

Ridley, Matt – The Rational Optimist

Forth Estate, 2010, [Surrounding Knowledge] Grade ★★★★★

The most successful investors in the past and present are often optimists. The investor who best showcases this is of course Warren Buffett. Buffett often mentions how future generations will enjoy even higher standards of living than those of today. With this he doesn't say that there won't be periods where pessimists will be thriving financially but that in the long run the optimists are likely to win. The most important thing is of course to be rational and see the world as it is in order to prosper. In *The Rational Optimist* Matt Ridley explains why it's likely that optimists will continue to be the winners in the centuries to come.

Ridley who is a British journalist, businessman and science writer has written books such as: *The Red Queen*, *Genome* and *The Evolution of Everything*, as well as *The Rational Optimist*. He is an advocate of free markets. As such, Ridley wrote the Rational Optimist in order to satisfy his own curiosity of why people think that they would be better off being more self-sufficient; that technology has not improved living standards or that the exchange of things and ideas are not needed. When he wrote the book, the world had been through the financial crisis of 2008 and pessimism was thriving.

Ridley presents the reader with an historical background to how humans have evolved. He brings up examples of situations where the future has looked gloomy and where we humans have always come out stronger. Every chapter describes a period in history and brings up events of certain significance. The common thread is that humans have been able to tackle problems by working together. Through human exchanges people – for the good of all - are able to utilize the skills of others and not only their own. Ridley calls this the collective brain. Due to technologies as the Internet, people can easier than ever share ideas and skills, which is the key to prosperity. This is

one of the main reasons to why Ridley is so optimistic of the future.

If asked early in the 20th century if the world would be better or worse off a hundred years from then, what would you have answered if you had been informed that the world would suffer from two world wars, the outbreak of HIV, as well as many other crises? Most likely your answer would have been worse. How wrong you would have been and how many opportunities you would have lost out on. The opportunity cost for staying out of the markets due to coming crises and macro factors would have been devastatingly high. Obviously, during shorter time intervals macro factors can have huge impacts but by being an optimist and by having a long-term investment horizon it's quite rational to dismiss this.

I find it fascinating how Ridley presents facts that go against the common view of things. Some examples are that the growth of the world population is decelerating, meaning that the world population is likely to peak during the next century. Another is how important fossil fuels are likely to be in the next century. By reading the news it sometimes feels that fossil fuels will be obsolete within the next couple of years, which would be fantastic, but unfortunately far from the truth according to Ridley. What's important from an investment standpoint is to think about what facts like these will lead to for the future.

I chose to read the book after hearing that Tom Gayner, the CIO of Markel, recommended it. I thank him for it. What I think the book gives the reader is some well-needed filters against the pessimism coming from sources like news stories or from people around you. The pessimism will create biases that will lead to irrational decisions. The book will help you to separate signal from noise by taking a more positive long-term view.

Niklas Sävås, February 25, 2018