



Investing with the Modern Prometheus

“Is that not the Promethean fable, that the fire stolen from the gods will light men their way even while it burns their hands?”

— Zia Haider Rahman

In ancient Greek mythology the titan Prometheus was the god of foresight; he was able to see into the future. His foolish brother, Epimetheus, was the god of hindsight and had the less-impressive superpower of seeing into the past. Prometheus gave mankind the gifts of fire and civilization, while Epimetheus, unable to understand the consequences of his actions, allowed his wife, Pandora, to release all of mankind's ills into the world.

The story of these two brothers is meant to impart something we already know, namely, that hindsight does not do us much good, but having foresight is indeed quite valuable. In the investment world, this knowledge could be extremely profitable; an investor who is able to see into the future could invest aggressively right before a surge in stock returns, then sell just before the market declines.

The problem with this tempting strategy is that there is already a Prometheus in the investment world and there is no room for another one. The investment version of Prometheus is the market itself, and no single individual, no mere mortal, has the divine foresight to see the future better than the market does.

We view the market as the modern Prometheus because the market contains not just one person's

foresight, but the sum total of the collective foresight of all investors. The market, through the buying and selling actions of millions of investors, accounts for possible future events *before* they occur, and it *immediately* adjusts prices higher or lower to account for the risks of these future events occurring or not. So, in order to outguess this Prometheus, you have to outguess the *cumulative* foresight of everyone involved in the market.

The predictive powers of the market are particularly evident when it comes to recessions. Rather than reacting to recessions as they are reported, as Epimetheus would do, stock markets provide a glimpse into the future. The market tends to signal the risk of a recession by declining before economists and the financial media are even aware that a recession is upon us, and the market often provides a signal that the recession has bottomed by rising well before the recession ends.

The "Great Recession" of December 2007 through June 2009 provides a good example. Stock markets began their downturn in October of 2007, prior to the onset of the recession, and stocks turned sharply higher in early March of 2009, months before economists began to acknowledge that the recession was over.

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Unfortunately, many investors failed to accept the foresight of the financial markets during the Great Recession. Their instincts told them to sell after it was well-known that a recession has begun, despite the fact that the market had already declined precipitously. Then, they waited for economists to announce that the coast was clear and they bought back in to the market months, or even years, after it had begun a long upswing. Poor market returns that have already occurred lead investors to sell low and buy high; precisely the opposite of what a sound strategy recommends.

Hindsight-based strategies may feel satisfying at the time, but the ability to predict the past is not useful, and selling after a negative market event occurs is the investing equivalent of playing yesterday's winning lottery numbers. The market already knows everything you know, and much more. Reacting to recent market movements or using hindsight to make investment decisions typically results in angst, and more importantly, the loss of real wealth. An astute investor will recognize that the foresight of the market allows them to invest for the long term, with the confidence that all known future risks are already factored in to market prices.

Any investor would love to have the Promethean ability to see into the future, but the data shows that the only Prometheus in the investment world is the market itself. Those who attempt to outguess the wise titan of foresight will most likely experience sub-par returns, while those who recognize the market's predictive ability will more likely realize their investment goals. It is tempting to believe that there are Prometheus-like market pundits out there; however, history clearly shows that those pundits have greater ability to predict the past than the future.

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