

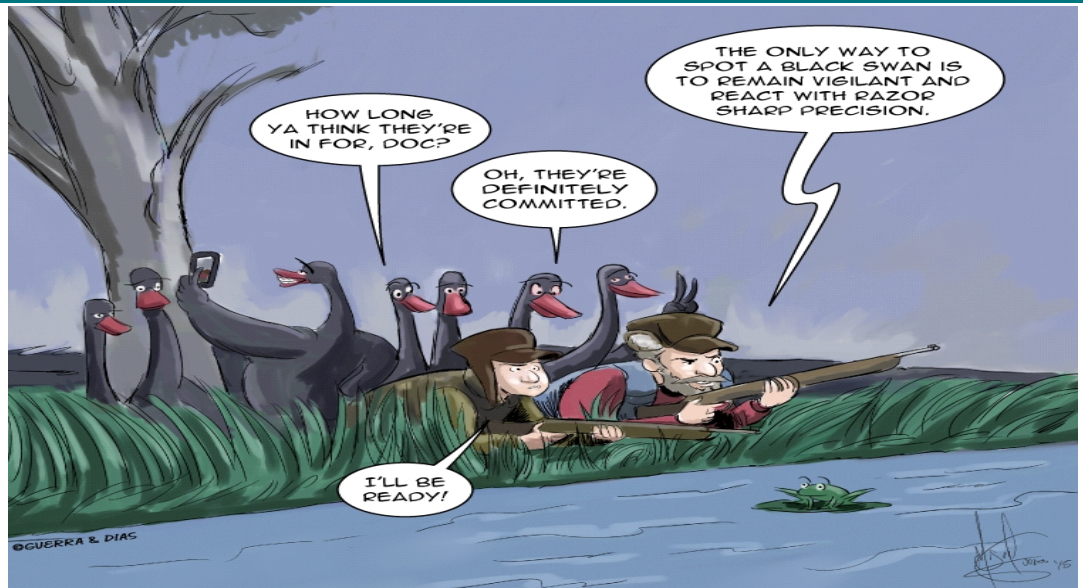


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# Monthly Newsletter

'Where have all the White Swans Gone?'

October 2019



Long, long ago the world was thought to be flat. Not quite so long ago, the world was thought to contain only white swans. A black swan was quite unimaginable.

In fact, the black swan wasn't quite unimaginable. A Roman poet came up with the phrase "black swan" way back in the 2nd-century. Presumed not to exist he used the occurrence of a black swan as an analogy to the fragility of any system of thought. A set of conclusions, thought processes, undone by the observation of something completely unexpected. In Rome, in the 2nd century, a black swan - absurd.

Come 1697 in Western Australia, Dutch explorers changed Western thinking by becoming the first Europeans to see black swans. The meaning of the term subsequently changed. Its use came to imply that a perceived impossibility might later be disproven.

It wasn't until 2001 that the black swan made it into mainstream investment jargon. The theory was developed by Nassim Taleb in his book 'Fooled by Randomness'. The meaning of the term again changed slightly, and became attached to surprises that are high-profile, hard-to-predict, and rare. The events of 9/11 would fall into this category, and so would the invention of the internet.

Twenty years after Taleb's infectious idea first made investors look out for black swans, things have changed again. Such is their allure, investors and commentators are now fixated on searching for the antipodean creatures at every opportunity. Every bit of news from Brexit to Trump is treated as though it is a black swan event. Investors have also skewed Taleb's meaning of the 'black swan' effect. Black swan events can be positive or negative. However, the overwhelming focus on 'bad' black swans could lead you to believe otherwise. In fact, through history, black swan events have been mostly positive. If they hadn't been, we, and probably the swans too, would have long ago been consigned to the footnotes of history.

The common 'white swan' has never made it into investment parlance. After all, if it did, it would signify what you would expect to happen. Stock markets go up over the long term, stocks that are lowly valued give you better returns than those that are highly valued, technology change generally improves living standards. All these would be 'white swan effects' if there was such a thing. But if you think about it, these 'white swans' don't seem to be what is expected any more. The focus on the 'bad' black swan is making us forget what normal is.

All that this suggests for investors is, with the focus elsewhere, tending to the white swans might give the outsized returns that normally only occur when the unexpected happens.

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