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we have come a long way since those not-so-good old days in understanding the management of the risks and opportunities of uncertainty, even if we have little progress to show in foretelling the future or calming market volatility.

In the process, we have learned a great deal about managing portfolios and analysing risk/return trade-offs, about the fundamental distinction between portfolios and individual holdings, about diversification, about evaluating the consequences of loss, about the principles of security selection and the attractions of hedging, and about what makes security markets (that is, investor behaviour) tick.

Nevertheless, until future cash flows and selling prices are baked in the cake — which is never — uncertainty will remain the core around which each of these tools is arrayed.

It is interesting to observe, however, that a key element of financial theory — the efficient market — bears a strong resemblance to the hypothetical state where the future is known rather than uncertain.

The theory of market efficiency postulates that our highly competitive capital markets are thronged by countless sophisticated investors armed with masses of information and elaborate techniques of analysis.

Consequently, no single investor can know more than the market as a whole about what is happening, and what is going to happen. The information constantly being incorporated into asset prices therefore always reflects the best possible interpretation of everything known.

In our hypothetical world of certainty, information incorporated into asset prices is always complete and correct. What, then, is the difference between the ideal and reality? In the world where everything is known, there is no such thing as new information.

In the real world, information incorporated into asset prices is complete and correct only for the moment: new information, as yet unknown, is always just around the corner. In both worlds, trying to outguess the market is risky. In one world, however, the cake is baked; in the other, it is always being cooked.

In the long run

The impossibility of prying loose from uncertainty can lead investors to try to escape the inevitable difficulties of decision-making by assuming the problem away. One path leads to excuses for procrastination, while the other leads to resignation. Neither path is a wise option.

I have fond memories of a fellow trustee, a high officer in a well-known bank, who always proposed postponing action "until the uncertainty diminishes". No argument could persuade him to mend his ways. Yet he erred on three levels.

First, his recommendation was based on the dubious assumption that the current status of the portfolio was optimal, even for a level of uncertainty he found most uncomfortable.

Second, he assumed the sheer fact of uncertainty was not already fully reflected in asset prices, as it so clearly was in the fall of 1981. Finally, he perceived uncertainty to be a variable rather than a constant.

Although the first two assumptions were at least open to debate, the perception of uncertainty as a variable is no minor matter. In meetings with this colleague, I always recalled an advertisement in the Wall Street Journal from my earliest days in investment management.

The advertisement pictured a group of men pondering a chart on the wall. The quotation under the picture read, "It is always a difficult time to invest." The words have stuck in my memory ever since.

If we never know the future, we never know the future! When we think we know, we are setting ourselves up for trouble. Trend is not destiny: we are no more able to extend smooth lines into the future than a sailor can observe what lies ahead in choppy seas. The safest management system is to view uncertainty as a constant rather than a variable.

Procrastination, however, is far less troublesome than resignation. The most perilous element in this whole affair is the belief that somehow, somewhere, time will itself eliminate uncertainty while investment returns remain inviolate — to succeed, in other words, without really trying.

The long run is the most popular candidate for this appetising role. Yet how can we justify blind faith in an uncertain future to provide what we expect and hope? The very long run of the past, out of which such dreams are composed, is a collection of short runs, each of which was unique because it was the consequence of the events that preceded it.

Singular sequences, splattered with surprises, constitute a dubious database for projecting future events. None of these short runs is likely to replay in the future in recognisable garb, unless we can replay the events that preceded it, which can occur only if we can replay the events preceding that episode, and so on back to the beginning.

History furnishes us with lessons about market behaviour but it is dangerous to estimate expected returns over the long run by extrapolating elements of the long-run past that cannot be reproduced.

Furthermore, while no one would dispute J P Morgan's maxim that capital markets will fluctuate, there is no predestined mean to which markets must recover.

A difference of even one or two percentage points of return over 20 or 30 years compounds into wildly disparate levels of terminal wealth.

We are stuck with uncertainty. Mastery of investment begins and ends with that, perhaps the only fact in the whole matter. If, then, the future provides no safety nets and no auto-pilots, even the wisest, best informed and toughest will be wrong from time to time.

Successful investors are those who have an eye to survival for when disappointments arrive. Some will aim in that direction by taking big risks to sock away jumbo returns from once-in-a-lifetime opportunities.

If experience is any guide, all but a few of those intrepid players will disappear in time, even after the rare occasions when they win big.

It is best to know the rules of the game, eloquently set forth by French poet Paul Valéry: "Once destiny was an honest game of cards which followed certain conventions, with a limited number of cards and values.

"Now the player realises in amazement that the hand of his future contains cards never seen before and that the rules of the game are modified by each play."

Investment is unlike many other fields of endeavour: because uncertainty is lodged in its heart, most of the victories are to the tortoises, not the hares. ●