

The Outlook: Dec. 13, 2024

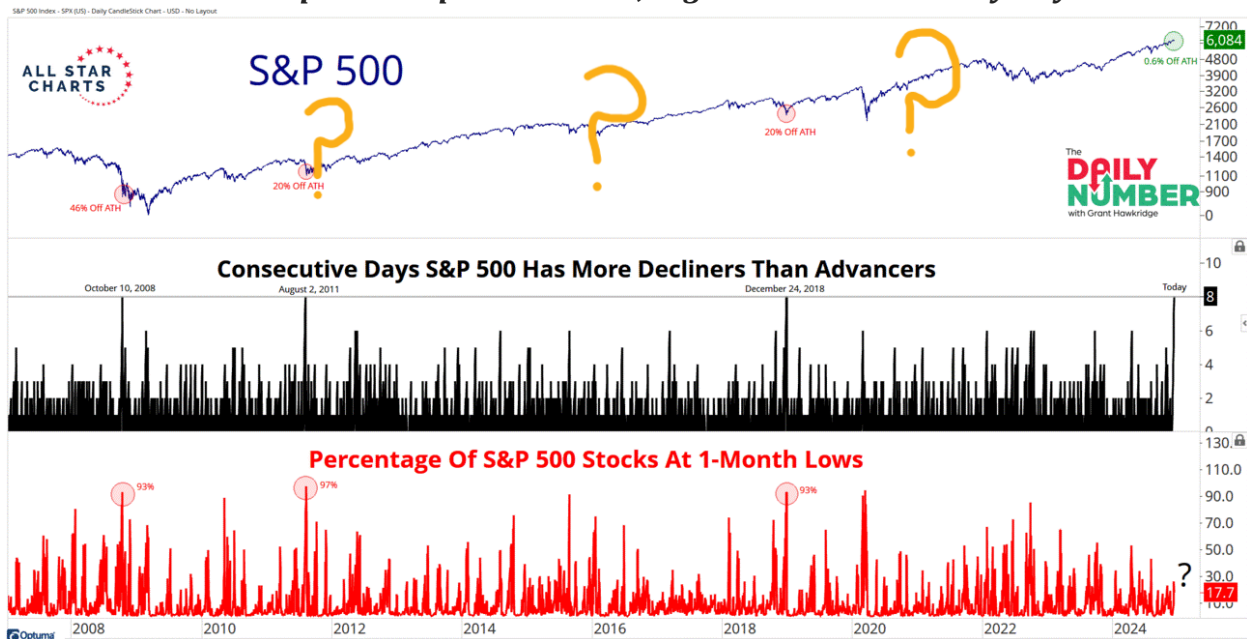
Question Everything! Believe nothing!

Young people often feel that old people give them too much advice. Old people always feel, pretty much, that young people ignore their advice. They often ignore it because when we dish out advice, we usually sound so absolute and emphatic about it that the young naturally think, “Wait a minute! How can you be that sure about *anything*? The world’s a complicated place!”

Our title, up there, falls smack into that category, doesn’t it? “Question Everything! Believe Nothing!” That sounds pretty “absolute,” and maybe “unfair,” and “extreme” as well . . . and for the English majors out there, surely it’s also “hyperbole.” (Exaggeration for the sake of emphasis, for the math and science types.) Of course, “Question Everything! Believe Nothing!” is all those negative things . . . once in a while. But most of the time, it’s the kind of Golden Rule that saves us from a world of trouble. The old people who dish out this Golden Rule can usually say, “From my hard-knocks experience, it pays to follow this Rule about 99 times out of 100.”

The investment world overflows with clever people willing to analyze the daylights out of anything which might help them make money in the market . . . or convince other people to pay them for their analysis. A long time ago, a young investment analyst’s boss gave him one of his first assignments: to make a chart roughly like this.

500 Companies: Ups and Downs, Highs and Lows . . . Every Day.



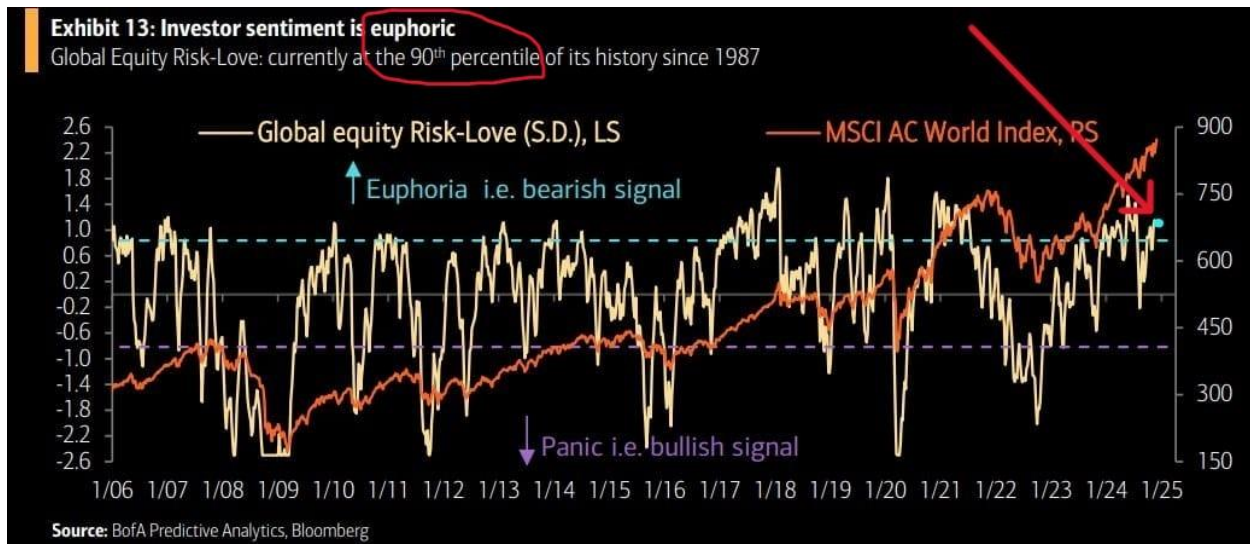
Unbelievable as it may seem, at that time the personal computer hadn’t been invented . . . but pencils and graph paper had. So the young analyst pored through the countless pages of fine print in the Wall Street Journal every morning: fine print which revealed yesterday’s ups, downs, highs, lows and many other eye-glazing things, concerning a couple of thousand stocks. With the pencil, he wrote down that vital data on the graph paper and turned it over to his boss by mid-morning or so. (He was only required to keep the data for a hundred or so stocks, not a couple of thousand . . . so he had no cause for

complaint. And he didn't complain, because having just escaped an Economics Ph.D. program with his Master's degree, tunneling under the wire at night, anything was better than wrestling with topology and linear algebra to figure out what on earth his professors were talking about.)

It was very hard for the young analyst to understand why his boss thought all those figures were important . . . but being young, he assumed they must be. Surely he was just too inexperienced or too dumb to comprehend them. It took a while for him to begin to wonder whether the Golden Rule—"Question Everything. Believe Nothing."—might possibly be good advice . . . no matter how "absolute, extreme or unfair" it sounded.

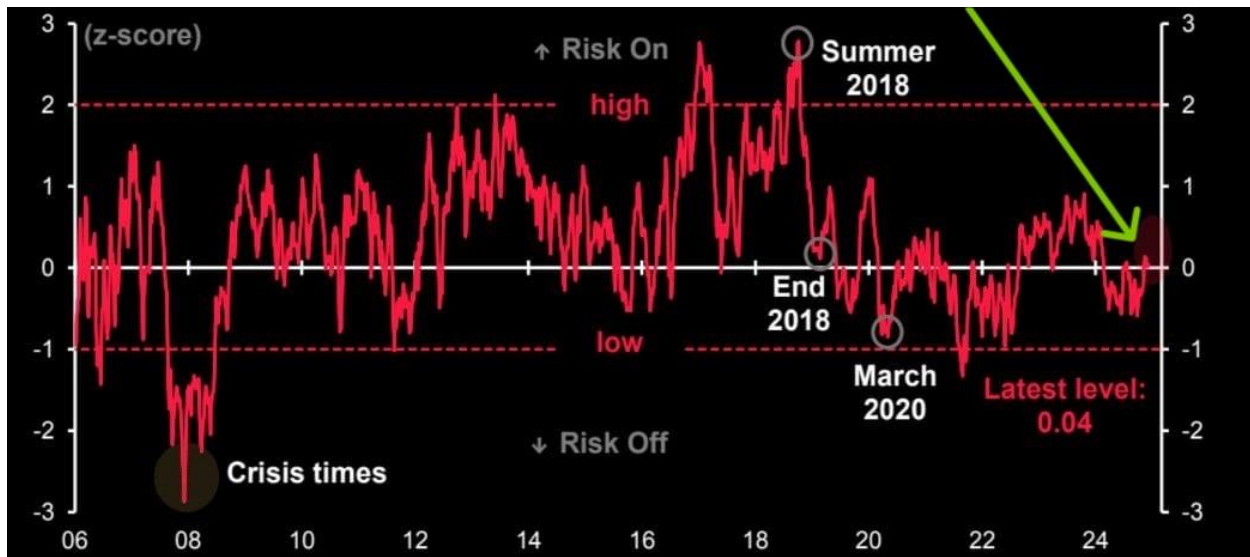
A while went by . . . and also a few thousand hard lessons in the great value of "Questioning Everything." So it is that the formerly young analyst eventually got the knack of being, well, completely unimpressed by all sorts of clever analyses informing us (mostly) that nothing but bad news lies ahead, and sometimes that nothing but good news lies ahead. Here's a picture from yesterday:

Equity Risk-Love. "Investor sentiment is euphoric! Global Equity Risk-Love [is] currently at the 90th percentile of its history since 1987."



And here's a picture from today:

"Societe Generale's Cross Asset Risk Indicator (SG MARI) shows no market exuberance."



Yesterday's expert: "The market is insanely optimistic! Watch out below!" Today's expert: "Nope! The market is dull and cautious, nothing to worry about."

Bank of America (top) and Societe Generale (bottom) employ their share of clever people. And whatever the "Global Equity Risk-Love Ratio" and the "Cross Asset Risk Indicator" might be . . . they probably make that pen-and-paper high/low analysis, from the ancient times, look like a kindergarten spelling lesson.

But shall we be impressed by them, or even awed by them? Or would it be better to shrug and think, "Golden Rule time! Question Everything, Believe Nothing!" while finishing with "Why bother to investigate? Bank of America and Societe Generale just did our work for us. Bank of America: "Sell!" Societe Generale: "Buy!" So we'd best keep sticking with very obvious things that we understand: "We own extraordinarily strong companies making outstanding products, and valued cautiously (mostly) by the market. That's enough. We'll hold, and buy more when we can."

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