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UNIDOS HACIA EL FUTURO **7 September 2020**

"The markets are the product of 1999 & 2007 hooking up for a one night stand."

- Tweet by Danielle DiMartino Booth (@DiMartinoBooth), 25th August 2020.

"In the middle of the journey of our life, I came to / Myself in a dark wood, for the straight way was lost."

- Dante, *Inferno*.

"Zoom is now worth more than IBM."

"I don't know if that says more about Zoom or IBM."

- Tweets by Morgan Housel (@morganhousel), 31st August 2020.

By the mid 1970s, film director William Friedkin was on a roll. 1971's *The French Connection* bagged him an Oscar and widespread critical acclaim; 1973's *The Exorcist* became the highest grossing Warner Bros film of all time. How did Friedkin follow up on all this monstrous success ? He decided to adapt Georges Arnaud's novel *The Wages of Fear* (*Le Salaire de la peur*), in which down-on-their-luck truck drivers in Latin America attempt to ferry nitroglycerine across a treacherous mountain range in order to extinguish an oil well fire. The resultant 1977 release was called *Sorcerer*. It sank more or less with all hands.

Which is a shame, because *Sorcerer* – or *Wages of Fear* as it was somewhat unimaginatively titled in the UK (see poster below) – has moments that are pure cinema. The sequence where Roy Scheider and Francisco Rabal pilot their ramshackle truck over a threadbare rope bridge across a river in flood is one of the most extraordinary in film history (and *very* Werner Herzog). All of which vindicates screenwriter William Goldman's assessment that in the movie business, nobody knows anything.

Source: https://www.originalfilmart.com/products/sorcerer-quad

Why was *Sorcerer* a flop ? Some critics say that it was eclipsed by the simultaneous release of a little arthouse flick called *Star Wars*. This argument is not entirely convincing. It is essentially the same excuse that was wheeled out, for example, to explain the commercial failure of John Carpenter's groundbreaking 1982 chiller *The Thing* (at which point the equivalent showstopper would be Steven Spielberg's *ET*). This armchair critic suggests that the reason audiences didn't flock to see Friedkin's film 1977 film is simply because it's too damned ***bleak***. Its protagonists are all trying to escape a dark present and an equally tortured past. Their only hope is to carry dynamite leaking volatile nitroglycerine on jerry-built trucks 200 miles through perilous jungle. (Yes, investors today, particularly in bonds, and US tech stocks, may see some parallels.) And its central American s**thole location is barely better than a hell on earth; not only dirt poor, it appears to be in the midst of some kind of civil war; various shanty town walls carry the message 'UNIDOS HACIA EL FUTURO' ("United Toward the Future"), until the posters themselves get firebombed. It doesn't help that relations between Friedkin and the studio(s) became as strained as that rope bridge. Critic Sam Adams:

> When Friedkin needed an image to represent the distant cabal of suits for whom these hard-working men's lives were no more than an entry in a ledger, he ripped a picture of Paramount Pictures' board of directors out of the studio's annual report and stuck it on the wall.

Happily, from the vantage point of investors in 2020, we don't have to worry about things like dysfunctional politics, society at war with itself, governments on the take, the power of corrupt corporate interests, or having to take outrageous risks simply to complete our respective journeys.

But the market dynamic does make you want, just a little bit, to swap places with Roy Scheider navigating that rope bridge, if only for some light relief from all the insanity. Consider, for example, these extracts from the front page of the *Financial Times* for 1st September:

> "The uninterrupted march of the US stock market to all-time highs amid the Covid-19 recession is concerning. Such cognitive dissonance between investor expectations and economic realities can be dangerous," said Lisa Shalett, chief investment officer for Morgan Stanley Wealth Management..
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> "Fed officials continue to drive up stock prices by committing to keeping interest rates close to zero for a very long time," Ed Yardeni of Yardeni Research said in a note on Monday, describing the current rally as "the mother of all melt-ups".
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> The best performer in the index for the month was Tesla, which jumped 13 per cent to a new record high on Monday after a five-for-one stock split, to complete a 74 per cent rally for the month. The electric car maker's stock has increased more than 495 per cent this year, adding $389bn in market value to the company — more than the entire value of JPMorgan Chase, the largest US bank by assets.

So far, so March 2000.

How we deal with the *emotional* journey of investing is rarely addressed by conventional financial analysis, which tends only to deal with the easily measurable, i.e. the crude maths that underpin valuations (or don't, in the case of Tesla). Morgan Housel is good on the behavioural journey:

> You will likely be more fearful when your investments are crashing and more greedy when they're surging than you anticipate.
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> And most of us won't believe it until it happens..
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> What do we do if we're poor predictors of our future selves?
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> Years ago, psychologist Dan Ariely was asked by a group of financial advisors for advice on how to better serve clients.
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> "The craziest thing you guys do is the risk assessment questionnaire," he said.
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> The questionnaire asks clients how they'd feel if they lost 10%, 20%, or 30% of their money, and builds a portfolio off the results.

> It relies on people accurately predicting how they'll feel if they lost money in the future. Which is *extremely* hard to do when the economy is booming.
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> A better approach is using your past behaviour as a guide to your future behaviour.
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> Past behaviour includes more context of how the world works than you get when trying to envision future behaviour. It's also based on the idea that how people react to outlier events – booms, busts, stress, joy – is driven more by emotions that are stable in time than intelligence that evolves over time.
>
> How you responded to the last big loss, or the last big win, or the last stressful project, or last time you lost control of your schedule, is probably a good indication of how you're likely to respond the next time it happens.
>
> One of my favourite ideas is that people should read more history and fewer forecasts..

Kevin Duffy, *The Coffee Can Portfolio*:

> Having gone through tech bubble 1.0 first hand, the greatest lesson is counter-intuitive: the funnelling effect [as everyone stampedes into the likes of the so-called FAANGS stocks] creates a vacuum, leaving bargains in its wake. Many high-quality businesses never got cheaper than right at the *top* of the Nasdaq peak in March 2000. Good news: today history appears to be repeating.

At some point, Tesla, and others akin to it, are going to destroy biblical amounts of wealth as opposed to creating it. That will be a matter of supreme indifference to us, other than creating the mother of all popcorn moments, where we can watch safely (we hope) from the sidelines. In the meantime, we stick to what we think we understand: stocks with a margin of safety; funds that are uncorrelated to the stock and bond markets; and assets relating to and including gold and silver, with no attendant debt. We are all crossing that threadbare rope bridge, all united toward the future. But not all of us will make it across alive.

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