

PRICE VALUE PARTNERS

An opinion, not a fact

“Now, what I want is Facts. Teach these boys and girls nothing but Facts. Facts alone are wanted in life. Plant nothing else, and root out everything else. You can only form the minds of reasoning animals upon Facts; nothing else will ever be of any service to them.”

- Thomas Gradgrind in *Hard Times*, by Charles Dickens.

It is all very well to insist upon facts – but whose ? The election of Donald Trump has thrust the topic of ‘fake news’ into the spotlight, as if there were some legitimate and objective alternative. But **everything** is narrative as seen through human eyes, as the author Yuval Noah Harari points out in his outstanding book *Sapiens*. The late Hans Rosling, physician and statistician, once told a Danish TV journalist:

“You can’t trust the news outlets if you want to understand the world. The facts are not up for discussion – I am right and you are wrong.”

The Roman Emperor and Stoic Marcus Aurelius was a little more detached on the subject:

“Everything we hear is an opinion, not a fact. Everything we see is a perspective, not the truth.”

Even if it were possible to distil the endless swirl of current affairs down to a handful of objective truths, some agent of the search for truth would still have to prioritise them. Take the Financial Times (please !) – in the face of last Tuesday’s onslaught of pro-EU propagandising we took such grave exception to the lack of any apparent objectivity, subtlety or reality that we came up with our own version, the permanent, all-purpose, do-it-yourself FT universal content page, which eliminates the requirement ever to buy the paper itself again:

The permanent, all-purpose, do-it-yourself FT universal content page

Technical bond market development linked to threat from European populists. SCARY !

Anti-Trump story (x 5)

Positive UK economic data overshadowed by FT forecasts of Brexit-related slowdown

Hi-res photo of UKIP politicians being “pelted” by one egg

UK consumer spending already slowing down as result of headline above

Brexit-related economic scare story (x 198)

Apparently unironic headline reporting Mario Draghi opposing protectionism

Some more anti-Trump stories

Anti-Le Pen editorial

Europe lovely; UK frightful

Anti-Trump editorial (continued p.94..)

The FT is, of course, free to try and talk the UK economy into a Brexit recession. But I don't see why I should have to pay for it to do so. The definitive character assassination of the financial media, though, comes via Thomas Schuster of the Institute for Communication and Media Studies at Leipzig University:

“The media select, they interpret, they emotionalize and they create facts. The media not only reduce reality by lowering information density. They focus reality by accumulating information where ‘actually’ none exists. A typical stock market report looks like this: Stock X increased because... Index Y crashed due to... Prices Z continue to rise after... Most of these explanations are post-hoc rationalizations. An artificial logic is created, based on a simplistic understanding of the markets, which implies that there are simple explanations for most price movements; that price movements follow rules which then lead to systematic patterns; and of course that the news disseminated by the media decisively contribute to the emergence of price movements.”

Question. As investors, how do we square the requirement to try and understand the world with the onslaught of biased and irrelevant nonsense – call it ‘fake news’ if you will – that passes for financial information and informed commentary ?

Three answers.

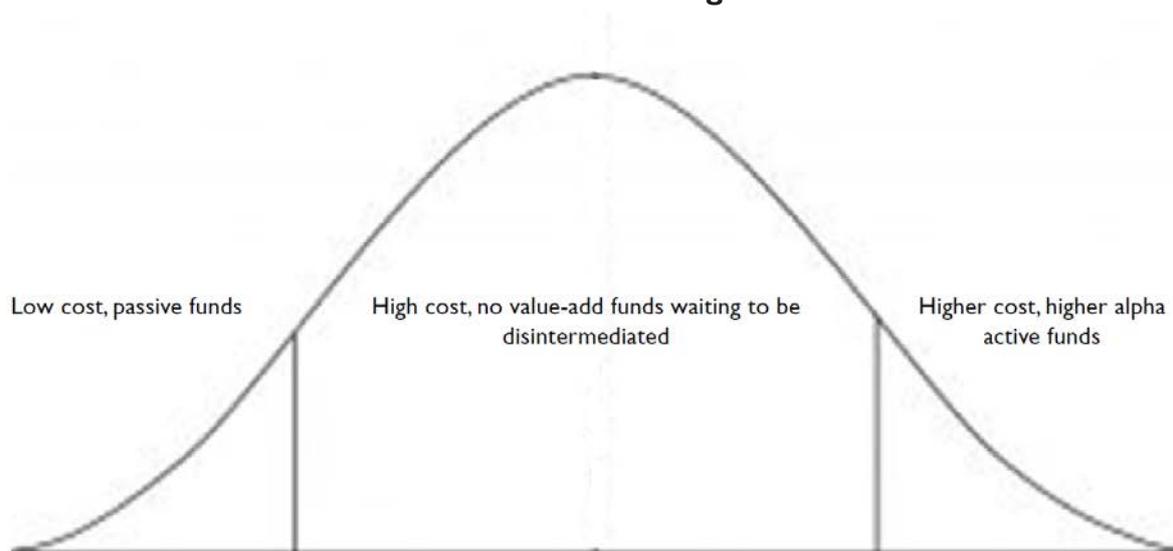
1: As Rolf Dobelli advises, go on a [news diet](#).

2: At the level of asset allocation, diversify as broadly and as inexpensively as possible. Harry Browne's [Permanent Portfolio](#) is a good place to start. We would recommend a few tweaks, not least allocating to uncorrelated assets (specifically, systematic trend-following funds) instead of cash, but generally we think Browne's thesis still holds.

3: At the level of equity investments, ignore the financial media as far as humanly possible and concentrate on the only characteristic that really matters: price. Favour shares in high quality businesses with high quality, shareholder-friendly management, that can be bought at a discount to their intrinsic value. At the risk of oversimplifying, avoid overpriced Anglo-Saxon markets and favour inexpensive Asian ones.

We close this week's commentary with two facts. One is that BlackRock's AUM (assets under management) topped \$5 trillion last year. The other is that passive fund pioneer Vanguard's AUM has just reached \$4 trillion. If one were to reduce the world of fund management to a bell curve, we think it would look like the one below:

The future of fund management ?



On the left-hand side of the bell curve are low cost, passive funds. We have our misgivings about the bovine focus on low cost at the expense of discernment (see last week's commentary [The Proof](#) and its discussion of the Snap / Snapchat IPO for more on the problems associated with passive investing) but the investing public are clearly voting with their feet.

On the right-hand side of the bell curve are higher cost, higher alpha active funds. Think Bridgewater Associates, for example.

But in the middle of the bell curve, currently taking up most of the space, and the assets, are high cost funds with no real capability to add value. Many of them are closet index-trackers waiting to be found out like naked emperors. If there is any natural justice, over time the entire middle rank of the bell curve will be disintermediated by the brutal efficiency of market forces. We use that word 'If' for a reason. But all of this is clearly opinion, not fact.

We'll be away next week at the 14th CLSA Japan Forum in Tokyo. So our next commentary should be out on or about Monday 27th February.

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