The truth

"There is only one way to happiness and that is to cease worrying about things which are beyond the power of our will."

- Epictetus.

'When did advertising become so banal ?' asks Dan Hitchens in *The Spectator*. Perhaps when it became ubiquitous, and when it also became impossible to separate legitimate journalism from emotion-driven virtue signalling. That is to say, before the rise of the smartphone and social media – trends coincident with the torturous death rattle of the mainstream news media.

Once upon a time, mainstream journalism could be counted on at least to deliver some semblance of balance. Now, the merest pretence of objectivity has been put to the sword. Engaged in constant battle for an audience fragmenting in real time, 'conventional' news providers have circled their wagons around partisanship. It was for this reason that we launched a petition to revoke the BBC's Royal Charter – because BBC News is no longer able or willing to provide even vaguely impartial reportage on the politics of the day. Watch any Brexit bulletin, or any part of the grotesque coverage of the Kavanaugh nomination for the US Supreme Court, if you don't believe us.

In his latest Epsilon Theory note, Ben Hunt gets to the heart of the problem:

> ..if you have a two-party political system with high-peaked bimodal electorate preferences, as the United States began to develop in 2014 and has now fully formed, there are no winning centrist politicians and no stable centrist policies. Instead you have – politically speaking, at least – what Yeats called a *widening gyre*, where a steady stream of extremist candidates, each very attractive to their party base, pull the overall electorate into a greater and greater state of polarisation. In other words, if you enjoyed the choices America had in the 2016 presidential election, you're gonna love 2020.

A bipolar political system begets bipolar media. As socialism masquerading as liberal democracy continues its long march through our educational institutions, Right-leaning (a.k.a. libertarian) news media coalesce into a handful of for-profit publications; Left-leaning news media sweep the field with the support of the Big State, unconcerned by the tiresome requirement to turn a profit, since the taxpayer will be left holding the bill.

As British investors are painfully discovering, politics naturally affect markets. While the likes of the BBC continue to seize on all things economically disruptive as proof positive of the financial toxicity of Brexit (a process that has five months to go before it even begins), more dispassionate observers will be minded to conclude that it is really the threat of a Marxist government that is dampening animal spirits in the UK's stock and currency markets. Thankfully, we still have pro-business journals of standing to defend the spirit of free enterprise. Sebastian Payne, a political reporter for the *Financial Times*, savaged the Labour conference last week as follows:

> So that was Jeremy Corbyn's best speech to date. ***Intellectually v coherent***, speaking directly to Britain's desire for change. Full of conciliatory language to party and beyond. ***Scant on details and business reality***. A real challenge and wake up call to the Tories next week.

[Emphasis ours.]

So who needs *Marxism Today* or *Socialist Worker* when we already have the *FT* ? Sebastian Payne doesn't look old enough to remember the 1970s, which may be the essence of the problem facing the economically productive members of the UK electorate.

Ben Hunt, again:

> **Just as our politics are falling apart, our portfolios are falling apart, too.**
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> It's a different kind of falling apart. A less urgent kind of falling apart. Our current market equilibrium is not a widening gyre. It's something else, which I'll elaborate on in a second, where our prevalent emotions are bland disappointment and ennui, not urgent fear and loathing like in our political lives. If the signature image of Things Falling Apart in our modern political context is an enraged Tony Soprano pointing a gun at one of Phil Leotardo's crew, the signature image of Things Falling Apart in our modern investment context is a weary Tony Soprano sitting at that diner in the very last episode, thinking that everything is … okay … definitely not great, but okay, totally oblivious to the reality of how his life has actually already fallen apart, how lethal decisions have been made *away from him* in ways he cannot observe or control, how his life is literally about to fade to black in 3 … 2 … 1.
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> The doomed-but-doesn't-know-it Tony Soprano portfolio isn't infamous. It's not a meme. It's not the public pension plan that is so dramatically underfunded that it contemplates selling billions of dollars in taxable bonds so that it can lever up in the equity market after a nine-year bull run. It's not the 25-year-old who put the $30,000 he inherited from grandma into crypto because you gotta take chances when you're young, right?
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> No, the Tony Soprano portfolio is the private endowment that has done … okay, I guess … but more because operating draws have gone down over this nine-year expansion than because investment performance was good. It's the [personal pension fund] that is … up a bit, yeah … but somehow always seems to zig when it should've zagged, so that it lightens up at the bottom of every two-week swoon and goes all-in in months like this January. **It's the wirehouse model portfolio that has done**

everything right in its analysis and its diversification and yet STILL underperforms the S&P 500 every year. Every. Freakin'. Year.

The Tony Soprano portfolio is, I would guess, 95% of us. What drives our disappointment? For a *decade* now …

- It is a *fact* that NONE of us have done as well in our individual real-life portfolios as ALL of us have done in aggregate hypothetical indices.
- It is a *fact* that Value has waaay underperformed the S&P 500.
- It is a *fact* that Trend has waaay underperformed the S&P 500.
- It is a *fact* that Quality has waaay underperformed the S&P 500.
- It is a *fact* that Emerging Markets have waaay underperformed the S&P 500.
- It is a *fact* that Real Assets have waaay underperformed the S&P 500.
- It is a *fact* that Hedge Funds have waaay underperformed the S&P 500.
- It is a *fact* that smarts and experience of every sort have waaay underperformed the S&P 500.

And if that weren't enough, here's the kicker that'll get everyone mad at me, because it challenges the central tenet of the Church of Modern Portfolio Theory.

It is a *fact* that diversification has failed us for a decade.

The entire edifice of diversification and Modern Portfolio Theory is built on a simple and powerful idea – that it is *meaningful* to talk about uncorrelated asset classes and factors with positive expected returns. It's built on the belief that all of these Things we call asset classes or factors will work over the long haul, but not all of them will work all of the time or in lockstep with each other, so you're (much) better off owning a mix of these Things rather than just one of these Things.

Put another way, well-diversified portfolios work *great* in a widening gyre.

But our current market equilibrium is the *opposite* of a widening gyre. Where our politics have moved from a roughly single-peaked distribution of electorate preferences to a bimodal distribution, so that there is no effective centre, our markets have moved from a multi-modal distribution of investor preferences to a single-peaked distribution, so that it's all US large-cap stocks all the time..

So here's a question. When is the best time to go all-in with regard to US large caps (for example) ? Is it when the S&P 500 is trading on a Shiller p/e of 15 times following the most devastating financial crash in living memory ? Or is it after a 9 year bull run fuelled by easy money, leaving the market gasping for breath on a Shiller p/e of over 33 times ?

Epictetus counselled that the path to happiness involves not worrying about things we cannot change. We cannot realistically change the prospects of a Jeremy Corbyn government, nor of trade wars between the US and China, nor of whatever will happen to US stocks at their second most expensive level in the history of the last 150 years. But we can prepare for all of these outcomes and more besides. While the mainstream media relentlessly salt the earth with a constant stream of news bile, Epictetus' fellow Stoic, the Emperor Marcus Aurelius, reminds us that

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

In financial markets, there are not many truths – just one. The price. Shares in high quality businesses, run by principled, shareholder-friendly managers, bought at a price which indicates a margin of safety, and in regions where both valuations and growth prospects seem favourable relative to the Anglo-Saxon markets – sometimes the answer to the investor's dilemma is staring us in the face.

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Price Value Partners manage investment portfolios for private clients. We also manage the VT Price Value Portfolio, an unconstrained global fund investing in Benjamin Graham-style value stocks and specialist managed funds.