



OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot November 2024

LOCAL ECONOMIC INDICATORS 30 NOVEMBER 2024	NEWS
<ul style="list-style-type: none"> All-Share Index 30 Nov 2024: +- 84,510 All-Share Index 30 Nov 2023: +- 75,706 Market PE ratio: 17.8 USD/ZAR R18.06/\$ South Africa 10Y Government Bond yield: Current 8.83% <p>(Data: Bloomberg; SimplyWallSt; Tradingeconomics.; Google Finance.)</p>	<ul style="list-style-type: none"> Despite prolific attempts by the Democratic Party in the USA to derail Donald Trump, the Republican candidate won the presidential race in November to win a 2nd term in office. This could signal significant outcomes globally and it remains to be seen how the resultant ripples therefrom affect South Africa. It seems the SA Government are looking to 'regulate the informal sector' due to the devastating spate of deaths of young kids caused by foods in spaza shops. One would have thought that <u>not</u> being regulated was the point of an informal sector.... Global conflict – A ceasefire has been announced in Lebanon between Israel and Hezbollah, while nuclear escalation remains a concern in Northern Europe with Putin threatening to retaliate in extreme fashion should NATO members become directly involved in the war.

LOSS AVERSION

Investors are significantly more sensitive to losses than they are to gains. The theory of 'Loss Aversion' in behavioural finance describes how the negative emotive impact of a loss is felt much more acutely than the pleasure of a commensurate gain. And this explains the primary driver behind most people's investment decisions.

This psychological concept is underpinned by Prospect Theory, developed by Daniel Kahneman and Amos Tversky in 1979 (Spendelow, 2024) which examines investor choices centered around risk, i.e. based around prioritising the avoidance of losses over potential gains. The study concludes that investors feel the anguish of a loss twice as much, in psychological terms, as the equivalent gain. In practical terms, a loss of R10 000 will have to be compensated by a gain of R20 000 to restore emotional equilibrium.

This theory is in contrast to economic theory which surmises that people act rationally and seek to gain the maximum outcome from any situation. Well, Prospect Theory proposes that we are indeed emotional creatures, and our decisions are shaped by various biases.

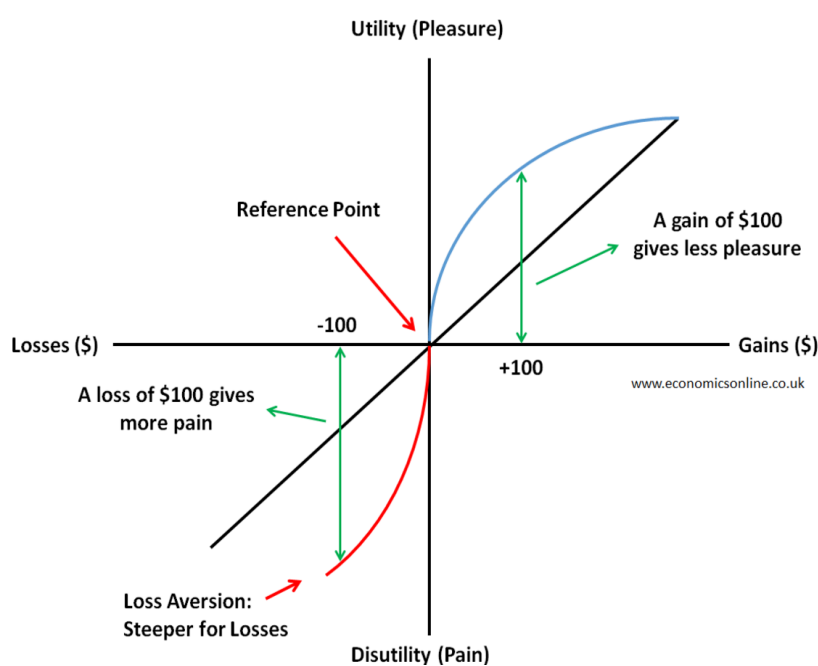
Thus, humans are inherently risk averse and this cognitive bias can in many cases have a detrimental impact on investment outcomes. In other words, decisions giving precedence to short-term security over longer term financial growth can come back to hurt later. It is against this backdrop that financial institutions are trying to find methods to include client's aversion to loss in their risk profiling.

Interestingly, this psychology around losses is potentially the primary cause of the asymmetric volatility trend in the stock market (Ansari, 2024) where activity and volatility are greater in falling markets than under other market conditions.

The below graph is illustrative of the theory of loss aversion where the curve for gains is not as steep as the curve depicting loss aversion. Consequently, investors who are conscious about this phenomenon should ensure that their principal capital is protected when pursuing an investment.

GRAPH OF THE MONTH

Loss Aversion



Source: Adapted from Economics Online

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