

Insights, Tacit Thought | Weekly Investment Insights

What's in a price?

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For most people, their home is their largest asset. Yet, how many people get daily or monthly appraisals for their homes? And if this information was readily available, would it do anyone any good?

Imagine if your home traded like an equity and you could sell fractional pieces of it to the public in exchange for cash. You would have daily price quotes based on the perceived value of your home. On some days, its value would shoot up because there was a rumour that a new railway station was being built nearby. On other days, its price will languish because of a poor Ofsted rating for your local school. All the while, the price of your home would move up and down largely based on noise but because the price is readily available, it will be interpreted by most as a signal of good or bad things to come.

Who would benefit from this? Certainly not the people speculating on daily swings in house prices. They will be coerced into action based on what the price may be telling them about the value of their "investment". Some will pay for research to understand the patterns that predict how house prices will move every day. The companies offering this research will hire smart data scientists to collate the information and try to create a precise model of which direction prices will move. Most of the research will be poor and simply throw up random correlations. Some of the research will be useful and they may very well spot some predictive trends, but they are not alone. Thousands of other intelligent data scientists will join the game and erode any edge previously enjoyed.

The estate agent will also get hefty commissions from the fervent trading further eroding any returns from investors.

Some economists would argue that this is a good thing because it increases "liquidity". Now everyone can trade in an out of their houses at will. However, there is not a lot of useful information in daily or monthly price changes and frequently checking the value of one's portfolio has been shown to be a good way of losing money. In the study, participants that were allowed to view their portfolio every five years earned almost twice as much as people who viewed their portfolio every month. This is because the people who checked their portfolio every month used the price as an indication of what to change and invariably made poor decisions.

Smartphones haven't done our habits any favours. Now we can check the value of our portfolio several times a day and be compelled to act on it even though most of the time, the best action is that of inaction, assuming the investment process is valid. At Tacit, our long-term results point to an effective process but invariably rely on an element of patience. As the roman senator Cato the Elder once said "patience is the greatest of all virtues".

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