The Outlook: March 17, 2021

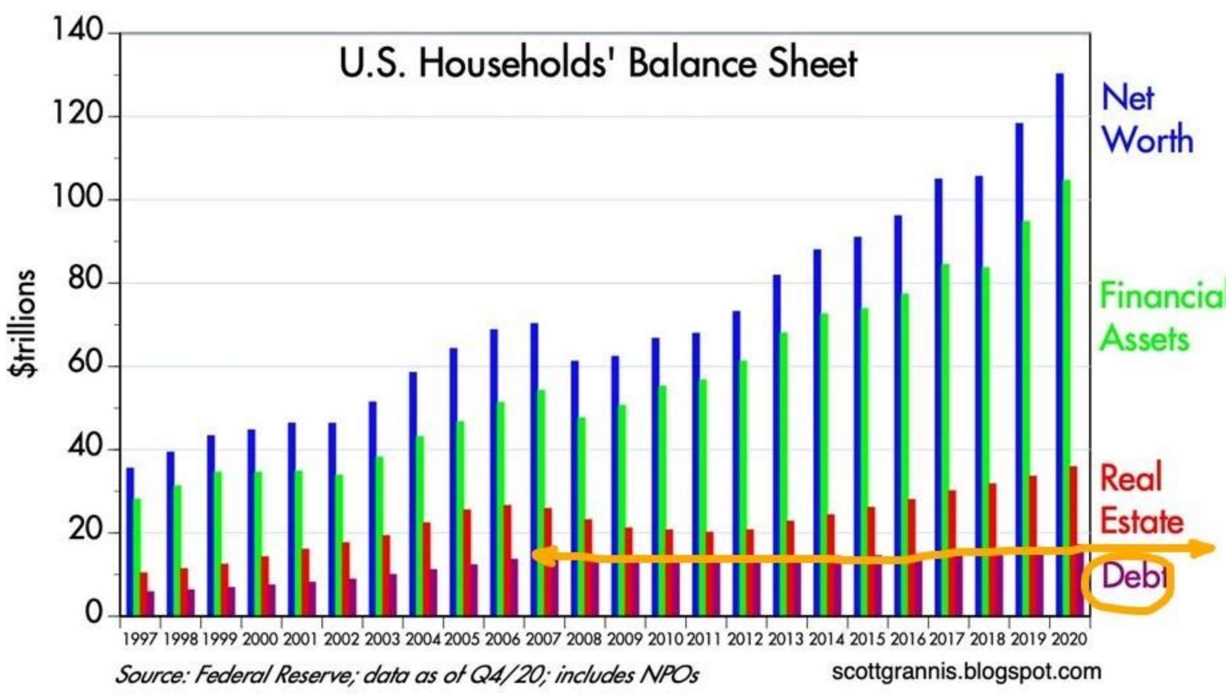
Staying worried . . . and staying invested.

We must always look at "the whole picture" surrounding any good or bad thing, in the investment world. And we must always remind ourselves that we won't feel like looking at the whole picture, because the headlines and the roar of the crowd *always* aim to persuade us that some particularly awful or wonderful corner of the picture is so awful or wonderful that nothing else matters.

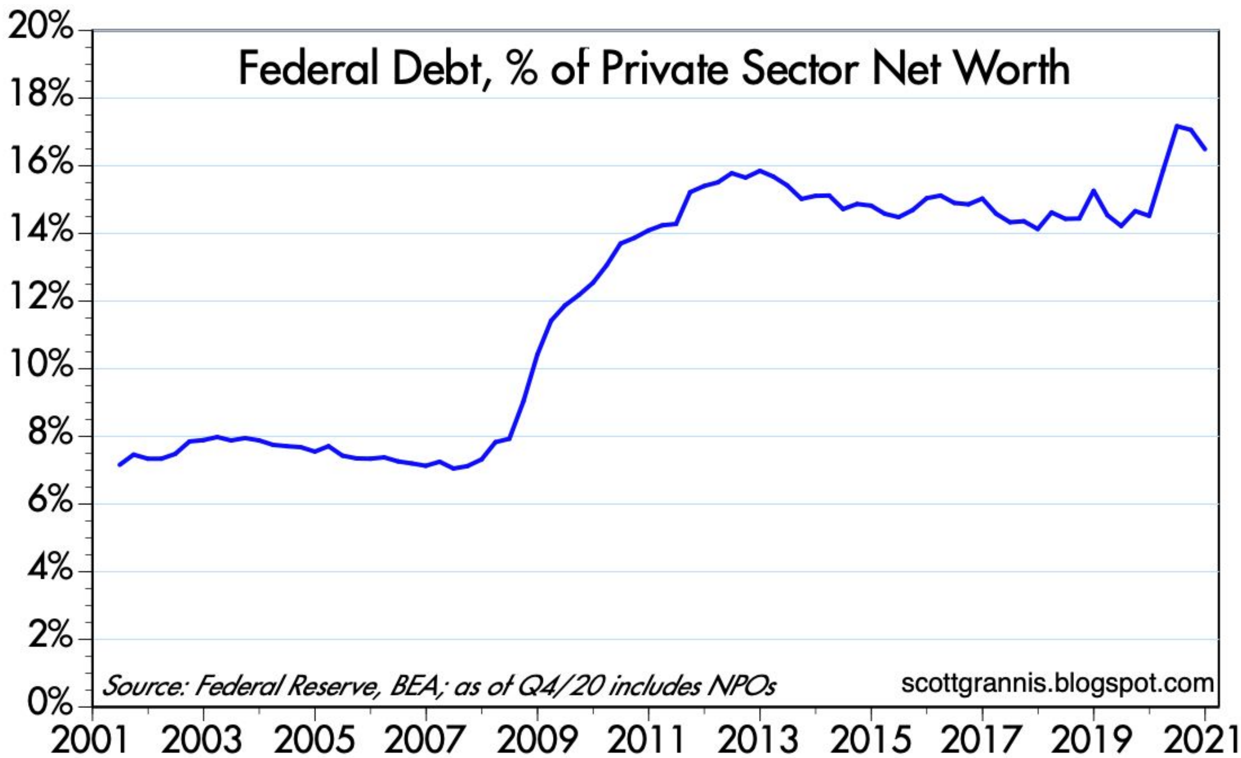
We've got quite a list of awful or wonderful things to be persuaded by, at the moment. The market's setting records; the usual handful of celebrity stocks would like to persuade us they've repealed the law of gravity; the great majority of "non-celebrity" stocks—solid financial citizens in tough, old-world businesses like oil, manufacturing, mining and the like—are doing some gravity-defying themselves; and the U.S. government is printing and handing out money on a really galactic scale, new in American history.

That's a sampling of the "wonderful" list. For the "awful" list, we can frighten ourselves plenty by looking only at government behavior: shocking increases in the money supply and in government debt, compared to the actual volume of goods and services produced ("too much money chasing too few goods" indeed); and talk in Washington DC of even more shocking money-printing and borrowing, plus something even worse—tax hikes, to go along with the growth-slowing tide of regulation we've been seeing lately.

The "whole picture" is very big, so we can never touch on every corner of it. But economist Scott Grannis did a wonderful job last week of reminding us that there *is* a "whole picture" and neither the awful nor wonderful corners of it can be understood without looking at it. Mr. Grannis' title is the heart of the matter: "This is a very wealthy country!" Let's glance at some of his charts:

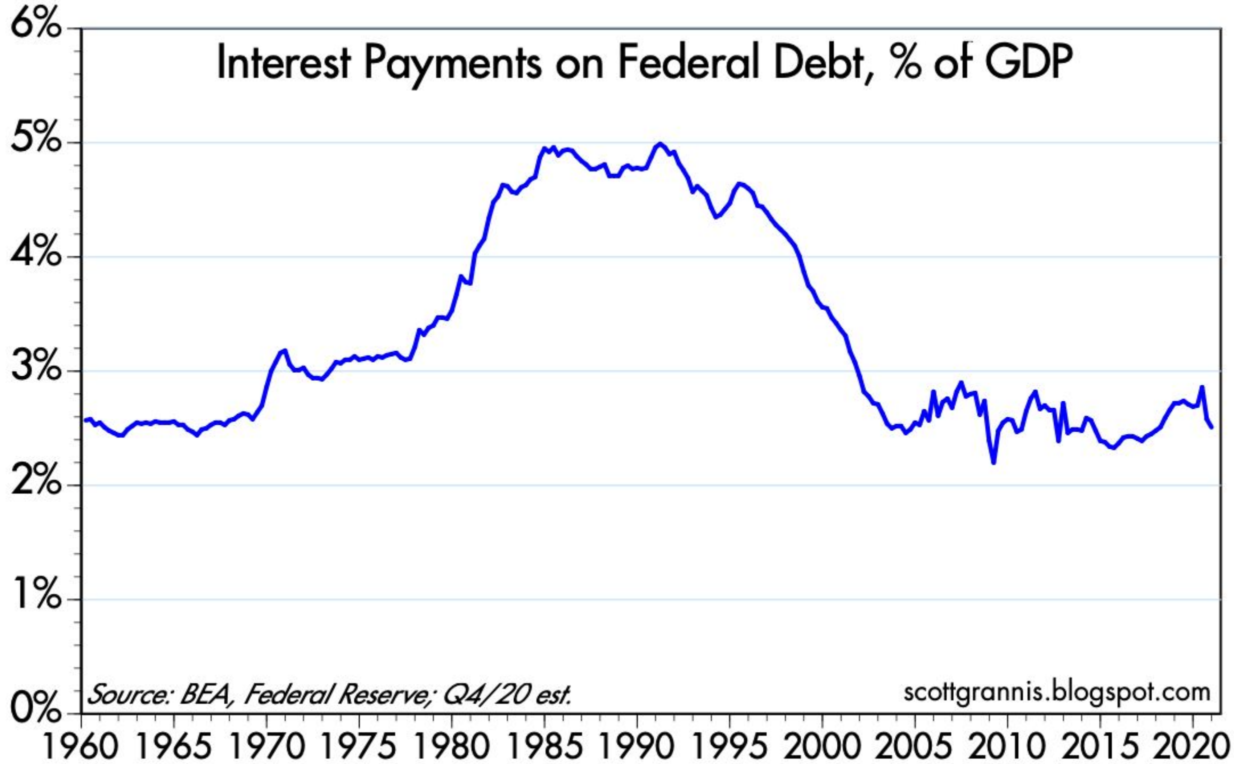


"This is a very wealthy country!" said Mr. Grannis. That climbing "Net Worth" line, in blue, shows the remarkable growth in Americans' wealth since the Calamity of 2008 – 2009. But the really amazing item is “Debt,” where the gold line shows that over the last 14 years, Americans’ total personal debt has basically gone nowhere. Pardon the repetition, but that single fact is genuinely “amazing.” When we remember that through all the centuries, the deadliest financial killer of all time is always “debt”, this picture by itself tells us something profound about our “whole picture:” namely, that America’s financial strength is huge relative to its financial risks.



That top picture is all about Americans as individuals . . . not about America’s government, whose money-printing and borrowing actions lie over there in one of those “awful” corners of the picture. But “awful” as it may be, this picture gives us some perspective. Federal Debt has been contained within 14% to 16% of private sector wealth for the past 10 years, until last year’s virus-triggered explosion of money-printing and borrowing. Even that startling explosion only inched government debt up toward 17% of private wealth.

Of course, Washington D.C. does not mean to stop with “that startling explosion:” it has whole new explosions in mind, beginning with the just-enacted $2 trillion “relief” act. But this picture reminds us always to do something the headlines never wish us to do: refuse to believe they’re the whole picture (or even an accurate part of the picture, often enough.) Here’s the next corner of “the whole picture.”



"The Dismal Science" will remain, forever, the world's tag line for Economics. It deserves it, of course, being stunningly dull as explained in most textbooks and experts' commentaries. But beneath the layers of "dull" lie interesting and useful stories—which are also pretty vital for us investors. We might call this story, "Reckless Politicians Bailed Out—for a While—by Rock-Bottom Interest Rates and Inflation." That 12 years or so of rock-bottom rates, believed impossible before it happened, is why a reckless explosion of debt costs no more than it did in 1960, compared to America's annual production of goods and services.

"America is a <u>very</u> wealthy country." So it can absorb a jaw-dropping amount of "punishment" (government actions which drag down growth rather than boosting it) without falling, or even stumbling enough to notice . . . for a while. That simple perspective is completely missing from the tidal wave of daily headlines and worried expert analysis which we must endure as the price of living in the investment world. That perspective never means our motto should be, "What, us worry?" But it does explain the behavior of the market and of our own companies with far more clarity than the headlines: whether they're "awful" or "wonderful." It reminds us that there are a great many times when the right thing for us to do is to stay worried, but also to stay invested.

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