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When You Have No Idea What Happens Next

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5-6 minutes

Do we know more about what's going to happen in the next 12 months today than we did in January?

You'd think so. We now know there's a pandemic that shut the economy down. We didn't know that in January.

But remember what Daniel Kahneman says. "The correct lesson to learn from surprises is that the world is surprising."

The things we thought about the world in January now look oblivious. But what does that tell us about our view of the world *today*?

Couldn't the world change in as surprising a way between April and June as it did from January to March?

Of course it could. That should be the main takeaway of 2020.

We've learned this year that assumptions you have about the future can be destroyed overnight. That's true for the poorest to the most successful, the old dry cleaner to the tech startup. It was true in January, and it'll be true again in the future. Things change.

If that's the lesson, the question is: what do you do about it? How do you think about a world where fundamental assumptions about the future are so fragile?

"Humbly and with fingers crossed" is the answer. But two other ideas:

1. Read more history and fewer forecasts.

Studying history can feel like intellectual candy that offers no practical use to investors who are paid to foresee the future. But once you accept how fragile our assumptions of the future are, you realize that forecasts are the real fluff and history is where the meat is.

Think of all the 2020 market forecasts published in December. Oof. Authors of these reports – most of which have been quietly removed – might say, "I couldn't have foreseen Covid-19 in December, and it upended my entire forecast." To which my response would be, "Yes, that's *my* point." If you claim an ability to foresee events, you can't use events you didn't foresee as an excuse – especially when unforeseeable events [move the needle most](#). When a company reports poor earnings it's often said they missed analysts' estimates. But earnings don't miss estimates; estimates miss earnings.

Accepting that forecasts have little use doesn't mean you become a blind fatalist. When you pay more attention to history than forecasts you pick up on the [patterns that guide how people respond](#) to unforeseen events, which – given how stable behavior is over time – is the next best thing to knowing what will happen next.

I don't know when this recession will end, and I'm not interested in your forecast. But I am interested in the historical observation that progress happens too slowly for people to notice but setbacks happen too quickly to ignore, which causes most people to recognize when a recession ended only with considerable hindsight, which requires maintaining investing optimism even when the economy around you feels broken.

I don't know exactly what companies will survive or perish from this mess, and neither do you. But I know that, historically, it's [normal for the majority](#) of the investments you make to perform poorly while a small handful do extraordinarily well and drive the majority of returns – a truth that's mathematically obvious but psychological torture to deal with in real time. Knowing that fact alone can be more valuable

than listening to someone who professes to know what companies will die or thrive. And you learn it by paying attention to the enduring themes of history rather than the alluring promises of forecasters.

2. Have more expectations and fewer forecasts.

If I say, “The next recession will begin in 2024,” I’ve made a forecast.

If I say, “Recessions occur roughly every 5-10 years,” I’ve expressed an expectation.

They seem similar, but they’re very different.

Forecasts rely on knowing when something will occur. Expectations are an acknowledgment of what’s likely to occur without professing insight into when it will happen.

Expectations are healthier than forecasts because they provide a vision of the future stripped of all false precision. If you know a recession will occur at some point, you won’t be that surprised whenever it arrives – which is a huge benefit. But if you assume you know exactly when it will occur you’ll be tempted into all kinds of dangerous behavior, leveraged with overconfidence. And you’ll be shocked when time passes and what you thought would occur hasn’t happened (yet).

Here’s a useful expectation: assume the world will break once or twice per decade. I don’t know where, or when, or how, who it will affect. But when you expect the world to break every once in a while you prepare for events you can’t foresee and you don’t have to rewrite your playbook when they happen. You’ll prefer big cushions and room for error. When people ask, “What are you preparing for?” you’ll say, “A world that history shows is both a growth machine and a continuous chain of unforeseen agony.” A world where we have no idea what will happen next. Nothing more specific.