FIRST CAPITAL FINANCIAL

WORLDSOURCE WEALTH MANAGEMENT



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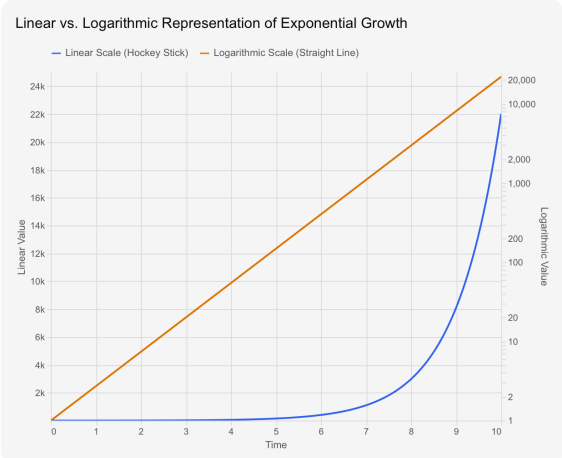
Last week had the tech-heavy Nasdaq see-sawing between large advances (up 364 points or 1.4% on Wednesday) and large declines (down 1421 points or 5.5% the day after). Thursday's sell-off represented a decline in value of $2.5 Trillion US or $3.5 Trillion CAD. To put this into perspective, Thursday's sell-off was larger than the entire value of the index for the first quarter century of it's existence.[1]

As humans, we're not good at judging the size of large numbers. And even when we know one is bigger than another, we don't appreciate the size of the difference. When explaining to others the scale of the US national debt at roughly $40 Trillion US, merely saying "it's really, really big!" is insufficient, so I have to give an example.

I go with my favourite method of comparing big numbers to time. We know a million, a billion and a trillion are different sizes, but we don't appreciate the staggering increases between them. A million seconds from now is just shy of eleven days and fourteen hours. It's within two weeks. A billion seconds is over 31 years. A trillion seconds from now is after the year 33,700 AD.

During our lives we learn that numbers are linear, that the spaces between them are all the same. If you count from one to nine, each number is one more than the previous one. And if you ask someone what number is halfway between one and nine they will say five -but only because they have been taught to. Humans instinctively perceive numbers logarithmically, not linearly.

Three is a different kind of middle then. It's the logarithmic middle which means it's a middle with respect to multiplication rather than addition. 1X3 =3; 3X3 =9. So you can go from one to nine by multiplying by equal steps of three. So the *multiplication middle* is three. To grasp large numbers requires us then to think logarithmically, not linearly. This difference is best illustrated by the graph to the right



1. world-exchanges.org

A lifetime of education dealing with the linear arithmetic of small numbers makes understanding larger numbers as logarithmic quite difficult. Which is why the jump between a million and a billion, or a billion and a trillion feels about the same -because both are a thousand times bigger than the other. In reality, the jump is the difference between the length of a two-week holiday in the Caribbean, being born and living to your early thirties, and a time when humankind may no longer exist.

The Nasdaq was launched in 1971 at a base value of 100. It took nearly half a century to reach the 10,000 point mark in 2020, compared with growth of two-and-a-half times this amount in just the last six years. The take-away from all of this is that, large numbers notwithstanding, markets go up over time and last Thursday's massive sell-off was just a return to a level that not that long ago represented the markets all-time-high. The Nasdaq's closing number on Thursday of 24,300 was also achieved about half a year ago when it reached that milestone at the end of April.[1]

Weathering the stomach-lurching volatility of trillion dollar stock markets requires diversification and discipline -the founding principles of our investment portfolios. Stay the course and your patience will be rewarded.

Diversification is your protection. Discipline is your advantage.

Thanks for reading!

Martin



1. world-exchanges.org

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