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LESSONS, OBSERVATIONS, AND OPEN-ENDED QUESTIONS FROM THE COVID ERA

It's been about six months since we all learned that COVID-19 was to have a profound impact on our lives as both human beings and as investors. We have written a series of essays throughout this time that dealt with a variety of subjects, ranging from the long-term winners from the pandemic, the long-term losers, the future relationship between the stock and bond markets, and the impact of massive government economic intervention on active management and a "fair" economic recovery. Naturally, for most of us, our roles as professional investors force us – if only for the purpose of self-preservation – to focus on the here and now. Long-term thinking and planning is a luxury in the competitive world of money management. Today, I simply wanted to synthesize a variety of long-term thoughts, observations, and questions I have developed during our collective six months of solitude. I thought the Thursday before Labor Day was a good time to do it, before the *sturm und drang* of the election and the sprint to the finish of the year start in earnest on Tuesday. Some of these musings are highly personal, some deal with running a business, while others deal only with the investment world. I apologize in advance if they may offend you in any way.

PERSONAL OPINIONS

- 1) News as Entertainment & Social Media Make Us Stupid & Afraid.** While this is true for all thoughtful adults, it is especially dangerous for public policy makers who, so often fearful of losing political power, abandon sound judgment based on a small representation of popular opinion via the musings of a faceless mob on Twitter and the exigencies of a 24-hour news cycle.
- 2) True Leadership Requires Cost/Benefit Analysis.** It has not been difficult for me as a father, a businessman, and a citizen, to feel as if I have not been held hostage to the combined tyranny of political correctness and tort lawyers over the past six months. The fear that this tyranny brings about renders the essence of leadership – balancing competing interests to develop policies that do the most good and the least harm – almost impossible. The fact that such policies will necessarily be imperfect and involve risks does not render them illegitimate, just

simply difficult. A new edition of President Kennedy's *Profiles in Courage* appears as if it would be a rather thin tome indeed.

- 3) **There is a Trade-off between Security and Freedom.** The continuum between perfect security and little freedom and total freedom with no guarantee of safety is as old as the book of Genesis itself. America's Constitution is a testament to this trade-off in free societies. It is a supreme arrogance to believe one can possess both perfect freedom and absolute security simultaneously.
- 4) **The Line between Social Cohesion & Chaos is Tenuous.** It is almost axiomatic that people in free societies often take their liberties and blessings for granted over time. The basic building blocks of any highly functioning society will forever and always be family, education, faith (in something), and work. Remove one of those pillars, and it won't be long before a society's social fabric will start to fray. Young adults would appear, most tragically, to be the most vulnerable to the deleterious effects of a breakdown in these institutions.
- 5) **"The two most important questions are: who teaches the children? What do they teach them?" – Plato**

INVESTMENT LESSONS & OPINIONS

- 1) **Liquidity Trumps All.** It would be difficult for many of us to be more tired of the old market axiom "don't fight the Fed" than we are today. Still, there has never been a bear market associated with a recession (especially a recession this severe) that lasted merely one month – February 19 to March 23. An investment titan in late July asked me a simple question: "Jason, are you bullish or bearish?" "Well," I said, "M2 growth is running at 27% year-over-year so..." He cut me off and said, "Well, that's all I really need to know." Starting at about \$3.8 trillion at the start of the year, the value of the assets on the Fed's balance sheet currently rest at about \$6.5 trillion – a 70% increase reached in a mere two months.
- 2) **Deficit Spending Will Be Socially Acceptable and Expected Globally.** In much the same way the Global Financial Crisis removed any squeamishness regarding the acceptability of financial repression and quantitative easing among the world's central banks, the lockdown has made deficit spending great again. While there was some initial intransigence on the part of the panjandrums running the Eurozone, even those with rather Victorian notions about the role of deficit spending in the north came to realize that the entire European project would be at risk without it. Game on.

- 3) **Be Wary of “Experts.”** This is a corollary to the observation above regarding the dangers to sound thought when caught up in the maw of the news industry’s need to say something – anything, really – regardless of whether or not it may actually be true. The range of opinions regarding the nature and impact of COVID-19 was not entirely unlike watching a championship table tennis match – in Taiwan. “Masks are good for you. No, they’re bad for you. Sorry, they’re good for you again.” “The virus can live on surfaces. The virus can’t live on surfaces. We really don’t know.” “Ventilators are critical if one wants to survive COVID-19. Umm, ventilators might make things worse.” On and on it went. The fact of the matter is that when it comes to a *novel* coronavirus, there really are no experts.
- 4) **Travel is a Critical Part of Investment Business.** I wouldn’t go so far as to say that I miss visiting a steel and glass jungle run by the TSA every week, but there is no doubt in my mind that frequent travel enhances one’s understanding of the economy and the financial markets to an extent that is difficult to quantify. This is especially true when one gets to meet our clients’ clients, many of whom have built businesses and accumulated wealth over long periods of time. It is critical, especially if one plies their trade on the island of Manhattan, a city within a city that has all the pretensions of being cosmopolitan but is just as parochial as anywhere else.
- 5) **Shortages In Free Markets Don’t Last Long.** There was a certain point at which the Governor of the ~~Imperial~~ Empire State insisted that he needed 30,000 ventilators to forestall a health catastrophe. HHS recently announced that the country’s stockpile was more than sufficient and was canceling its remaining orders for the devices. You can currently buy one to blow up your pool toys for about \$75 bucks on eBay. None of us over 50 will ever have to worry about running out of hand sanitizer or toilet paper for the rest of our lives, which is nice.

OPEN-ENDED QUESTIONS

- 1) *How can one truly maintain a vibrant culture so necessary in the operation of a successful financial services firm virtually? How does one hire and train new colleagues in a business in which good cultures are a competitive advantage?*
- 2) *Virtual meetings have allowed us to maintain strong relationships with our clients developed over 14 years of travel and visitation. How do we keep those relationships fresh? How do we create those relationships with new customers?*
- 3) *Was the Black Swan for the economy and the financial markets the virus or the lockdown? This is a question, I believe, that will be debated intensely for many years to come.*

MY PANDEMIC READING LIST

Working from home, I found, is a little like a hot bath – after a while, it’s not so hot. Especially for those with school-age children, there is an inevitable gravitational pull to blend one’s personal and business lives together to the point where they are indistinguishable. In times of trouble, reading always provides great solace, even if the subject matter is not always cheerful. In the end, we read to know that we are not alone. Here are four of the books I’ve read in the past six months.

F.A. Hayek’s *The Road to Serfdom*. Perhaps the classic exposition of the dangers of central social planning. Such planning, Hayek maintains, inevitably involves coercion and leads to bad outcomes. Those outcomes lead to unhappiness and protest, to which more social planning is prescribed. This leads to greater coercion, worse outcomes, etc.

Jim Grant’s *The Forgotten Depression: 1921: The Crash that Cured Itself*. Grant beautifully recounts a pre-Keynesian approach to dealing with financial crises in which Presidents Wilson and Harding handled the recession that followed World War I with patience, forbearance, and confidence. At the time, both political parties were loath to interfere with liberal economics in the classic sense – markets, rather than politicians, it was felt, were better allocators of capital in the end. The Fed raised rates, the budget was balanced, and no fiscal stimulus was administered. It was a painful period for the economy, especially for farmers, but by late 1921, the economy was poised for a rapid rebound in productivity.

Jon Pessah’s *Yogi: A Life Behind the Mask*. A poignant account of the life of one of America’s most beloved sports heroes. Try to imagine a sports star who was a veteran of the landing on Normandy, won three MVP awards, and was a star of a team that won 10 World Series. Imagine further that major leaguer working as a haberdasher in the offseason to earn extra money and being married to the same woman for 65 years. A Hall of Famer in every aspect of his life.

George Orwell’s *1984*. I hadn’t read the book since high school. It’s no feel-good story, a dystopian novel that warns of the dangers of exchanging freedom for security: “a bargain that invariably ends up with the surrender of both” (Christopher Hitchens).

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