Clarity
Wealth Management

May 2021 Newsletter

Updates • Finance
Economy • Latest News

Enjoy this month's instalment of our newsletter. As always, it is packed with links that you may find interesting.

Love Your Stranger

One of the common human conditions that bind us together is a desire for a better future, one in which we are independent, able to provide for our family's needs, help others, and leave a financial legacy to the next generation.

The way to this life is fairly simple, and not a secret to most. By living within our means and investing the rest, the future described above is within reach of most people.

However, just like eating less and exercising more is a well-known recipe for better health, the trick to a secure financial future is more about the doing than the knowing.

The Affliction of Humans

Economic theory in the 20th century concerned itself with what a rational person unafflicted by the human condition would do. This person (or "econ" as behavioural economists now refer to them) understood the tradeoffs inherent in every decision and made a decision that both their current and future selves would be proud of.

If only "econs" existed. When real people make decisions under conditions of uncertainty, we take mental shortcuts to help us. In financial decisions, this often leads to sub-optimal decisions, often ending in regret.

These biases have been documented extensively, and we actively try to identify them in our own, and our clients', decision-making.

The loss-aversion and recency biases would have been difficult to resist by any investor during the height of the 2020 market correction precipitated by the Covid-19 lockdowns.

While these, and other, biases will continue to plague all investors on their journey towards financial independence, there is another challenge we face that needs to be addressed.

The Present Bias

The tendency to favour the present over the future is something everyone can relate to.

Prepare for next week's meeting? That can wait, TV sounds better now. Save for the future? No thanks, YOLO. In a world of shortening attention spans and more assaults on our senses than ever before, the allure of instant gratification is all around us.

While your future self does not exist yet, there will come a time when you will become responsible for the impact your current decisions will have on that person. For this reason, the ease of prioritising the present over the future is a significant challenge for anyone wanting to achieve the financial security we all crave.

There's a reason why this is difficult. Studies have shown that when you imagine your future self, your brain does something weird: It stops acting as if you're thinking about yourself. Instead, it starts acting as if you're thinking about a completely different person.

Your brain acts as if your future self is someone you don't know very well and, frankly, someone you don't care about.

The Solution

In a world where most of the financial decisions we make have multi-decade implications, the inability to relate to our future selves is a big problem.

Knowing this problem exists is half the battle. Research has also found that people who interacted with virtual future selves exhibited an increased tendency to accept later monetary rewards over immediate ones. As augmented and virtual-reality technology continues to develop, perhaps an elegant implementation of this will become available to us.

Until then, a two-step process of understanding what our future (based on our current trajectory) is likely to look like, and imagining how we will feel about this outcome, is a useful test of our actions. Any discomfort with this reality should provide the motivation needed to overcome the inertia to making better financial decisions.

Your future self is watching, there's no time like the present to make a change.

The Real Enemy

The number one enemy of the long-term investor is the financial dragon called inflation (the silent but steady increase of prices over time).

Over the last 30 years (about the length of an average two-person retirement), inflation in the UK has resulted in an item costing £1 in 1991 now costing £1.88 in 2021. Your purchasing power has almost halved!

But £1 invested in the UK share market is worth £3.25 today, and that's ignoring 30 years of dividends! And this during a three-decade period that included the dot-com bubble, the great financial crisis, and the Covid-19 pandemic.

And what did you have to do to earn this? Two (behavioural) things:

1. Invest and stare out of the window (much harder than it sounds, as we've seen recently).
2. Be willing to see your investment value decrease by about -15% on average every year without being panicked into selling. Think of the yearly declines as hurricanes, unpleasant but they pass.

Guiding you through these periods of volatility is why we exist.

Ignore the Media

The media is not a friend of the disciplined and patient investor. Ignoring the key determinants of lifetime investor returns, the media prefer to focus on short-term returns, market predictions, and negative news.

We present the following as an antidote to the onslaught of negative news:

Aerion AS3 Airliner Will Fly From NYC to London in Less Than an Hour

A new supersonic commercial airliner was announced on Monday, one that its designer and manufacturer says will reach speeds of Mach 4-plus. Aerion said the AS3 will make its first flight before the end of the decade, with the ability to fly up to 50 passengers for 7,000 miles.

Aerion has already been working on the design of the smaller AS2 supersonic business jet for years and says production will begin in 2023. The company is building a new 100-acre headquarters and production facility in Melbourne, Fla., where it says it will produce 300 AS2 jets. It also recently announced that NetJets, the world's largest fractional provider, has pre-ordered 20 AS2's.

Read the full article

Resources Are More Abundant Than Ever, and People Are the Reason

Our research into the relative abundance of resources began when we looked at updating the famous wager between the cornucopian University of Maryland economist Julian Simon (1932–1998) and three neo-Malthusian scholars: the Stanford University biologist Paul Ehrlich; the University of California, Berkeley ecologist John Harte; and the University of California, Berkeley scientist and future director of President Barack Obama's White House Office of Science and Technology John P. Holdren. The Ehrlich group bet $200 each on five metals: chrome, copper, nickel, tin, and tungsten. Then they signed a futures contract which stipulated that Simon would sell these same quantities of metal to Ehrlich's group for the same price in ten years' time. Since price is a reflection of scarcity, if population increases made these metals scarcer, Simon would pay, but if they became more abundant, and therefore cheaper, Ehrlich would pay. The bet would last from September 29, 1980 to September 29, 1990.

Read the full article

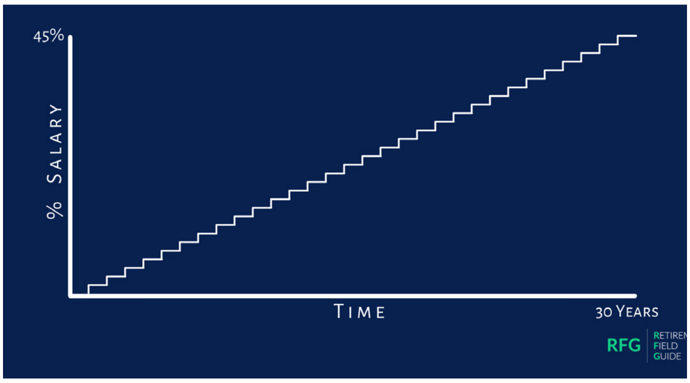
Read

When Wealth Isn't Real *[6 minutes].*
A few stories that illustrate how large sums of wealth are often illusionary.
Read the full article

David Booth: five timeless investment lessons I've learned *[7 minutes].*
Five lessons from forty years.
Read the full article

12 Personal Finance Numbers You Should Know *[3 minutes].*
How many do you know?
Read the full article

The Single Best Piece of Advice for Young Investors *[2 minutes].*
A great way to fight lifestyle creep.
Read the full article



Not Everything Gets Easier *[5 minutes].*
The challenge of raising children when money is no object.
Read the full article

Five Investing Powers *[3 minutes].*
Stack the odds of lifetime success in your favour by learning these traits.
Read the full article

Not wanting something is as good as having it *[4 minutes].*
Wanting less is a whole lot cheaper than getting more.
Read the full article

Great Listens

The Greatest Story Ever Told
[5 minutes]
What is money?
Listen

The Portfolio Review Checklist
[22 minutes]
What does an investment review really entail?
Listen

Must Watch

The 3 Types of Risk
View

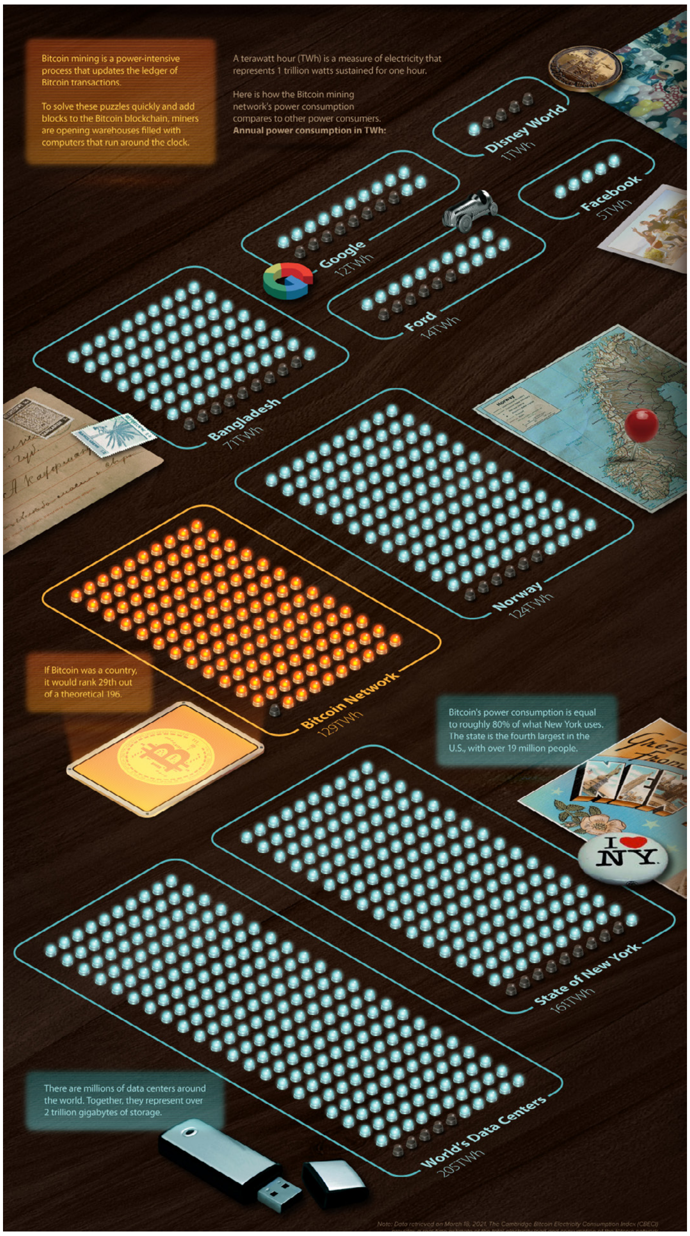
A Picture is Worth a 1000 Words

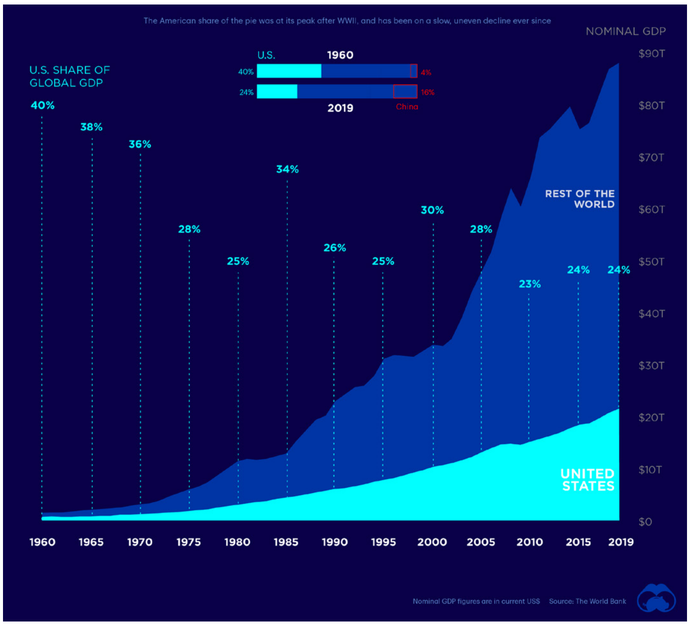
Visualizing the Power Consumption of Bitcoin Mining

Cryptocurrencies have been some of the most talked-about assets in recent months, with bitcoin and ether prices reaching record highs. These gains were driven by a flurry of announcements, including increased adoption by businesses and institutions.

Lesser known, however, is just how much electricity is required to power the Bitcoin network. To put this into perspective, we've used data from the University of Cambridge's Bitcoin Electricity Consumption Index (CBECI) to compare Bitcoin's power consumption with a variety of countries and companies.

[Read the full article]





Visualizing the U.S. Share of the Global Economy Over Time

The U.S. is the world's largest economy by nominal GDP, and its influence on the global economy is quite remarkable. As of 2019, the U.S. made up almost a quarter of the global economy. But how has America's share of the economic pie changed over time?

The U.S. Share of the Global Economy Over Time

While the U.S. economy has grown quickly over time, the global economy has grown quicker.

Since peaking at 40% in 1960, the U.S. share of the world economy has been cut almost in half, despite a rising national GDP and being the birthplace of some of the biggest companies on the planet.

The decline of America's contribution to global GDP has been slow and uneven, with crests and troughs along the way. Between 1965 and 1980, the country's share fell by 13 percentage points, mainly due to stagflation of the 1970s. This decline was followed by Reaganomics and a period of strong recovery, which helped propel the U.S. share of the global economy back up to 34% by 1985.

The whipsawing would continue. Between 1985 and 1995, the U.S share fell by another 11 percentage points, only to bounce back to a local peak of 30% by the year 2000.

[Read the full article]

We hope that you enjoyed this month's newsletter. Please let us know what you enjoyed or write back with any of your own news.

Please forward to a friend, relative, or colleague. As always, we're here for you. See you next month.

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