# No one can predict how financial markets will behave with absolute certainty. Here's why

January 4 2024, by Benoît Béchard

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Some stock market enthusiasts claim to be able to predict financial market trends with fantastic accuracy.

Despite the complexity of international finance, they assure us that substantial profits are within our reach if we follow their recommendations and imitate their behavior.

But is it really possible to accurately predict the behavior of financial markets?

As an expert in the psychology of decision-making who specializes in complexity research, I have had the opportunity to deepen my understanding of human cognition and its capacity to control real-world complex environments. For now, my conclusions are sobering and not simple.

## Complex decisions

According to many researchers in decision-making science, understanding and managing complexity is the greatest challenge of the digital age. Complexity refers to the uncertain nature of the environments in which we make decisions every day.

While some of our financial choices may seem simple and self-evident (saving a portion of our income, setting a budget, repaying a debt), the environment in which these choices are made is unpredictable.

The strategies we adopt are certainly not infallible; our knowledge does not guarantee our success, and the effects of each of our decisions are uncertain and unique. This explains why the environments in which we make everyday decisions are actually highly complex. They include many interrelated factors that are constantly changing, with or without our intervention. Not to mention that the objectives we cherish are often themselves contradictory.

For example, how can we maximize investment returns while minimizing exposure to market fluctuations?

## Facing financial complexity

Faced with financial complexity, human cognition tends to favor a reductionist approach to information processing, sometimes called "tunneling." Faced with the overload of information generated by complexity, we tend to concentrate on one or a few specific aspects of a situation rather than all available information because too much information kills information. In other words, we take shortcuts. And guess what? These simplistic ways of thinking can lead to biased decisions.

We often make the mistake of attributing poor performance of our equity portfolio to a single event that stands out in our minds. We mistakenly believe that our investments will grow linearly when, in fact, they are vulnerable to exponential fluctuations caused by crises and unexpected events. We react poorly to unsuccessful investments by focusing on the consequences that could explain our financial difficulties , rather than by deepening our understanding of why the company in which we had blind faith (or the sector in which it operates) is experiencing difficulties.

Finally—and this is human nature—we tend to attribute responsibility for our failures to external factors beyond our control. For example, we might be tempted to blame losses incurred by certain businesses in the tourism sector on poor summer weather conditions. But in doing so, we overlook the importance of the quality of the products and services the businesses offer, or how hospitable their staff are.

## And market enthusiasts in all this?

My most recent work supports the literature on complex problem-solving: whether we are experts or novices, understanding and mastering complexity is a daunting challenge.

Many market enthusiasts will demonstrate greater skill in devising an investment strategy, managing a portfolio or accessing certain investments.

However, it is a mistake to assume that they can predict the uncertain behavior of the markets. The issue is not necessarily financial knowledge, but the natural limitations of human cognition when faced with complexity.

Faced with international finance, there is a "wall of complexity" beyond which it is particularly difficult to progress, and we are all subject to bias and errors.

## So, how do we navigate through this?

Despite the many challenges of financial complexity, there is light at the end of the tunnel, provided we know what to do. While there are many studies to be conducted, researchers remain optimistic about specific methods that can already help us make more informed decisions.

## 1. Learn to think in systems

Systems thinking is a way of perceiving reality that helps us to better understand and work with real-world complex environments.

Whether you want to learn how to manage your budget better or invest wisely in the stock market, get into the habit of drawing visual representations of the financial challenges you want to tackle.

Cause-and-effect diagrams, which use simple symbols (a + sign to show a change in the same direction between two factors, and a—sign to show opposite changes), allow you to quickly illustrate the extent and scope of a problem by representing the relationships between the parts of the same system.

But make no mistake, some factors are difficult to predict.

In short, learn to think about the "consequences of the consequences" of your choices before making any decision.

## 2. Be bold, tolerate uncertainty

Learn to tolerate situations that, at first sight, have no clear solutions and leave you in doubt.

Financial markets are unpredictable and poorly structured, which creates "wicked problems."

In these environments, ambiguity is the norm. Embracing uncertainty allows us to translate problems into opportunities, rather than making hasty decisions or locking ourselves into inaction.

There is no single "right solution" to a complex financial problem. Take a moment to evaluate your options.

## 3. Test your beliefs and biases

Don't try to research and interpret financial information based on an assumption you hold dear. Confront your preconceived ideas using sources you would not normally consult because they take the opposite position.

What would a friend or colleague whom you like, but who fundamentally disagrees with you, say?

## 4. Don't trust what comes easily to mind

Attending an inspiring conference on the sustainable economy or listening attentively to a TV report on financial ethics does not guarantee that the information that comes out of it will be helpful in the decision you have to make.

Although this information may be easier to retrieve from memory, it is not necessarily relevant. Don't overestimate the likelihood of an event just because you can imagine it in great detail.

Get information from several sources and verify their reliability.

## Now what?

One cannot become proficient in any area without putting in the necessary practice. Therefore, it is important for you to personally delve into the world of finance.

Through experience, you will develop your skills to better appreciate complexity. To help you do this, it's a good idea to seek the assistance of a competent professional to guide you through this highly sophisticated process.

But remember this: when it comes to complexity, you are human, as are those who claim to be able to read the future.

Provided by The Conversation