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Behavioural consistency

> Behavioural consistency refers to people's tendency to behave in a manner that matches their past decisions or behaviours.
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> Behavioural consistency is a judgement heuristic to which we default in order to ease decision making: it is easier to make one decision, and stay consistent to it, than it is to make a new decision every single time we are presented with a problem. From an evolutionary standpoint, behavioural consistency also serves us well: in a social environment, unpredictable people are less likely to be liked and to thrive among others.[1]

Consistency is one of the most basic drivers of human behaviour and thus very reliable for forecasting purposes.

The two questions that currently help to forecast where the markets will go are:

1. What will the central banks do in the future?
2. What will Trump do in the future?

Central banks' past and current behaviour is to add liquidity, increase government debt and do "whatever it takes" to stop GDP from falling.

Trump's business history suggests the same, i.e. borrow more and more until the situation turns around.

Against this backdrop we can make a reasonably informed forecast of their behaviour.

As we speak:

- The Eurozone is staring deeply negative rates in the face.
- US rate curves are falling fast, and other developed countries are matching them in order to stop their currencies appreciating and causing an implosion of their respective export sectors.
- This is all in the absence of any inflation.

It must confound more than just us surely?

The big countervailing forces of deflation, deregulation, internet disintermediation and low cost labour must be a lot bigger than we imagined. But wait:

- Deregulation? If anything the opposite is true now with tariffs, reregulation of the financial markets etc.
- Low cost labour? Looks baked into the cake years ago.
- That just leaves internet disintermediation. Amazon is probably the poster child for this. This wrecking ball has swung hard through high street retail but it is not stopping there.

Against this backdrop central banks fight the inflation/deflation war and they remain consistent with their previous and current behaviour of fighting primarily on the monetary policy front.

Their "Maginot line", so to speak.

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[1] Fessenden, The Principle of Commitment and Behavioural Consistency, accessed at https://www.nngroup.com/articles/commitment-consistency-ux/

Inadvertently they are killing the financial sector as entities within that sector struggle for profits in a regime of low margins, low cost passive investing and lack of volatility. This creates more deflation as more and more bankers, brokers etc. get made redundant and downsize or move into different, more modest careers selling their status homes in the process.

Debt, alongside labour, get cheaper and cheaper…

In the meantime assets get more and more expensive. The price of any asset at zero interest rates (forever) is infinity. So if we include asset prices (which the CPI ignores) I suppose we will see the inflation that we all expect – but not in the form we expected it.

But black swans are cunning creatures. We cannot really imagine the second order consequences of what current monetary policy is doing. We can, with some degree of confidence, say that if it is based on a delusion or faulty assumption, it will end – and probably badly.

And if so, the black swan will side with the hidden flaw and emerge in a way that today we probably don't even fathom.

And, like previous black swans, in hindsight it may seem fairly obvious.

But as Sinclair said, "it is difficult to get a man to understand something, when his salary depends on his not understanding it!"[2]

[2] I, Candidate for Governor: And How I Got Licked (1935), ISBN 0-520-08198-6; repr. University of California Press, 1994, p. 109. Accessed at https://en.wikiquote.org/wiki/Upton_Sinclair