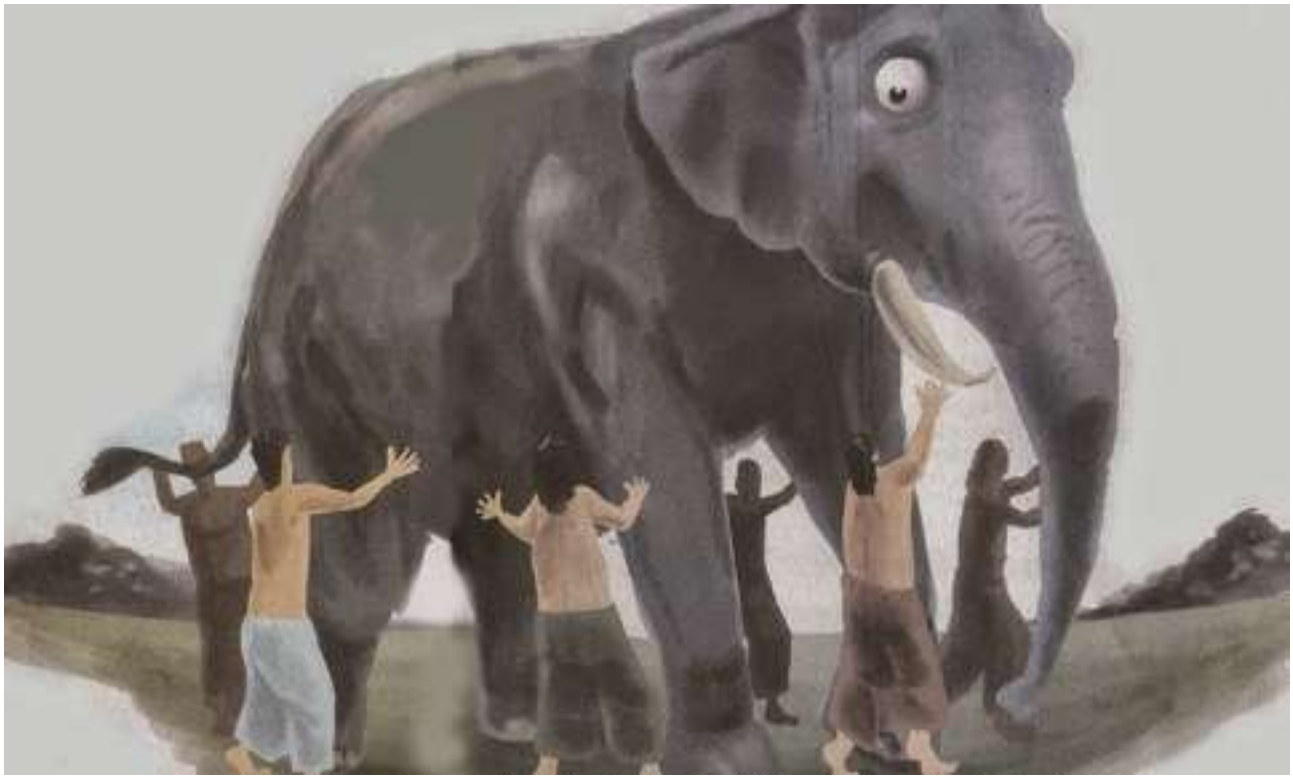
The Six Blind Men and the Elephant



Six blind men who had never come across an elephant before are asked to touch it, conceptualise it and then describe it.

- The first one touches the side of the elephant and describes it as a wall.
- The second one touches the tusk and calls it a spear.
- The third one touches the trunk and describes it as a snake.
- The fourth one touches the knee and calls it a tree.
- The fifth one touches the ear and says it's a fan.
- Finally, the last one touches the tail and describes the elephant as a rope!

This parable first originated centuries ago in the Indian subcontinent but gained worldwide popularity after John Godfrey Saxe, an American poet, created his own version of it as a poem.

But what does it have to do with investing?

Firstly, it is clear that none of the six blind men called the elephant an elephant. This is because their initial perceptions led to a misinterpretation of what it was they were touching.

They all describe the elephant differently, just on the basis of the part of the elephant they touched.

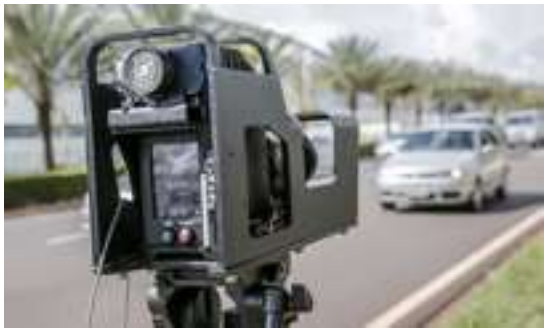
Now, I don't think that it is inaccurate for the purposes of this article, to consider the stock market as an elephant while investors or participants in the stock market are (often!) the blind men.

Many investors look at their portfolio's performance, or that of the stock market from the current and/or recent results perspective.

This leads to similarly incorrect interpretations as the blind men who touched the elephant and is known as 'Recency Bias'.

Let me explain it with this example:

When you are driving alone in your car and you see a speed trap, you slow down. However, having passed it, you continue to drive slowly because you think that if you have passed one speed trap, that surely there is another nearby, just waiting to catch you out, even though that's probably not true at all.



So, as you can see, 'Recency Bias' can be a nasty deceiver. The good news, however, is that it can be avoided if you know what to look for.

More About Recency Bias

Recency Bias refers to the unfounded conviction that recent trends will continue into the near-term future.

It's a terribly sneaky trick our brains play on us, and it's one of the primary culprits in preventing investors from achieving higher returns over time.

It's natural to want to own what has done well recently, and conversely, to want to sell or avoid what hasn't.

This is why more and more individual investors tend to buy stocks the longer a bull market endures, often piling into the largest and best-known names only after they have significantly appreciated.

A good example in recent years is the so-called FAANG stocks: Facebook, Apple, Amazon, Netflix, and Google. This follow-the-leader tendency is a direct result of Recency Bias, and the same could be said for the current craze with cryptocurrencies such as Ethereum and Dogecoin.

In down markets, recency bias works the same way.

As stocks fell throughout 2008, trading volume intensified the worse the declines got.

Investors rushed to exit losing positions, many of them locking in losses at or near the bottom.

Then, convinced the declines would continue, far too many sat uninvested as the ensuing years gave birth to a new bull market and stocks renewed their upward climb way beyond where they were at the start of the fall.

Throughout market cycles, the underlying causes and market dynamics are completely different. But the questions remain the same: Get out and avoid more losses, or stay invested and hope to participate in a rebound?

How Do You Change Your Approach to Long-Term Investing?

The wrong way to answer this question is to guess about future market performance based on recent weeks. The pain feels acute when stocks are down, but this concept is just as true when stocks are high and rising. The most recent week, month, or even year is no basis whatsoever for predicting what will happen next.

What does matter are your goals and what you need the money for.

Most investors are looking for at least some long-term growth, which means choosing investments based on what will be best for you in 5, 10, 20, or even 30 years. In that case, your decision has little to do with what happens this year or next. It is the next decade (or several decades) that matter.

The right answer to the "How do you change your approach to long-term investing?" question is to create an investment strategy based on your specific goals, timescale, and circumstances, and then sticking to it.

Recent market movement, whether euphoria-inducing or gut-wrenching, is only there to tempt you into abandoning your plan.

People panic when their investment portfolio goes down, and they think it will continue to do so. They feel excited when their portfolio goes up and they think it will continue to go up.

And that 'Recency Bias effect' results in them forgetting that their goal is long-term.

If you're a long-term investor, you need to get comfortable with the concept that you can (and probably will at some point) lose money over a short period of time in certain market environments.

Markets go up and down every day. The current performance of the market does not alter your goal, so keep your eyes on the prize, and don't let recent events trick your brain into doing something you might regret in 10- or 15-years' time.

Keeping recency bias out of your investment decisions is challenging, but it's not impossible.

The next time you're tempted to change tack and buy or sell something because the market is up or down, ask yourself if those actions align with your overarching strategy.

In the long run, you'll almost certainly be much better off sticking to your plan, and not attempting to time your way around market movements.

Even the very best professional investors cannot do that - Check out one of my previous articles for more details on how difficult it is to be successful at timing the market.

Make sure that you touch all of the elephant so you can understand the big picture, not just one small part of it and don't let those recent events fog up your brain and stop you from achieving your goal.