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“The key to understanding hindsight bias is that 'should've known' is a false statement: equal parts illusion and distraction.”

-Joseph Kaufman-
American business writer



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October can be an unpredictable time of year and its turbulent relationship with stock markets is well known. Since volatility can be measured in both directions, this October, we have seen its friendly side, as markets enjoyed a positive push upwards. Buoyed by the earnings reports from the four big so-called AI hyperscalers - Amazon, Alphabet, Meta, and Microsoft - the markets saw the quartet handily exceed analyst estimates. Indeed, these firms continue to make piles of money but are also spending huge amounts on various facets of AI infrastructure.

Hartford Funds is featured this month with their fourth quarter outlook, and they ask whether this market exuberance has endurance. The article was published prior to the earnings releases of these mega-cap stocks and they correctly forecast the strength in the tech names driving markets higher. Timing is always key and, for several reasons expanded on in the article, they don't expect the wave of market enthusiasm for stocks to crest anytime in the next 12 months. In fact, despite acknowledging market valuation concerns, they have increased their model weight to U.S. equities to overweight and favour the outlook for smaller companies and value stocks.

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Visual Capitalist is excellent at providing factoids that allow a quick visual analysis, which is often less readily evident when we pore over larger numerical displays. The recent version is no different and compares the value of AI chip giant Nvidia to an offsetting basket of other large U.S. companies. Thinking of it in this perspective can be both eye-opening and useful, as we see that fast-growing Nvidia is currently worth more in stock market capitalization dollar value than 11 of North America's largest banks combined. Its \$4.6 trillion value makes it more than 20 times larger than Canada's Royal Bank. Would you rather own only Nvidia or the entire list of banks? That can be a fascinating question to ponder.

Like the present time, one human trait that seems to be amplified whenever assets have massive run-ups (like Nvidia) or downdrafts (like 2000's tech bubble) is hindsight bias. In a very timely **Big Think** article, financial writer Josh Kaufman examines this phenomenon through both a personal and a practical lens. While he laments selling his Apple investment far too early to buy some furniture or never acting on his belief in Amazon in the early days, he takes comfort in the recognition that "at risk of oversimplification: the human brain is a general-purpose prediction system." Evolved to mainly solve survival problems in an ancient world, it can be wildly imperfect in today's ecosystem. He argues that errors in judgment are an unavoidable part of the learning process and how we adapt and recalibrate future decisions. Certainly, the learning part of that thesis is crucial, but he advises that using the regret aspect as fuel for emotional anguish has its own costs. Quoting Thoreau, he recommends that dealing with hindsight bias also requires letting go of the blunders we all make.

Hartford Funds: 4Q Outlook – Rational Exuberance: Will the Bulls Keep Running?



Why strong earnings, supportive policy, and a focus on quality may keep markets resilient through uncertainty.

Global equities marched almost 7% higher in the third quarter, as more barriers to market optimism fell by the wayside. Despite open questions about US fiscal health (including a government shutdown as of this writing) and central-bank independence, the US dominated the

global picture as softer labor-market data led the Federal Reserve (Fed) to pivot back to easing after a year's hiatus, and AI spurred eye-popping revenues and earnings. In addition, ample liquidity in the financial system continued to support animal spirits.

So, will this exuberance end in tears? Maybe, but we think the fundamentals can remain supportive for the next 12 months, and we maintain our overweight view on global equities relative to bonds. The key to our optimism is that we continue to see good earnings driving higher returns in the US, particularly among the mega-cap names. In addition, we see historical evidence that even after long pauses in central-bank interest-rate cuts, the market has responded

well to the resumption of cuts. FIGURE 1 shows that even in recessions, global equities and US investment-grade (IG) bonds delivered positive returns after cuts resumed.

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Visual Capitalist: Nvidia's Market Cap Compared to Bank

Governments are beginning to understand they can't afford everything they've promised. Will they be able to get their electorates to agree?

·Nvidia's market cap of \$4.6T now exceeds the combined market cap of every major U.S. and Canadian bank (\$4.2T).

·JPMorgan Chase, the largest North American bank, is worth just \$816 billion—less than one fifth of Nvidia.

·As AI demand surges, Nvidia's valuation boom has triggered comparisons to past market bubbles.

Nvidia has reached another valuation milestone. the world leader in AI chips and GPU technology has a market capitalization that surpasses the combined valuations of every major publicly traded bank in the United States and Canada.



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Big Think: How to free yourself from “hindsight bias”



“It is difficult to make predictions, especially about the future.”

A remark in the Danish parliament, as recorded by Karl Kristian Steincke, circa 1937-1938

Getting rich in the stock market is, in retrospect, very straightforward. All you needed to do was invest the entirety of your savings into the Hansen Natural

Corporation sometime before the summer of 2003 and then wait. The past two decades have been extraordinary for Hansen Natural shareholders: The company shifted its strategy from selling bottled juice products to focusing on energy drinks, eventually becoming the Monster Beverage Corporation in 2012. For every \$1,000 you invested, you'd have approximately \$1.2 million dollars in your account today.

Unfortunately, I didn't know Hansen Natural existed in 2003. You probably didn't either — there were few reasons to pay attention to the company at that point. It's notable today because, with the benefit of hindsight, it's one of the best-performing financial investments of the past twenty years. I don't feel bad about missing out on Hansen Natural, but I have similar sorts of regrets.

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