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"*The Drunkard's Walk: How Randomness Rules Our Lives*" is faintly reminiscent to the *Black Swan*, written by Nassim Taleb. The author illustrated how very low probability events [highly unlikely] could have a high, or material impact around you. Although in my view a fatalistic approach to a world-view, Leonard Mlodinow, the author of *The Drunkard's Walk*, offered insightful comments to relevant examples. There are examples from sport, medicine, psychology, as well as the stock market. Leonard Mlodinow (also being a contributing writer to the classic McGyver series) does an excellent job in driving home the fact that, the true probability of events cannot be established intuitively; i.e. you really cannot accurately calculate or foresee a particular outcome. We mistakenly think we notice patterns, which permits us to make predictions – pure illusions of patterns and patterns of illusions (also a chapter in the book). Humans tend to struggle in order to distinguish between luck (or being unlucky), versus some kind of skill, or the lack thereof. By the way, thank you Gary Larson for the cartoon.

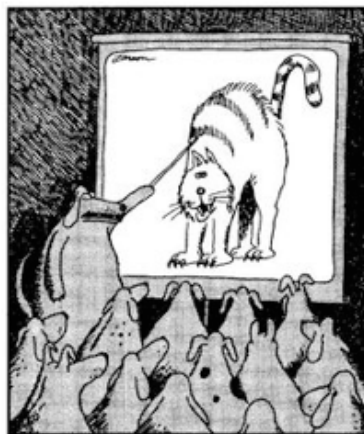
The power of expectation

One of the most striking examples was that of an experiment conducted in America by psychologist David Rosenhan in 1973. It was published in the *Science* magazine under "[On being sane in insane places](#)". The experiment entailed that of several pseudo patients from various backgrounds pretending to hear strange voices. Other than reporting that symptom, a false name and vocation, they all described their life with all honesty. It turned out that all, but one, were all diagnosed with schizophrenia. Upon admission, all the pseudo patients ceased simulating any symptoms and reported the voices were gone and waited for the staff to notice that they were actual, in fact, not insane. However, none of the professional staff even noticed, since they perceived all behaviour through the lens of insanity; thus, reinforcing their behaviour and confirming an erroneous diagnosis. As it turned out other patients would actually challenge the pseudo patients with remarks such as "you're not crazy, you're a journalist... checking up on us". So, how do we separate right from wrong and what do we learn from this? Sometimes we place decisions (and our fate) into the hands of so-called experts for a particular diagnosis. The fact remains, they too do not have the proverbial crystal ball. This scenario is very relevant when we look at the recent development at African Bank.

The demise of ABIL

In the weeks after African Bank collapsed, numerous blogs and opinions summarised the events, purporting to understand the exact reason(s) for the corporate failure. I don't think all the sources can conjure up what exactly happened during the weeks leading up to that fatal day. Perhaps at one point, it really was a 50/50 game. Even reputable asset managers were caught in amidst of the scandal. Who knows, maybe Karikis (CEO at the time) was in on a good deal with a major hedge fund manager – almost like a Hansie Cronje in on a good bet.

If this case intrigues you, make sure to watch a great documentary called "[The Smartest Guys in the Room](#)". A narrative that details the entire Enron collapse. To date one of the largest corporate failures and forcing



"Now, in this slide we can see how the cornered cat has seemed to suddenly grow bigger... Trickery! Trickery! Trickery!"

the breakup of one of the most prominent accounting firms Arthur Andersen.

The power of compounding

The power of return on return, is certainly not random and is often underestimated; i.e. the effect of compounding (and avoiding African Bank events). It remains an amazing concept. Albert Einstein described it as follows:

"The power of com-pound interest is the most powerful force in the universe" (and so it is). For example, if you could choose between a 'magical' cent, which would double each day for the next 28 days, or a R1million, what would you take? Most people would like the million right away (try it out with someone you know). If we do the calculation, what happens in 28 days? Day 1 R0.01; Day 2 R0.02; Day 3 R0.04 and so on... Day 15 you have R163.84; Day 25 R167,772.16; and Day 28 R1,342,177.28!

As an investor, what do you gather, or should you ask yourself? By investing your money properly, could you double your money, and every how many years? This is also what has made Warren Buffett to one of the wealthiest people on the planet. Of course, Buffett understood patience and the effect of compounding better than most of us.

The rule of 72

In finance, the "rule of 72" or 70 is a method for estimating an investment's doubling time. The rule number (e.g. 72) is divided by the interest percentage per period to obtain the approximate number of periods (usually years) required for doubling.

A rule of thumb is that you can calculate how many years your money may double by dividing 72 by the applicable interest, or growth rate. For example, if you make a 10% return per annum, you will double your money every seven years; i.e. $72/10 = 7.2$ years. If you could make a 15% return per annum, you could double your money roughly every 5 years.

So, if you could start early and earn a handsome return on an investment, the difference would be significant. Imagine for a moment that you could have started a securities account at birth of R10,000. If you then achieved an average 15% return per annum, you are R82m strong by age 67. Let's also be clear without factoring in inflation! Certainly not that straight-forward if you leave the money in a bank account. The question perhaps remains how one could and achieve a reasonable (and stable real return; i.e. above inflation) over time. It clearly requires discipline, patience, and a rigorous investment philosophy.

Season wishes

As always, we would like to wish everyone a blessed Christmas and a joyful time with family and friends. It is a time of the year to ponder and re-evaluate our life goals. Enjoy!