

## So you think you correctly predicted Trump's win? Think again

Devina Mehra | 20 Nov 2024



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### SUMMARY

*It has been established that all humans are susceptible to hindsight bias. We tend to think we knew an event's outcome in advance, although this is just our mind playing tricks on us.*

Of course you knew that Donald Trump was going to win this election. And that the Indian stock market was due for a substantial correction. It was so obvious, wasn't it?

And remember 2020, when central banks and governments pumped liquidity into the system globally? Some even gave actual cash to citizens. Given that liquidity and low interest rates drive markets, anyone could have foreseen that there would be a massive bull run in equities.

What if I tell you that if you had an actual record of what you were saying beforehand, it would often be at total variance with what actually happened and what you remember now as your 'predictions'?

Not that you are deliberately lying. You may even pass a lie-detector test as you truly believe what you're saying. It is merely your brain tricking you.

If you are like every other human being on this earth, it is very likely that your view of what you thought would happen is distorted by your knowledge of what actually happened. In short, you will almost always think that you knew the outcome of an event beforehand.

This is the ‘I knew it all along’ phenomenon—known as hindsight bias. There are literally dozens of research studies carried out across domains, including legal decisions, medical diagnoses, consumer satisfaction, sporting events and election outcomes, proving this bias is pretty much all pervasive.

“In each case, people armed with advance knowledge of an outcome overestimate the likelihood of that particular outcome,” say Daniel M. Bernstein, Cristina Atance, Andrew N. Meltzoff and Geoffrey R. Loftus in their research paper ‘Hindsight Bias and Developing Theories of Mind.’

This research paper establishes that this is not a phenomenon that is confined to adults, but shows up in children as well—from the age of 4 years onwards. That means it is very deep-rooted within the human operating system.

And yes, in 2020, if you had known that the pandemic would disrupt the world to the extent that many industries like aviation, hotels, retail and automobiles would be crippled with hardly any sales and huge losses, it is almost certain that you would not have predicted a runaway bull market—but that is not how you remember it!

Much of history is also written this way. We are taught that this is how World War I started: “The assassination of Austrian Archduke Franz Ferdinand on 28 June 1914 set off a chain of events that led to war in early August 1914.”

But was that the only possible outcome or even the likely one when it happened? Did people at the time know that since this assassination had happened, many countries in the world would soon be plunged into an all-out war? No, they did not—not in real time.

“The first principle is that you must not fool yourself and you are the easiest person to fool,” said Nobel laureate and physicist Richard P. Feynman.

The question is why are we so keen to fool ourselves? There are a whole host of theories on this.

James O’Shaughnessy, author of *What Works on Wall Street*, often shares thoughts on this topic on X. As he says, “We are the heroes of our stories.” We are designed to have a good opinion of ourselves, and our brains try to get us there even if it involves some confabulation.

He gives examples from his own life, where not just on market views but even what he actually did in terms of trades is completely different from how he remembers things. He mentions that his own journals and trade records prove him to be a liar. All of us are ‘unreliable narrators,’ a term generally used in the world of fiction.

Another reason is that we want the world to make sense. We want to think that it is somewhat predictable because that gives us an illusion of control.

Without that, it is too hard to deal intellectually and emotionally with chaos, randomness and uncertainty about the future. By saying that what happened was logical, unsurprising and had a clear cause and effect, we tell ourselves a soothing story and therefore that we will be able to navigate the future easily.

The third reason is that whether it is companies’ results or elections, often these are low-confidence forecasts for us. We may be thinking of all possibilities before the

event, but after we know what happened, our brains begin to tell us that we knew the specific outcome in advance.

The future is about probabilities and sometimes a low-probability event may happen, but our memories turn it into a logical linear narrative. This bias obviously results in overconfidence, which can be a disaster everywhere, but specially in markets.

How do you get rid of it then? There is no easy way. One, as O'Shaughnessy recommends, is to hand-write not just your predictions and decisions, but also the logic behind them. Why hand-write? Because you will change what you have written on a computer or phone and almost certainly not remember that you made those changes.

To feed your mind, read books, original articles and research papers, instead of watching talking heads on television telling you that they knew all along that the Congress would lose Haryana's assembly elections—even in the face of recorded evidence to the contrary.

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*Devina Mehra is chairperson, managing director and founder of First Global, an Indian and global asset management company, and author of the forthcoming 'Myths and Mantras: The Ultimate Investment Guide'. Her X handle is @devinamehra*