

Prediction, Publicity, and Paul the Octopus

Unlike many other market observers, we just don't see the point in discussing or debating the macroeconomics driving overall markets, volatility, or sentiment. We're in the camp that thinks successful prediction of market direction is, broadly, a coin flip. Well, we're sure that we don't have the skill; although we're happy to concede that some of our top-down macro friends appear to do this quite well. However, over any time horizon that isn't decades long, it is extremely difficult for any of us to know whether their "success" is due to luck or skill.

We're all familiar with the 50/50 probability of heads or tails when flipping a fair coin. It's also fairly easy to grasp that there is a 25% chance of flipping heads (or tails) twice in a row. With each successive coin flip, however, probability becomes slightly less straightforward, and is particularly difficult when contemplating a population of coin flippers.

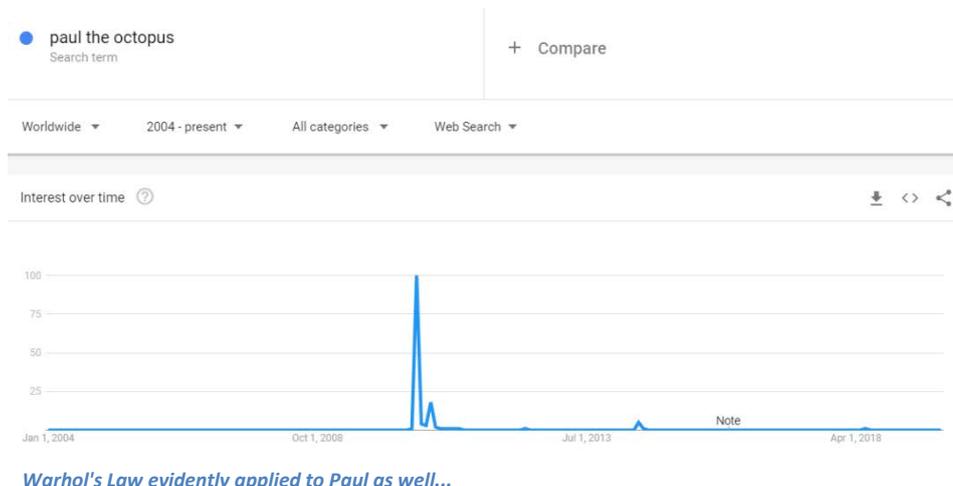
Let's put this in the context of soccer, or football as we call it here in the UK. Back in 2010, during the World Cup, a seemingly omniscient German-raised octopus called Paul received quite a lot of attention. Paul, it seemed, was really good at picking winners. He picked the winner in all seven of Germany's matches, even his home country's loss to Spain; and then – much to the delight of our friends at Gamesa and chagrin to those at Randstad – Paul even picked Spain over Holland in the final.

Yes, Paul the Octopus was eight for eight, and briefly became the most celebrated marine invertebrate in the world, much to the chagrin of the equally clueless, albeit confident and determined, SpongeBob SquarePants.



I'm good at stockpicking, too

Paul was – metaphorically – flipping coins, and got lucky eight times in a row. The odds against doing so were 256-1. Impressive indeed! However, with two billion octopuses swimming in the oceans, there were eight million other eight-tentacled freaks out there just as good as Paul. They just didn't get any publicity.



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