

Remember Optimism

By Bill Koehler, CFA

Byron Wein, a long time, well respected market strategist for The Blackstone Group recently said the current outlook for equities, among institutional investors, is marked by a surprising lack of optimism. Our sense is that many individual investors also share that mindset. Investor actions support this view. As they have over the last decade, investor cash flows to bonds are far outrunning flows to stocks, per data from the Investment Company Institute. Why are people allocating more money to bonds than stocks? Why the lack of optimism?

Morgan Housel is a former Wall Street Journal writer who has authored a number of excellent essays over the last several years in his role as a partner of The Collaborative Fund, an emerging venture capital manager. He addressed the issue last month when he pondered, “Are investors in cash because they are negative or are they negative because they are in cash?” The latter scenario should not be discounted.

A little over a year ago, on September 12, 2016, Morgan wrote a thoughtful article titled “What a Time to Be Alive.” His views are aligned with our thinking on long term economic progress, which we discussed in our Q315 Perspectives titled, “Better, Faster, Stronger....”

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We argued that the consistent progress made by creative, resilient, industrious Americans via our collective ingenuity is a powerful force that can be easily underappreciated but should never be overlooked. We have chosen to embed Morgan’s article, and many of the 46

reasons he listed to support his view, in this quarter’s Perspectives. Interestingly, since the original publication date last year, the S&P 500 is up nearly 20%.

What a Time to Be Alive

By Morgan Housel

John D. Rockefeller was the richest man the world had ever seen.

But for most of his adult life he didn’t have electric lights, air conditioning, or sunglasses. And he never had penicillin, sunscreen, or Advil. This is not ancient history: One in twenty Americans alive today were born before Rockefeller died.

Today, the majority of Americans think the next generation of adults will be worse off than their parents.

I think of two things when I hear this.

One, the pessimists are probably wrong, extrapolating a bad decade into infinity. Two, progress is like compound interest – you don’t even notice it in the short run, but it’s mind-blowing when you zoom out and see what can be accomplished over long periods.

There are so many things still wrong with the world, and the future will always be hard. But when confronted with pessimism, Warren Buffett reminds us that normal Americans “live better than John D. Rockefeller did.”

Here are some examples of how right he is:

- Life expectancy in America has increased from 47 years in 1900 to 78 years in 2011.
- Penicillin has saved between 80 and 200 million lives since first used in 1942, depending on



whose estimates you use. Put that in context of deaths from World War I (~17 million) and World War II (~60 million), and it's possible that Alexander Fleming's accidental discovery saved more lives than both world wars took.

- The frequency of U.S. recessions has plunged. From 1860 to 1900 we were in recession 48% of the time, according to the National Bureau of Economic Research. From 1900 to 1940, 43% of the time. From 1940 to 1980, 15%. Since 1980, just over 12%.

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- Microsoft sold a computer mouse in 1985 for \$179, or \$401 adjusted for inflation. Today \$401 can buy you a Chromebook, a Kindle tablet, and an iPhone 5, with enough money left over for lunch.
- Median household income during the boom year of 1929 was about \$16,000 adjusted for inflation, according to Census Bureau data. It's more than \$53,000 today. What was average back then is now considered deep poverty, and what's average today would put you in the top decile back then.
- According to the World Health Organization, "Measles vaccination has saved an estimated 17.1 million lives since 2000." If those 17.1 million people were their own country it would be 65th largest in the world, sitting between Ecuador and Netherlands.
- "In the late 1940s to the early 1950s ... polio crippled an average of more than 35,000 people in the United States each year," writes the CDC. Today it's wiped out.

- A December 2015 flight from Miami to Los Angeles was delayed and took 20 hours, which one passenger told CNN was "a nightmare that you can't believe." As recently as 1929 that 20-hour travel time would have been a world record.
- The percentage of women with bachelor's degrees at age 18-33 nearly doubled from the Baby Boom to the Millennial generation, from 14% to 27%.
- Americans over age 100 are the fastest growing age group, by far. In 1980 there were about 15,000 Americans over age 100. Today there are 78,000. By 2030, an estimated 138,000, according to the Census Bureau. That means the centenarian share of the population will more than quintuple, from 0.0007% in 1980 to 0.04% by 2030.
- The percentage of an average household's budget devoted to food fell from 46.4% in 1901 to 13% in 2011, according to the Bureau of Labor Statistics. If that percentage had not declined the average household today would spend more than \$2,100 a month on food.
- Real median wages have been stagnant for a while. But real median compensation – which includes things like health insurance subsidies and 401(k) matches – is up more than 40% since 1980. People are getting a raise, it's just coming in the form of subsidies on ever-rising insurance premiums.
- We have a retirement funding crisis, which would sound like the most peculiar thing in the world to people 100 years ago, most of whom had no concept of retirement and worked until they died. In 1900 65.4% of men over age 65 were still working, according to the Census Bureau. And nearly all jobs were physically demanding. By the 1990s it was down to 17%.
- A 1996 computer catalog has an average list price of \$3,412, or more than \$5,200 adjusted for inflation. A Chromebook today can be purchased for \$101 and is, on every level, an order of magnitude or greater more advanced.
- Bank failures in the early 1930s wiped out deposits equal to 2.2% of GDP, according to the FDIC. That's the equivalent of \$396 billion today. Thousands of people lined up at banks, some for days on end, wondering if their money was gone. With FDIC



insurance, no one with less than \$250,000 in the bank has anything to worry about anymore. That's amazing: What was once one of life's biggest financial stresses isn't even a thing anymore.

- "The United States uses less than half as much energy for every unit of GDP as it did in the 1970s," writes energy analyst Daniel Yergin. This rise in efficiency cuts the effective energy price in half.
- "A new car in the 1970s might have averaged 13.5 miles to every gallon. Today, on a fleet average basis, a new car is required to get 30.2 miles per gallon," writes Yergin. Here again, the effective price of gas is cut in half without even knowing it.
- "Between 1995 and 2005, Dow Chemical reduced its energy use on a worldwide basis, per pound of product, by 25 percent. Those savings are a big number; the same amount of energy would have been more than enough to supply electricity to all of California's residents for a year," Yergin writes.
- The gold medal winning time for the men's 100-meter Olympic sprint improved by 21% from 1896 to 2012, from 12.2 seconds to 9.63 seconds. This is astounding when you consider we've been running for as long as we've been human. Our ability to keep improving at things you'd think we should have mastered tens of thousands of years ago is a good reason for optimism.
- The high-school graduation rate was 6.4% in 1900, 50.8% in 1940, 77.1% in 1970, and a record-high 80% in 2012, according to the Department of Education.
- Here's a short list of common conveniences that did not exist in 1940: Tylenol, Velcro, airbags, credit cards, ATM machines, nonstick pans, Tupperware, and calculators.
- People uploaded 657 billion pictures in 2014, according to Mary Meeker's Internet Trends Report. "Another way to think about it: Every two minutes, humans take more photos than ever existed in total 150 years ago," writes The Atlantic.

- Tom Goodwin writes, "The world's largest taxi firm, Uber, owns no cars. The world's most popular media company, Facebook, creates no content. The world's most valuable retailer, Alibaba, carries no stock. And the world's largest accommodation provider, Airbnb, owns no property."

What a time to be alive.

Conclusion

Morgan's posting drives home another notion that we like to espouse, that of "pulling back the lens" to get a broader perspective on matters. If this is done objectively, one can see that our national (and global) progress over time has been nothing short of amazing. Additionally, the odds favor it continuing and perhaps even accelerating. Again, not necessarily every week, every month or even every year but over time. Which means that the productive capacity of the U.S. (and global) economy will continue to grow and that an investment in common stocks remains the best way to align one's capital with this ever burgeoning productive capacity.

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