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Why let the facts get in the way of a good story?

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Storytelling is deeply ingrained in financial markets because it helps investors make sense of complex, uncertain, and fast-moving environments. Markets are inherently chaotic and unpredictable, and raw data alone can be overwhelming or confusing to most. Narratives simplify this complexity by framing information in a coherent, cause-and-effect story that feels easier to understand and act upon.

Stories provide emotional connection and cognitive ease, making abstract or complicated financial concepts more relatable and memorable. For example, during crises like the COVID-19 pandemic, narratives of resilience and opportunity helped investors reinterpret fear into a buying chance, fuelling market rebounds beyond just stimulus effects. These then reversed rapidly and those who followed the story did not benefit from the strong initial returns. Similarly, stories about technological revolutions or demographic shifts help investors contextualise market cycles and align their risk tolerance with a bigger picture.

However, this reliance on storytelling can hurt long-term returns. Narratives often emphasize optimistic or dramatic outcomes that may not be fully supported by fundamentals. They can create emotional biases such as excitement or fear of missing out (FOMO), leading investors to chase hype rather than value. Stories spread rapidly through media and social networks, amplifying trends and sometimes inflating asset prices beyond reasonable levels, as seen in bubbles like the dot-com boom or meme-stock surges.

Moreover, narratives can mask randomness and uncertainty inherent in markets. Investors may believe they understand or can predict outcomes based on a compelling story, but often this is a fabricated sense of clarity that ignores chance and complexity. Because stories mix facts with emotion and selective details, they can distort judgment and cause poor decisions if not critically evaluated.

In short, storytelling is a powerful strategic tool in finance because it shapes perception, influences behaviour, and drives capital flows. Yet, investors must balance the allure of narratives with rigorous analysis and scepticism. Recognizing when a story is driving market moves rather than fundamentals can help avoid costly mistakes and improve long-term investment outcomes. Understanding the dual nature of storytelling: as both a necessary framework for comprehension and a potential source of bias is key to navigating financial markets wisely.

In the modern, social media, and AI led world, storytelling has become more prevalent and must be guarded against when making an investment decision. Generating positive after-inflation returns is not easy and never has been. Having a coherent, valuation-based process and applying it rigorously remains the Tacit approach and has provided strong real and risk adjusted returns over the past decade and a half.

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