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FOCUSED ON WHAT MATTERS MOST.

No Idea Unentertained

By Casey Clarke

If the goal is to make the best decisions possible relating to financial well-being and success, it would be ridiculous to limit the scope or range of our information gathering. Looking at only forty years of financial history would leave one oblivious to the events that materialized over the prior 80 years. To consider only Keynesian economic theory when the Austrian School of economic theory provides a completely different viewpoint would leave one reaching conclusions about solutions that could be entirely wrong. Whenever given the choice between more information or less, the former should always be chosen; and most would enthusiastically agree with this. Making important decisions while in an information deficit is akin to a photographer trying to find the perfect shot while looking only through a telephoto lens. The odds are, the beauty she's trying to capture lies well outside the frame, possibly in both directions. A photographer with a passion for capturing true, beautiful detail will observe as much as she can with her own eyes before cozying up to the viewfinder and zeroing in on what she believes is the best representation of it. When the outcome matters, we need the widest view and the most information with which to formulate ideas, opinions, and solutions.

So, if most would agree that a wide-angle approach to decision-making is important, why don't we all do it all of the time? Without turning this scribbling into a psychology white paper, we'll implicate the biggest factors:

- It takes time. Considering more market history, opposing economic theories or less orthodox views, can be time consuming and difficult. It's much easier deferring to someone else's summation or opinion.

- It's uncomfortable. There are almost limitless reasons why gathering and considering more information might be uncomfortable, but a couple noteworthy ones are discovering something that contradicts what we previously thought to be true (ego-protecting, dissonance-avoidance) and the preference for a simple model rather than a complex, nuanced one. Humans tend to prefer shortcuts and simple constructs.

- We are incentivized not to. We've covered this from different angles somewhat consistently, but it's crucially important to understand when operating in the financial world. If bigness—being government, corporations, and quite literally anything big, powerful, and preservation-seeking—benefits from us not having full perspective, then they will formulate incentives for us not to have it. Access to information will narrow, programs designed to explore new information and viewpoints will narrow, etc. Effectively, wide-angle lenses will be hard to find, but telephoto lenses will be sold everywhere. Not only this, but rather than encouraging photographers to get out into nature and explore, the photography shops will provide you with a map of the "best" spots to take your new narrow-angle lens so you can be sure to capture the same perspectives as all the other photographers. Of course, this would be suboptimal if it weren't the correct perspective and didn't result in the most beautiful shots. But we are told it is, and it does, and so we are happy to also be saving time and effort. If bigness benefits from people having limited information, then by default, most will have myopic views and will be operating in an information deficit.

An Investment Example

When we think about investing for the long term with the help of an investment company, we often think about choosing some mix of stocks and bonds based on our timeframe and risk tolerance. From there, the bulk of the analysis moves to what particular products to buy in building said stock/bond portfolio – individual securities, mutual funds, ETFs, annuities, etc. What's ultimately decided often comes down to which firm one chooses for guidance, the products it offers, and the incentives that exist to offer various products. In the end, stocks and bonds are financial products that generate revenue for Wall Street. Therefore, one must expect that the lens of information she is given by Wall Street with which to make decisions will be very narrow in its view. The bias will be to always have a rosy forecast for the economy and markets so clients stay invested. Educating clients about the last three stock market bubbles in the last 100 years, and the devastation that occurred in their wake, would almost certainly affect the bottom line. And so, investors must make the effort to educate themselves, or find somebody with fewer conflicts and a wide-angle lens who can offer them a more complete perspective. I'm not making the point that this structure is in any way bad or ill-intentioned. Stocks and bonds have made good sense and will continue to for most investors over most time periods. Our clients own them. The point is about systemic biases that one needs to be aware of in order to be properly informed - in EVERY industry.

What if we go back to the very beginning of this example and question our assumptions? We assumed that we had to build our portfolio with stocks and bonds, but is that true? Are there other investment categories that we could benefit from at this point in time? Probably, yes. There are commodities, cryptocurrencies, certain sectors of the stock and bond markets that aren't adequately represented in the big indexes, real estate, and even cash or fixed investment options. In every investment cycle, there are asset classes that get neglected and left behind for a number of reasons that aren't talked about much by large investment firms, not least because retail customers probably wouldn't want to hear about them anyway. Human beings are herding animals and prefer to focus their attention on what they perceive to be popular and in-favor. What they would learn by looking at 100 years of market history, however, is that when the popular stock market bubbles burst, it's rather customary for markets to fall at least -50% and not recover losses for 10 years or more. In addition, often times the neglected asset classes that aren't as exciting or profitable to think about during the financial asset bubble begin to perform very well over these difficult, post-bubble periods. The only way one discovers this is by questioning assumptions and seeking additional perspective. Unfortunately, most investors, for the reasons listed above, will continue to follow the stock and bond, buy and hold narrative right over the next stock market cliff.

A Pet Rock Example

There have been a number of influential people in the investment community who, in the past, have referred to gold as a "pet rock", insinuating that it doesn't offer any value by way of business profitability or dividends. Two of the most famous quotes from columnist Jason Zweig and investor Warren Buffet took place in the mid to late 1990's after gold had been falling in price for well over 10 years. This poor performance in the gold price undoubtedly played a role in these unenthusiastic sentiments, but there's probably more to it than that. What we've found is that people who espouse Keynesian economic theory also tend to have a certain level of disdain for gold as an investment or store of value, and Keynesian theory is the dominant economic view for those most connected to and supported by big government. The theory states that the government should intervene in economic downturns by spending lots of taxpayer money to offset the pullback in private sector spending. By contrast, it also states that when the economy is doing well, government should pull back on spending as private sector spending picks up. Not surprisingly, when put into practice, the former happens consistently while the latter never does. The end result is an ever-increasing level of government spending with no willingness to reverse course. The point, however, is that coming off the gold standard in 1971 (because our runaway spending on the Vietnam war was impacting the value of the dollar as dollars were being swapped out for gold) is what effectively enabled Keynesian economics to run unencumbered ever since. With our gold supply no longer being threatened by profligate borrowing and spending, there are no immediate consequences to unlimited check-writing. Anyone interested in a government-centric economic system almost certainly wouldn't understand and/or acknowledge the important role that gold has played in global finance for millennia.

Further, when we look at the evidence supporting the "pet rock" view, it is, how do we say… non-existent? This doesn't surprise us given the huge incentives in government and on Wall Street to keep people thinking little of gold. Keynesian economics, and to probably a lesser extent, flows into Wall Street financial assets, depend on gold being nothing more than a shiny rock. As we can see from the chart below comparing gold to the S&P 500 over 55 years, it's anything but. We wonder what this says about the validity of Keynesian theory and its inevitable outcome of spending money the government doesn't have? Actually, we don't wonder much at all. Gold's outperformance of a basket of profit-seeking, dividend paying corporations over many decades suggests fairly clearly that papering over business cycles with public debt is inflation-creating, productivity-stifling, and by no means a get out of jail free economic policy solution. It is popular amongst the governing and influential elite because it is more than anything, a pro-status quo policy.

Putting it All Together

There isn't anything inherently wrong with conflicts of interest or profit incentives. Capitalism is extremely effective at innovating, producing, and providing huge swaths of people opportunity they otherwise wouldn't have. It's extremely good at finding the most efficient, cost-effective solution to a problem. What we would argue, however, is to be on the lookout for when capitalist actors either become too big or cease operating in a free market. When success or failure is no longer tied directly to the value provided to customers, but rather to cronyism, regulatory protections, and bailouts, capitalism fails. It is not perfect.

The same is true for a more government-centric system. There are benefits, but also a host of weaknesses, not least the fact that government by definition doesn't create or produce; it takes and redistributes with few exceptions. If you find yourself taking issue with any of these words about capitalism or government, you're likely missing the point. We cannot become too wedded to any one idea, no matter how deeply entrenched it is in our thinking. Things aren't nearly that simple and history is littered with popular perceptions turning out to be not only absolutely wrong, but truly head-scratching in hindsight. We are all capable of falling for complete and utter nonsense given the right circumstances, and it would be naïve to think there weren't popular perceptions today, that with some time, will turn out to be completely misguided. This is both a reminder to stay humble about the things we think we know and the importance of remaining open to all ideas, no matter how unpopular or heterodox. People with big podiums, microphones, and connections, often times have biases, conflicts, and incentives that have accumulated over time and drown out the opinions and viewpoints of those without. To confuse this phenomenon with credibility and consensus is, unfortunately, an extremely easy mistake to make.

The saying "the more you know, the more you realize you don't know", could be instructive here. For those who make the effort to step beyond the simple perceptions that are provided to them by interested parties – be they corporations, media, interest groups, etc. – they're probably met with some cognitive dissonance; the realization that there's a whole other data set they weren't aware of, or at least aren't as comfortable or familiar with. Those still fewer who decide to embrace this dissonance and spend time looking through the wider-angle lens and reevaluating the landscape, will eventually find the sweetest shot - the shot that captures the true essence of the moment. They might have to wait for it, or stray off a bit on their own to find it, but they'll eventually capture it. Everything worth having and experiencing takes time, effort, and a genuine appreciation for and understanding of the pursuit.

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