AGAINST THE GRAIN

Why do many advisors and analysts seem to go along with "the herd" when managing money?

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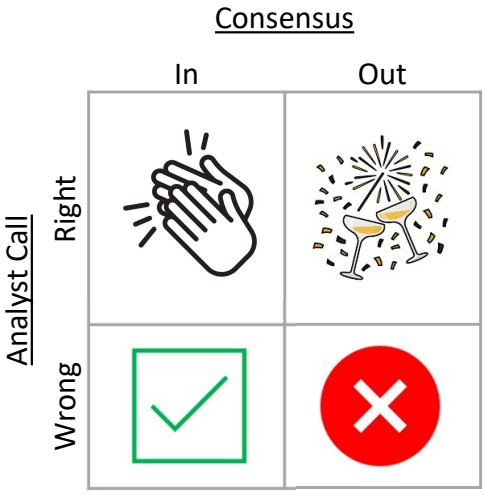
You may have wondered while watching financial media why many financial advisors, analysts, talking heads, and pundits seem to have similar opinions about the direction of the markets, interest rates, and even individual stocks. The news can sometimes become an echo chamber of the popular takes, especially as markets trend towards extremes. You may have also observed that many of these opinions are often judged against the broader "consensus", particularly amongst research analysts and their projections for future values of various assets and indices. One needn't look further than the 2024 S&P 500 forecasts from various banks to see this phenomenon in action. Some of the worlds largest and most respected financial institutions' forecasts lie within a few percentage points of each other. Why is this the case?

	S&P 500 Year End 2024 Forecast	% Above/ Below Average
BofA	5,400	6.1%
Yardeni	5,400	6.1%
UBS	5,400	6.1%
Barclays	5,300	4.2%
Oppenheimer	5,200	2.2%
Goldman	5,200	2.2%
RBC	5,150	1.2%
Citi	5,100	0.2%
Deutsche	5,100	0.2%
BMO	5,100	0.2%
Morgan Stanley	4,500	-11.5%
JP Morgan	4,200	-17.4%

One reason involves the incentives and consequences for a financial analyst or advisor being incorrect relative to their peers. Consider this: there are four potential outcomes when an analyst makes any type of financial forecast or prediction. They can make a correct call, or an incorrect one, and they can be "in consensus" (making the same call their peer group is making), or they can be "out of consensus" (going against the grain).

Now, consider the consequences to the analyst or advisor in those four scenarios:

1. A correct call, in consensus is rewarded for obvious reasons. The analyst made the right call and so did everyone else.
2. An incorrect call, in consensus does little harm to the analyst. They may have made the wrong call, but everyone else also got it wrong. No big deal, right? How could they have known better?
3. A correct call, out of consensus is where hedge fund managers are born. The analyst is praised as a financial genius. They must be very good at what they do to have deviated from their peers and gotten it right. Of course, this is a high-risk proposition for the analyst because of #4.
4. An incorrect call, out of consensus has been the death knell for many a career. As an analyst or financial advisor, how can you be wrong when everyone else got it right?

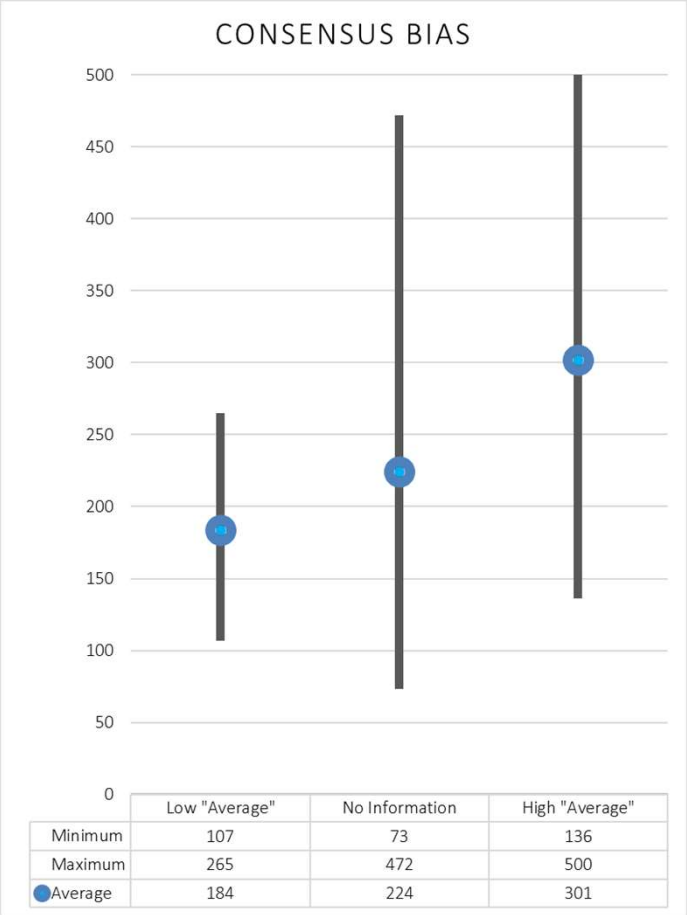


The unfortunate reality is many financial professionals are *content to be incorrect* (!!!), because it's a safe place to be – as long as they are in-line with their peers. What's the incentive to make the unpopular choice, *even if you believe it to be correct*, when there are limited consequences for being wrong?

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To illustrate how this herd mentality can affect decision making, we conducted an experiment. Using a random sampling of individuals (as random as patrons in a local golf tournament could be considered), we asked our participants to individually guess the number of candies contained in a transparent container without discussing their guess with anyone. The participants were unknowingly segmented into three test groups:

1. The first had no information regarding the number of candies in the container.
2. The second group was given the "average" guess before they made theirs. This made up "average" was a purposely low number (188 rather than the actual number of 294).
3. The third group was given the "average" guess before hand as well, but were given an artificially inflated number (387).



	Low "Average"	No Information	High "Average"
Minimum	107	73	136
Maximum	265	472	500
Average	184	224	301

The hypothesis in this experiment was simple: those participants with previous "knowledge" of what their peers guessed would be biased by that information. The results proved that to be true. On average, the group who was told a low average had the lowest guesses, and the group who was told a high average had the highest. Additionally, the dispersion of results was wider for the group that was given no information (particularly when viewed as a ratio to the average).

In a situation with the absolute lowest of stakes, individuals were still influenced by the actions of their peers. There was no prize for being correct, or penalty for being wrong, and yet people still inherently relied on the "wisdom" of the crowd.

Ask yourself, where does your financial advisor typically stand? Are they always "in consensus"? Reveille Wealth Management was founded on the idea of doing things differently. Rather than employing the industry standard "buy and hold" approach to wealth management, we actively manage our clients' assets by aligning with market trends instead of trying to forecast the future.

Being out of consensus can be a lonely place sometimes, but we'd rather do what we believe is the right thing for our clients even if it means leaving the protection of the herd.

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