

Are they yelling in Atlanta ?

“No predictor of the future – not even Orwell – has ever been as right as Chayefsky was when he wrote *Network*.”

- Screenwriter Aaron Sorkin.

In **Paddy Chayefsky's** dark 1976 satire *Network*, disillusioned news anchorman Howard Beale (Peter Finch) announces that he will kill himself on live TV. The station pulls him off air but he's allowed back in front of the camera to preach what will become a very popular gospel of anger. In the film's most iconic moment, at one point he urges viewers to stand up, open a window and shout, “I'm as mad as hell, and I'm not going to take this any more !”

Just before the film reaches its denouement, Beale jeopardises a takeover of the network by a Saudi conglomerate. Network chairman Arthur Jensen (Ned Beatty) is dispatched to bring Beale back into line:

Jensen: You have meddled with the primal forces of nature, Mr. Beale, and I won't have it ! Is that clear ? You think you've merely stopped a business deal. That is not the case. The Arabs have taken billions of dollars out of this country, and now they must put it back ! It is ebb and flow, tidal gravity ! It is ecological balance !

You are an old man who thinks in terms of nations and peoples. There are no nations. There are no peoples. There are no Russians. There are no Arabs. There are no third worlds. There is no West. There is only one holistic system of systems, one vast and immane, interwoven, interacting, multivariate, multinational dominion of dollars. Petro-dollars, electro-dollars, multi-dollars, reichmarks, rins, rubles, pounds, and shekels.

It is the international system of currency which determines the totality of life on this planet. That is the natural order of things today. That is the atomic and subatomic and galactic structure of things today. And YOU have meddled with the primal forces of nature, and YOU WILL ATONE !

Am I getting through to you, Mr. Beale ?

You get up on your little twenty-one inch screen and howl about America and democracy. There is no America. There is no democracy. There is only IBM and ITT and AT&T and DuPont, Dow, Union Carbide, and Exxon. Those are the nations of the world today.

What do you think the Russians talk about in their councils of state - Karl Marx ? They get out their linear programming charts, statistical decision theories, minimax solutions, and compute the price-cost probabilities of their transactions and investments, just like we do.

We no longer live in a world of nations and ideologies, Mr. Beale. The world is a college of corporations, inexorably determined by the immutable bylaws of business. The world is a business, Mr. Beale. It has been since man crawled out of the slime. And our children will live, Mr. Beale, to see that perfect world in which there's no war or famine, oppression or brutality - one vast and ecumenical holding company, for whom all men will work to serve a common profit, in which all men will hold a share of stock, all necessities provided, all anxieties tranquilized, all boredom amused.

And I have chosen you, Mr. Beale, to preach this evangel.

Beale: But why me?

Jensen: Because you're on television, dummy. Sixty million people watch you every night of the week, Monday through Friday.

Beale: I have seen the face of God.

Jensen: You just might be right, Mr. Beale.

For several decades, Arthur Jensen was essentially correct. Since the Second World War, and more rapidly after the fall of the Berlin Wall, globalised corporations have thrived. IBM, du Pont and Exxon remain components in the Dow Jones Industrial Average today. But the narrow way in which that rise in corporate wealth was shared was a key factor in the election of Donald Trump – someone else who was publicly as mad as hell and not going to take this any more.

The lead article in this week's *Economist* highlights the extent to which globalised corporations were looking vulnerable even before Donald Trump's election. Grown fat and bloated with debt, multinational corporations "were already in retreat well before the populist revolts of 2016". Global firms no longer boast a better mousetrap:

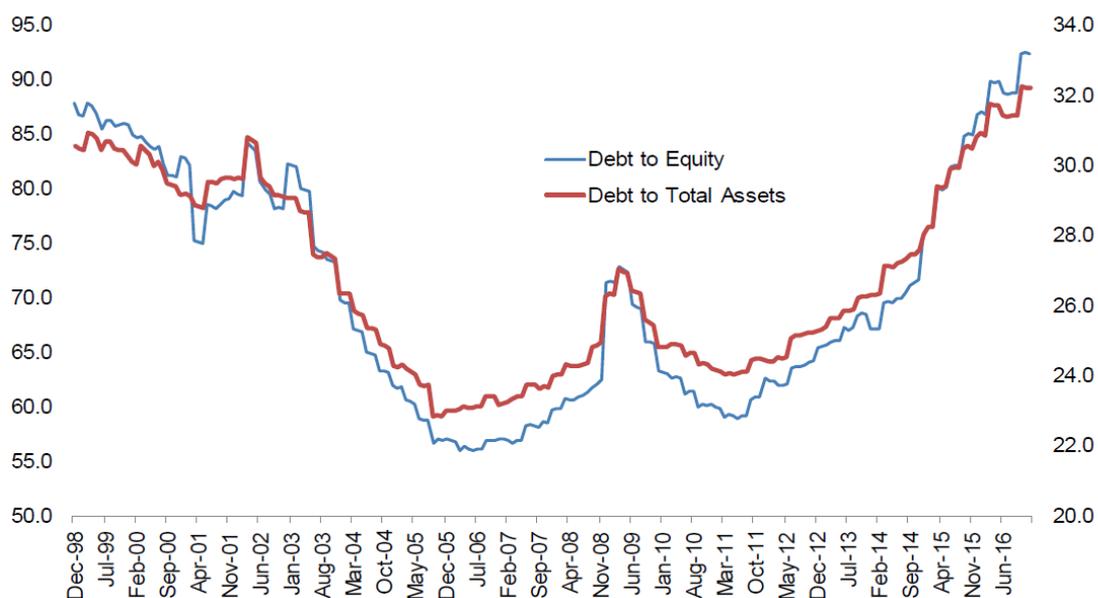
“In the past five years the profits of multinationals have dropped by 25%. Returns on capital have slipped to their lowest in two decades. A strong dollar and a low oil price explain part of the decline. Technology superstars and consumer firms with strong brands are still thriving. But the pain is too widespread and prolonged to be dismissed as a blip. About 40% of all multinationals make a return on equity of less than 10%, a yardstick for underperformance. In a majority of industries they are growing more slowly and are less profitable than local firms that stayed in their backyard. The share of global profits accounted for by multinationals has fallen from 35% a decade ago to 30% now. For many industrial, manufacturing, financial, natural-resources, media and telecoms companies, global reach has become a burden, not an advantage.”

Enter Donald Trump.

“Mr Trump's arrival will only accelerate a gory process of restructuring. Many firms are simply too big: they will have to shrink their empires. Others are putting down deeper roots in the markets where they operate. General Electric and Siemens are "localising" supply chains, production, jobs and tax into regional or national units. Another strategy is to become "intangible". Silicon Valley's stars, from Uber to Google, are still expanding abroad. Fast-food firms and hotel chains are shifting from flipping burgers and making beds to selling branding rights. But such virtual multinationals are also vulnerable to populism because they create few direct jobs, pay little tax and are not protected by trade rules designed for physical goods.”

Corporate life is starting to imitate art. In *Network*, a heavily overleveraged Communications Corporation of America needs the Saudi deal just to survive. As SocGen point out, S&P 1500 companies – which account for 90% of the market capitalisation of US stocks – now run significant debt loads:

S&P 1500 EX FINANCIALS DEBT TO TOTAL ASSETS



Source: SG Cross Asset Research/Equity Quant, Factset

Much of that debt has been accumulated in order to buy back stock. Now the interest rate cycle may be turning, even as equity valuations look stretched.

If there is good news to come from a Trump administration, much of it is probably priced in to US stocks now. And as the managers at First Eagle point out,

“Despite a very complex political landscape – both domestically and internationally – the United States has above average P/E ratios and below average bond yields. In other words.. [US] assets are priced for below average returns.”

If the US market, which also accounts for 60% of the MSCI World Equity Index, is priced for below average returns, it makes sense a) to remove oneself from the shackles of indexation and benchmarking, and b) to look for investments in markets which are priced for above average returns, all else being equal. John Seagrim of CLSA points out that “the deep value opportunities in Japan are almost endless.. there are no less than 1,480 listed companies in Japan with a combined market cap of \$900 billion that are trading below their tangible book value”.

Peter Finch was awarded a posthumous Oscar for his performance in *Network*. Its screenwriter Paddy Chayefsky may have been partly inspired by the real life suicide of news reporter Christine Chubbuck in 1974, which has just been made into a film starring Rebecca Hall. Ms Hall’s performance is apparently brilliant, though she has not been nominated for an Oscar. Sometimes in life you do not get what you deserve. Investors in Japan, however, may well.

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