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## Faith and the markets

The religious rituals of the finance sector

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HAROLD CAMPING, the radio preacher who inaccurately forecast that the Apocalypse would begin on May 21st, made a rookie's mistake. Any pundit could have told him that when you forecast an event, you should not name a date. But if you are forced into doing so, choose a date so far in the future that you will not be around to be proved wrong.

Religion is largely a matter of faith, rather than scientifically testable propositions. But even in the financial markets, where participants worship Mammon rather than God, faith plays a larger role than its hard-headed participants would like to admit.

When it comes to assessing the prospects of a company like LinkedIn, a newly floated online business-networking firm, investors rely entirely on the assumption that the company's future growth can justify the stratospheric level of its current valuation. They have to assess the management's strategy, the level of competition, changes in customer habits, the economic outlook and many other factors that are extremely difficult to forecast. Buying shares in such a company is a leap of faith by any standard.

During the lead-up to the establishment of the European single currency, investors bought the bonds of weaker governments on the ground that all would converge on the high standing of Germany. They had faith that countries like Greece and Portugal would use the breathing space of lower interest rates to usher in economic reform. That belief proved sadly misplaced.

Finance even has its own high priests in the form of the analysts and fund managers who promise their clients heavenly rewards if only they listen to their advice. They preach regular sermons in the form of brokers' notes and quarterly reports, and they house themselves in vast cathedral-like buildings that dominate the skyline. Each day also has its canonical hours as traders pray for profitable opportunities at the European, American and Asian market openings. Finance has its annual calendar, too, marked with festivals known as results seasons in which the lucky participants receive their temporal (rather than spiritual) dividends.

And like any self-respecting religion, finance has its doctrinal schisms as well. Active fund managers are a bit like the medieval Catholic church, offering eternal salvation to those willing to pay the appropriate sum, which are known in modern parlance as performance fees rather than indulgences. The active-investment sect has its elaborate rituals and language, with a liturgy ("information ratios" and "alpha generation") as baffling to the layman as the Latin mass was to the medieval peasant. Clients are supposed to listen to their presentations in a reverential hush, trusting that all the mumbo-jumbo will deliver superior results.

The passive fund managers, or index-trackers, are akin to early Lutherans. Investors have no need for priestly intermediaries between them and the market, say the index-trackers. All they require is the full text of those companies that are included in the benchmark.



Finance also has its equivalent of holy men, the gurus who pronounce on the market outlook. Not for nothing is Warren Buffett known as the "sage of Omaha". The faithful conduct an annual pilgrimage to Nebraska every year to attend the annual meeting of his company, Berkshire Hathaway. His folksy demeanour would surely make him the ideal neighbourhood priest, bringing comfort through life's ups and downs. Those made of sterner stuff prefer the more puritanical oratory of Nouriel Roubini, forever preaching hellfire and damnation for those (particularly the Federal Reserve) who fail to repent.

Finance seems to be a polytheistic rather than a monotheistic faith. The objects of veneration change on a regular basis from emerging markets through internet companies to commodities. These enthusiasms often have a cultlike quality with adherents inclined to pour scorn on unbelievers who "just don't get it". It is striking that the cults often involve asset classes that do not deliver much in the way of immediate cashflow. Dividends will be paid far into the future, long after the likely holding period of the average investor. It is a little bit like the promise of an afterlife.

Even when these cults prove to be built on sand, investors show a remarkable willingness to forget their disappointment and move on. Mr Camping clearly hopes his followers will be equally forgiving. He has revised his doomsday forecast to October 21st.

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