Pound Sterling	USD	-0.9%	0.7%	-0.7%	5.2%
Japanese Yen	USD	-0.2%	0.4%	-6.9%	-4.9%
Australian Dollar	USD	0.2%	0.8%	-5.5%	1.2%
South African Rand	USD	0.4%	1.6%	-1.4%	11.9%
Swiss Franc	USD	-0.5%	0.4%	-4.8%	-1.2%
Chinese Yuan	USD	0.3%	0.0%	1.3%	5.4%
Commodities & Alternatives					
Commodities	USD	2.1%	0.7%	37.2%	59.3%
Agricultural Commodities	USD	2.4%	0.7%	25.3%	47.0%
Oil	USD	1.5%	1.0%	53.1%	93.7%
Gold	USD	0.6%	0.2%	-7.0%	-7.7%
Hedge funds	USD	-0.5%	0.0%	3.8%	8.7%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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