

THOUGHTS FOR THE WEEK

PESSIMISM IS EASY

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Pessimism is easy. Like a siren song, it sounds persuasive. Smart. Informed. Watching last evening's national news broadcast, the leading stories: racist shooting in Buffalo; religious / racist shooting in California; war in Ukraine. All serious stuff. And tragic – particularly for those with a real connection. And it's right in front of us. It's the known problems. Blogger Jason Crawford writes, "If you very soberly, wisely, prudently stick to the known and the proven, you will necessarily be pessimistic."

Optimism is harder. Much harder. Try it. First, find a listening partner and spend 1 minute running through the "big problems" – the reasons to be pessimistic. Likely some combustible mix of an unstable world, inflation, political gridlock, and a lingering pandemic. Then spend another minute explaining why those problems are transient over the arc of time. Why you're optimistic. Harder, right? Quoting Crawford, "Optimism often requires believing in the unknown, unspecified future breakthroughs – which seems fanciful and naïve."

One of the toughest jobs in sports is taking over as head coach of a losing team. The team is conditioned to lose, fans are apathetic, and talk radio heaps scorn. Losing stares the constituents in the face. It's the present reality. All aware of the problems; unaware of the solutions. The coach must change that mind-set, must create a new reality. Solutions must be enacted, requiring a belief that the situation improves. And that incremental steps positively compound. The pessimist sees the roadblocks. The optimistic coach figures out a way around (or over, or through).

Teachers seem imbued with optimism. Occasionally you encounter one that excels in pointing out the obvious flaws – the problems front and center. But most teachers I've met don't dwell on flaws. They build a rolling vision of an improved future, and then lay the foundation, using each child's strengths, to work toward those futures. The best ones continually raise the bar. The problems increasing in intensity; the solutions requiring more work. But that is how you forge an optimist. Those teachers instill a spirit that problems are solvable, that progress is attainable. That choice and effort matter. That outcomes don't boil down to simply luck.

The investment world offers a stark contrast between the optimist and the pessimist. The optimist often sounds like a Cassandra. The pessimist often sounds grounded. To be optimistic, one needs to confront the current "problems" and offer a vision of a better future. And implied in that future vision are breakthroughs that have yet to be achieved. Take the Covid vaccine. Historically it took years to develop an effective vaccine, but those involved didn't have years, they had months. Developers were forced to employ new methods, and to re-think the vaccine evolution process. Governments had to construct new approval processes and distribution networks. They had to educate a skeptical public. Pessimism was "easy". All you had to do was watch the rising death counts and the mounting economic toll. Pessimists could lean on the dire situation in front of them; optimists had to conceive a yet unknown future.

Of course, optimism can also go overboard. Two examples come to mind: The dot-com crash in 2000 and the energy crash in 2015. In both cases, unbridled optimism caused a price crash, as wild expectations that manifested itself in high stock prices outgrew what was realistically possible to achieve. In the dot-com crash, it was optimism trumping the validity of business models. In the energy crash in 2015 it was optimism forgetting that supply and demand are still crucial inputs when assessing the prospects for commodity goods.

We manage your investment portfolios with a cautious optimism. We position assets to participate in the long-term improvement of living standards, driven by economic growth, that we believe will in turn result in rising asset prices. Long term optimism. But we also confront head on the challenges staring us, and you, in the face. Particularly when those challenges appear large, as they do today. To a degree, we do manage to “pessimism”. We encourage investors to hold enough cash to fund multiple years of spending. We build fixed income into portfolios to help balance growth assets and provide liquidity. And we diversify long-term holdings like equities, alternative investments, and real estate. Yes, we’re optimistic. But we’re cautious, not willing to be “all in”, particularly with client capital.

So as the talking heads on TV blather on about how bad the present is, try to keep in mind that betting against long-term optimism has been a loser’s game. And flip-flopping between pessimism and optimism likely leads to unforced errors that have big long-term effects (the effects of errors compound too). We don’t know what the future holds. But as we carefully prepare for what lies ahead, we’re optimistic as ever that beneficial progress will remain the trajectory, regardless of the dips, valleys, and trenches that lie in its way. We’ll take the hard road, not the easy one.

Mike, Cate, Scott, Marina, Oscar, Suzy, and Willis

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