## Why Do We Believe Things?

We believe some things because of the evidence of our senses: that it is daytime, that the floor is solid, that there are other people in the room.



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*We believe other things because of a somewhat more circuitous chain of inference, from direct sensory evidence: that it will get dark later (it always has before), that the floor will remain solid in future (unless something dramatic happens), that the other people in the room have comparable senses and feelings to our own.*

We believe other much more abstract things, where the chain of inference from direct sensory evidence has been stretched to breaking point, when their truth is attested to by an authority we trust. That it is wrong to steal, that electricity is what makes lights work, that nothing can go faster than the speed of light, that we can be redeemed from sin through repentance. Everything which people don’t agree on falls into this third category.

When we truly believe something it profoundly influences our actions. These actions can then exert a powerful influence on the beliefs of others. To an observer, it seems unlikely that an individual would be willing to die for a belief that she didn’t have very good grounds to believe true. Authority can be vested in people and institutions, parents, religious or social leaders, but it is also projected by actions, which are said to speak louder than words. Sometimes, people collectively come to believe things that are palpably and laughably untrue simply because they are all following one another. Panics and manias are vivid manifestations of such beliefs. Since people disagree about so many of their strongly held beliefs, we can infer that they are poor at assessing what is true. Fallibility must rationally be assumed to be a near universal condition, and proceeding on the basis that you have privileged access to truth cannot reasonably be assumed to be correct.

Where we observe near unanimous agreement among people, we can be more confident. Death is undesirable, it is right to love your children, the world is round. It also seems reasonable to believe more strongly in propositions which are testable, but have survived efforts to falsify them. This is the singular most important determining character of scientific knowledge, and why its advocates believe it has a special claim to authority. However, this testability and falsifiability can really be seen as only an extension of the verification of credibility via the direct evidence of the senses.

Interacting via sight, sound or touch with the physical world in an organized way is the experimental method. Science considers experience gained without the intermediation of the senses to be less credible. Spiritual experience that is direct or revealed is very important to what most people believe, but is not scientific knowledge.

Scientific knowledge has come to be an important source of universal, motivating belief for people, even though most people are not able to carry out the experiments to verify the truth for themselves. The growth of scientific knowledge has had such dramatic consequences in the modern world that many scientific beliefs, such as that the earth is a sphere, have been universally accepted. Science has become almost the pre-eminent source of authority with respect to truth, with the consequence that there is a vigorous contest to wield that authority. Nevertheless, that authority exists alongside other sources of authority: national and international institutions of religious, civic, scientific or organizational character (the UN, the Government, the International Maritime Organization, the Pope, and the US President). The ideological struggles of today’s world are dominated by the contest for influence between these different sources of authority.

The authority of an institution is generally regarded to be proportional to the number of people who already accept that authority. This is a scaled-up version of being impressed by the actions of others, motivated by what they obviously believe to be true. The fact that there are 1 billion Catholics serves to reinforce the authority of the Pope, in comparison to the 100,000-plus supporters of the leaders of the Church of Scientology. One way to escape the tyranny of numbers is through the control of information and geographical concentration. The North Korean people really believe in the authority of Kim Jong-un because practically everyone they know does (and if they don't, they presumably keep pretty quiet about it). Yet 20 million North Koreans represent a tiny fraction of the world’s 7.4 billion people.

Any reading of history, however, shows us the unreliability of believing that truth can be decided by weight of numbers. Whatever else we know about history, we know that the beliefs of people change through time - just as they do within and between societies and ideologies, or even among people with different interests, or performing different functions in society. Great numbers of people believing something do lend it credibility, but as long as any significant minority differs we should be cautious in inferring it to be definitively true and acting upon it.

In deciding how to act, it matters very much what we believe. If we believe the floor is about to give way, we should move; if we believe it is going to get dark, we should make ourselves secure and prepare to sleep. Well-judged actions should usually be congruent with our own broad self-interest, interpreted over the long run, and across our families and social networks. If our actions are not based on a good grasp and interpretation of reality, whilst we may judge them to be in our self-interest, they may well not be. There are frequently news stories of cultish groups preparing for a world-ending event that never arrives. Their attendant actions must be defined as miscalculations.

Those who share a common set of beliefs will come to believe in a common set of actions that are in their interests. They will generally become socially bonded by those shared beliefs and actions. This is what creates the group mentality of humans, whether at a familial, racial, cultural, religious or interest group level. It is manifest in myriad group identities: some profound, like followers of the great religions, subjects of nations and employees of corporations; others based on a commonality of philosophy and practice such as scientists or actors. When those beliefs are at odds with one another, when groups abut geographically or when group memberships overlap, the stage is set for conflict. Just as we are bonded to those who share our beliefs, those whose beliefs contradict ours alienate us, and we feel threatened by them.

Of course, if we were less sure of our beliefs, or better still if our beliefs incorporate the wisdom of collective doubt, the potential for conflict is lessened. By the same token, strongly-held collective belief facilitates powerful collective effort. However, a powerful collective effort - predicated on a set of beliefs that while firmly held, aren’t really true - may well not be in the interests of the actors.

There is no field in which the disconnect between one’s beliefs and one’s self-interested actions can be so purely studied as that of investing.

In financial market investing, the weight of numbers for the last 40 years has been with those who believe that markets are so-called efficient: that the market price is always right, and that it is consequently impossible for participants to make money through speculation. When, 30 years ago, my partners and I observed empirically that we could profitably trade financial markets in a systematic manner, we were dismissed by all but a small section of the investment management industry as charlatans.

It takes resolve and doggedness to challenge a collectively-held view in such circumstances. Popular beliefs can remain entrenched for far longer than would seem reasonable. Even now, efficient market theory continues to underpin the thoughts and actions of the western world’s politicians, central bankers and professional investors. That is in spite of an abundance of empirical evidence to the contrary, the 2008 financial crisis included.

Where success in investing is concerned, history suggests that the more people trust in a given belief, the less profitable it generally becomes to hold that belief. George Soros describes the financial market system as being reflexive: there is a dialectic between market values and the reality they are attempting to reflect. Following the pack is not the route to long-term success. Patient research gives top investors the confidence to believe in their own understanding of the world and bet against the crowds, whose opinions derive merely from copying each other. As Warren Buffett sardonically remarked: “Failing conventionally is the route to go; as a group, lemmings may have a rotten image, but no individual lemming has ever received bad press.” None of the world’s top investors is a believer in efficient market theory.

In my career, I have studied the lives and techniques of the world’s best investors, as well as closely observing global events and the day-to-day impact they have on markets. I have tried to build an organization to develop rules, strategies and trading methods into a disciplined investment system that can go most of the way to managing a long-term investment portfolio, over many years, automatically. Considering the high cost of employing the professional individuals who offer this sort of service, our machine should be of significant value. That is the way that it has turned out so far, and long may it continue!