

Predicting the Stock Market

TOK

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Prediction: a statement
made about the future

The Stock Market : The market where the prices of common stock are determined.



Media	Econ. Data	Psychology
Liquidity	Panic	Algos.
Derivatives	+	-

Bull market : rising prices
expected.

Bear market: decrease of
prices expected.

Human sciences : economics.

In 07-08 the banking industry lost more than it had ever earned.* Investors alone in the U.S lost \$ 8.3 trillion.

* taking risks

Problems with Prediction in Human Sciences

- Complex situations
- Many known & unknown variables
- No controlled conditions

Human sciences are treated with
models emergent from Natural
sciences & Mathematics.

Knowledge Issues

- Retrospect (Reason, Perception)
- Can we process the truth ? Are we even allowed ? Narrative thinking. (Language, Perception, Reason)
- Causal thinking. (Reason)
- Is it ethical to issue predictions ? (Mathematics)
- Naivety leads to confidence. (Emotion)

Retrospect

- We can only understand history after it has happened.
- Various variables that appear to make sense are put together.
- Niall Ferguson: bond prices before WWI were at an historic low.

A BIRD IN THE
THE HAND IS WORTH
TWO IN THE BUSH

Inhibiting activity in the
left hemisphere leads to
better results.

Alan Snyder

Patterns Vs. Details

To narrate is to reduce dimensions,
hence complexity.

The 22 Leading banking
Analysts estimate for 08

DAX Performance Index

Prediction	Result
8.524	4.900

End of 07:8.067

Range: 7.900-9.100

That is a -42.5 %
Discrepancy

post hoc ergo propter hoc

Because two variables are correlated, the first variable causes the second.

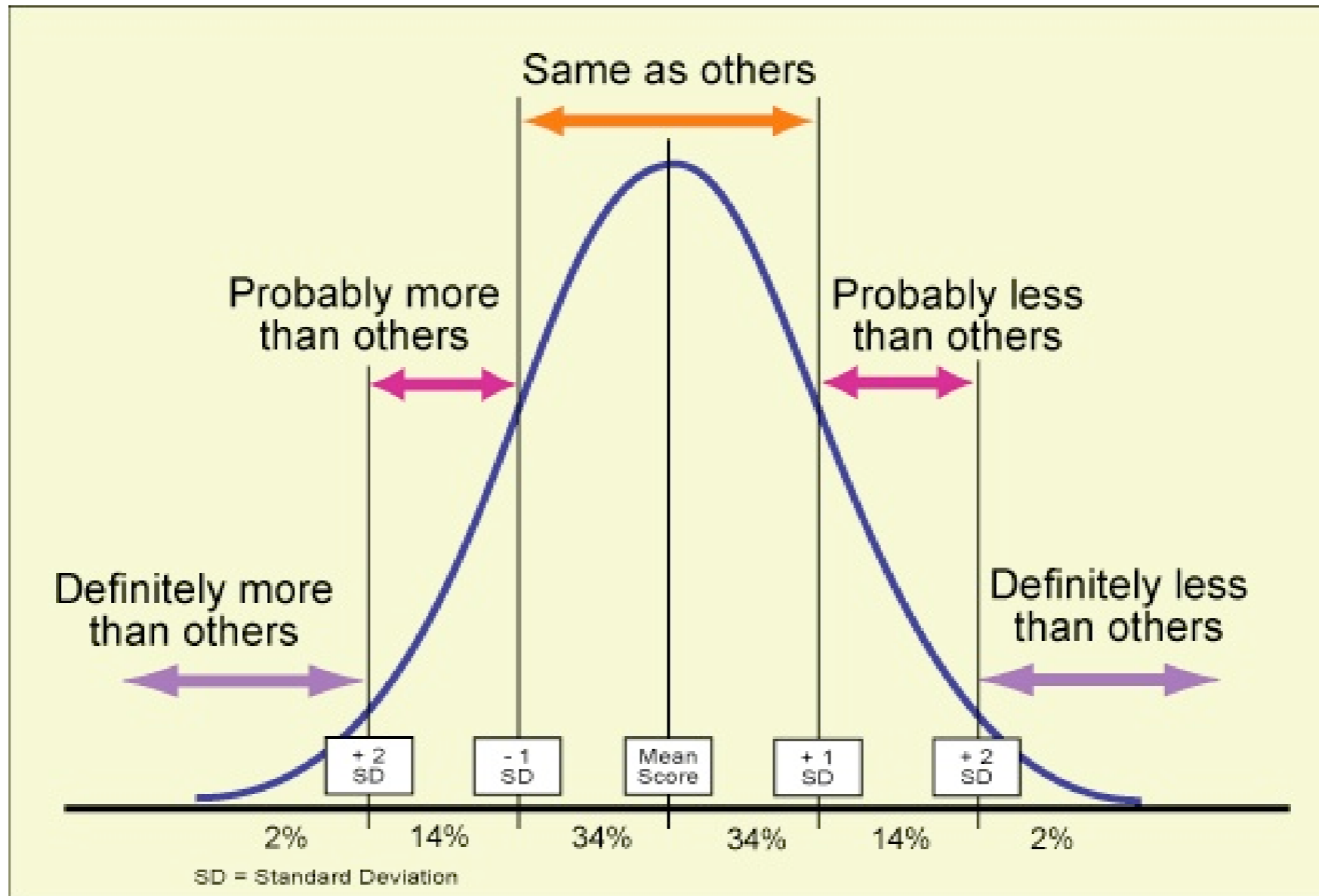
13th December 2003

Bloomberg News

13:01: U.S Treasuries rise ; Hussein
Capture may not curb terrorism.

| 3:3 | U.S Treasuries fall;
Hussein capture boosts allure
of risky assets.

Models



LTCM lost \$ 4.6 Billion over night.

Bankers & Economists Humans

Models & Trust

Works Cited

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