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Based on the notion that "none of us knows as much as all of us", investment decisions are normally entrusted to a group of people with a special status - the investment committee.

There are some obvious advantages in the use of an investment committee as it pools the knowledge and insights of individuals; it brings in a system of checks and balances and can control individual error. It also creates a forum where views can be challenged and hopefully promotes rational investment decisions.

We tend to trust the judgement of a group of people more than that of an individual - especially if the group consists of smartly dressed, professionally qualified senior people.

The larger the group, the greater our sense of security and confidence appears to be in the judgement of the group. Such a committee usually receives an open mandate, which allows it the authority over, and general responsibility for prudent investment and reinvestment decisions on all restricted and unrestricted funds of an institution, such as those of the endowment and similar funds, agency funds, trusts, funds from bonds, loans, and other sources in excess of immediate debt payment requirements.

However, in some investment groups the power of group thinking can be diluted into a herd mentality. It derives from a negative, "ja broer" attitude, a phenomenon labelled by Barton Biggs as "groupstink". It is a phenomenon frequently observed by financial behaviourists and describes situations in which a group of individuals reacts instinctively without co-ordination or debate between them.

One may question under what circumstances the herd instinct starts. It has been well demonstrated that it happens in the absence of knowledge or logic, especially when rigorous reasoning breaks down in a group.

Cognitive errors happen more frequently in bear market situations, when everyone is feeling the heat and where there is a distortion of information processing.

Wendy Hackett-Dominguez provides the example of how the American market was fuelled by herd behaviour in the market crash of October 19 1987. On that day, the Dow Jones Industrial Average dropped nearly 23% in the largest single day decline in history, but no significant news events that could have accounted for the plunge were reported.

When the herd mentality runs away with the group, it loses its normal power for good. The result can clearly be seen in poor investment decisions and low returns.

Destructive herding instincts can be combated by keeping investment committees small, by creating a culture for debate, by avoiding a charismatic leader and by being aware of the "over-confidence" syndrome.

Investment committees should not be too homogenous and both sexes should at least be represented.

It also helps if the committee has a clear charter, outlining the responsibilities and roles of its members, if an unambiguous investment strategy is formulated and if the committee members are willing to form constructive relationships with each other.

In the end, it is all about the willingness by committee members to challenge and debate investment options using data and facts and not to be intimidated by the strong opinions of a charismatic leader personality.

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