I Don’t Want To Know. What If Investors Had No Memory Of Market Prices.

An investor is faced with two sets of information. The first regards the commercial performance of companies thus earnings and cash flow, returns on equity etc, and the second is price information, which tells them what other investors are making of this information.

What would the world look like, what would financial markets look like, if investors were denied the second set of information? That is, they would know all they could know about the commercial and operational performance of companies but when it came to stock prices, bond prices, credit spreads, FX, interest rates and commodity prices, the investor has no memory and only sees current prices. Under these conditions, what would financial markets look like?

The reason for contemplating these investment conditions is that historical price information tends to encourage herd mentality which can lead to bubbles. Deprived of historical price information, would investors still display herd mentality and create an environment of extreme valuation?

The deprivation of historical price data addresses only part of the problem. Without historical time series data, the investor is disabled from the emotional mechanisms which encourage chasing an asset. They do not see the price of an asset rising while they feel they have under-invested in it, they do not see other investors profiting from a situation which they are missing out on, and they are less inclined to form opinions about the short term future valuations of the asset based purely on price action (since earnings and cash flow are relatively stationary processes.) They are less likely to delay purchases, seeking technical corrections.

However, the investors’ own profit and loss history cannot be obscured and so the investor will still have a price related metric which could enable market timing and momentum driven behaviour. This somewhat dilutes the objective of encouraging an investor to inform their decisions based purely on current prices. Despite this dilution, the investor is protected from the influence of other investors’ behaviour transmitted through historical prices. The investor cannot be protected from the influence of their own historical decisions transmitted through their P/L.