Financial markets a world where anything can happen

TERMS OF TRADE

with GARY STONE

REGARDLESS of who was going to win the US election, it is important for investors to have perspective and understand that there are millions of variables that fuel the financial markets.

These millions of variables all interact simultaneously within the financial markets, the control of which is not possible by any single investor or group of investors, including highly experienced professionals.

All these variables affect each other and each financial instrument positively and negatively to varying degrees at any given time. At the end of any given period the aggregate of all the variables and their degrees of effect will be net positive or negative.

It can take just one of these millions of variables to affect the financial markets negatively at any time.

Or positively, too.

Investors will never know in advance with certainty which variable that might be, nor the magnitude of the effect of that variable. This is one of the fundamental truisms of investing in financial markets.

These variables are not limited to the financial arena. They could be a shock geopolitical event such as an unexpected US presidential election result, a terrorist attack or a natural disaster.

That's why one of the guiding principles that all investors should subscribe to at all times is that "anything can happen".

Having an "anything can happen" mindset over the long-term allows one to adopt an unbiased approach to the financial markets rather than pinning one's hopes on a notion, story or a single emotionally-charged variable.

Armed with this neutral mindset, one will be open to the possibility of a positive or a negative outcome and can position themselves accordingly for either. You might call this objective risk management.

The degree of effect of any given variable on the financial markets, such as Donald Trump winning the US presidential election, does not remain constant. It changes as time passes and as other variables gain more or less importance.

That is why understanding the multiple variable effect and having a big-picture perspective is so important as an investor.

Markets hate shock events and uncertainty. Using history as a guide, the market rose within a day or two of a US president's assassination, an attempted presidential assassination and within six days of the 9/11 terrorist attacks on the World Trade Centre.

This is the exciting cauldron of the financial markets which I will write about in this column, including providing suggestions to navigate a successful path through all these ever-changing and interacting variables.

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