

A Bird's Eye View Sparrows Newsletter

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"In the land of the blind, the one-eyed man is king"

Is what we see reality, or is it merely a perception of reality - a perception influenced by what we are programmed to believe? This philosophical question has been on many philosophers' minds for centuries. It is paramount because it addresses the way human beings are beholden to their belief set.

It is laborious, often impossible, to change a person's fundamental beliefs. We all know how difficult it is to revise our own opinions, let alone challenge other people's convictions. The fact that these convictions are often built on questionable foundations doesn't make them any less secure.

A philosophical perspective

The allegory of The Cave was presented by the Greek philosopher Plato in his work *Republic* (c. 380 BC).

Plato suggested that a group of people, kept shackled in a cave and shown shadows against the wall of the cave, will grow up to believe the images they see are reality. They resist any intervention challenging this "fact". Plato further hypothesised one of the prisoners breaking loose from his chains, escaping from the cave and observing real life. When the prisoner returns to the cave to inform the others of what he has seen, and persuade them to set themselves free, he is ridiculed and ignored. The group would not comprehend what he is trying to describe.

Socrates went on to take the allegory further, suggesting that the group would go as far as to physically attack anyone attempting to free them out of the cave.



Many well-known philosophers debated similar questions, notably René Descartes in his work entitled "*Meditations on First Philosophy*", published in 1641, and Bertrand Russell, who manifested the nuances of appearance, reality and facts with an everyday example of an inanimate table.

A literary perspective

"*The Country of the Blind*" is a short story written by H. G. Wells, published in 1904. In it, a mountaineer attempting to climb mount Parascotopetl (a fictitious mountain in Ecuador) slips, only to discover a hidden valley inhabited by a forgotten tribe that fled from Spanish tyranny centuries ago, and has had no contact with the outside world ever since.

Over the generations, the tribesmen have completely lost the power of sight, due to a rare disease carried in their genes. The mountaineer becomes the only person in the community with the ability to see things with his own eyes. Instead of looking up to him and regarding his sight as a gift, the villagers treat it as a malady. Unable to process his "delusions" and "hallucinations", they constantly attack and ridicule him. When he falls in love with one of the natives, the village doctor argues that his eyes should be removed to rid him of his disease before he can be allowed to marry.

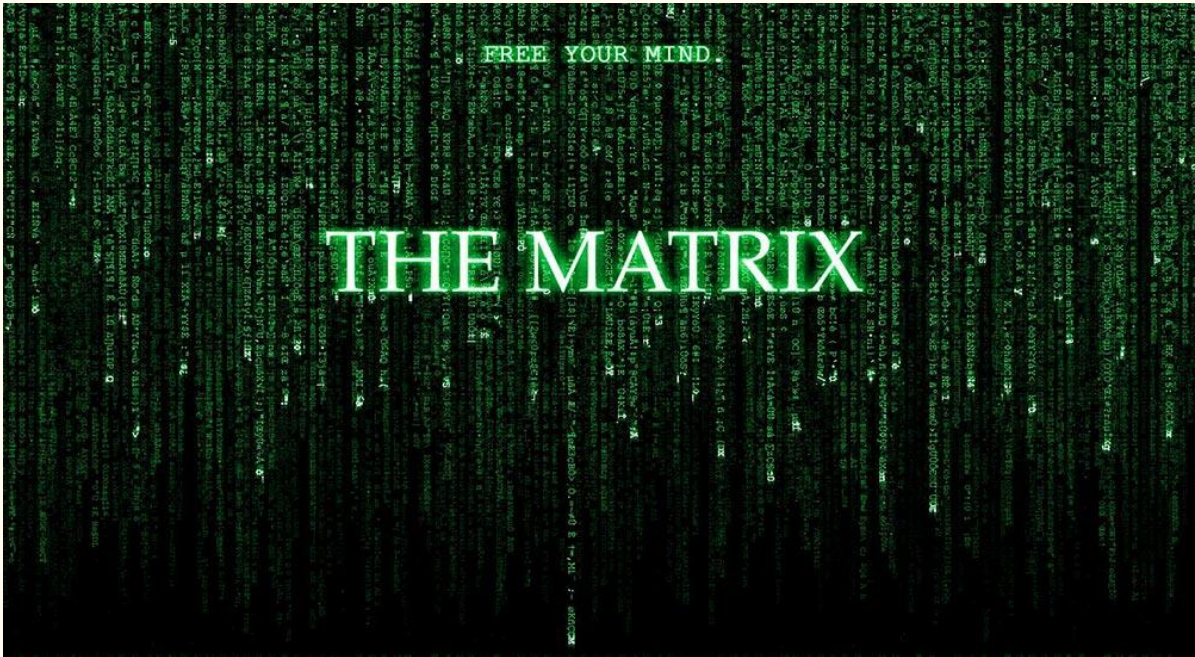


A cinematic perspective

One of the most well-known movies to address this concept was *The Matrix*, written and directed by the Wachowski Brothers in 1999. The film describes a dystopian world, where machines have taken over the planet and are harvesting humans for their battery-like energy.

To keep these "farms" of humans alive the machines inject a "reality" directly into their brains, rearing them in a virtual reality known as the matrix (a concept mirrored in philosophy as "brain in a vat"). The machines' first attempt at designing a matrix had involved a perfect world without suffering. The result "*was a disaster. No one accepted the program. Entire crops (of people) were lost.*"

One individual manages, with help from the last free human resistance, to escape from the matrix into the real world. As he wakes up, he asks: “*Why do my eyes hurt?*” The answer: “*You've never used them before.*”



A scientific perspective

Trying to collect empirical evidence on the back of scientific experiments studying human behaviour is a challenge. A well-known experiment conducted by Stephenson in 1967, focused on monkeys as a proxy. A simplified version of his “*Cultural acquisition of a specific learned response among rhesus monkeys*” is known as “the Five Monkeys Experiment”.

The experiment involves locking a monkey in a cage with a banana hanging at the top of a ladder, within his reach. Each time the monkey tries to grab the fruit he is punished by being hosed down with cold water.

Additional monkeys are introduced, and each time one of these tries to reach the banana, the entire group is punished. Once all five animals, have been “trained” in this manner, one of them is then replaced with a new “untrained” monkey.

The experiment suggests that no training is required for the new arrival; the other four will prevent the newcomer from making his way to grab the banana, in order to avoid collective punishment. The remaining four trained animals can then be replaced gradually until the cage contains five monkeys, none of which has ever experienced any sort of punishment, but all of which are reluctant to try and grab the banana as they believe it bears a negative implication.



A financial perspective

The way we are wired affects our daily routines in more ways than we would like to admit. We believe ourselves to be flexible and open to change, but in fact we are slow to change our conceptions and our perception of reality. Our baseline belief set evolves gradually from generation to generation.

Ultimately, we are programmed to believe that manager skill is the essential magic ingredient in investing. It is such a complex discipline, and so fundamental to our long term wellbeing, that we cannot let go and abandon our wealth to the whims of a random market....no matter what the evidence may tell us.

Evidence-based investing is built on a hundred years of clear, unimpeachable data, supported by robust academic studies. It is mathematically impossible for active managers, in aggregate, to beat the market. Only a tiny fraction of them manage to do so consistently. So why is it so difficult for us to adjust our belief set and our behaviour to take account of this?

Yariv Haim, Founder and CEO



For more information on our philosophy, process or if you just want to challenge these observations, please get in touch.

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