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Hello and welcome to the Dividend Cafe where I am back in Newport Beach and happily recording about a very happy topic. And it's going to be one that I've spoken about many times where people could take the message to be unhappy. And yet such is the nature of talking about the economy. That sometimes there's a theme that is understandably and justifiably negative, and other times there's a theme that is not, and it's not just because the news changed and it's not because the person giving the news changed, but that is literally how complex such a thing can be, that there are at different times all at once, positives and negatives. And I felt it was time for a little positive refresher because there is a sense in which I think the majority of our economic dialogue focuses on the negative. Some of that in the context of our work as portfolio managers and real life investment advisors dealing with real money on behalf of real people who have real goals.

As I say all the time, it does tend to lean on the defensive and the guarded and the risk mitigation side of things. And so it's understandable that we'd be talking more about certain things that could go wrong or that have gone wrong or will go wrong than things that could go right. But nevertheless, a full macroeconomic understanding of the world is at times going to sound like a very pleasant conversation. And I first, I think want to say that a lot of this has to do with a very basic economic law itself. The law of incentives that rational and reasonable human beings respond to incentives and a significant amount of the permabearism, the sort of pathological pessimism of our day comes from people who have every incentive in the world

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to be such that they are not running money, not dealing with real people, do not have skin in the game as to what is going to happen with capital stewardship, but rather have an incentive to scare people, to outrage people, to panic to, or at least just to shock and generate clicks and ratings and things like that.

And there is an industry I've talked about many times I've been exposed to for my whole adult life, this sort of cottage industry of permabear that no doubt has incentive to stay perma bearish, to focus on economic turmoil. I do believe a lot of these people mean it or start off meaning it, but then I believe that they get tethered to a business model that it's hard to shake free from that they know what their audience wants to hear, they know what generates buzz and activity and ultimately the compensation, and they, despite not really living like perma bears feel the need to stay permabears. And that's just a byproduct of the business model. But you know, could be less crass than just picking off of bearish book writers or newsletter writers. The media itself, as I talk about all the time, the broad general media definitely has an incentive to focus on keeping people scared, keep people watching, keep people in suspense, make bigger stories out of smaller stories.

That's a business model. I've written about that quite a bit, and I think that even in the world of politics, the incentives to how you describe the economy are rather clear. It, you know, very likely right now if a Republican consultant is talking, wants to say something bearish on the economy and a Democrat consultant wants to say something positive, you have an

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incumbency factor and a challenger factor that is a sort of permanent condition of our world of politics and its interaction with our world of economics. But I want to do a thought experiment with you to make my point that if right now you turned on your TV and someone was in the middle of talking, you didn't hear what they said necessarily before, but you see somebody talking about the economy and they start saying unemployment's at three and a half and there is still an awful lot of unfilled jobs, there's been great wage growth, and you hear these just really quite unpromised positive comments about labor conditions.

I think that you would just assume the person talking with some hack, putting out talking points for the Biden administration and inversely, if somebody came on and just said, oh, inflation's high and credit conditions are tightening and we really are likely to go into a recession, you would assume that they were a Republican hack just bashing down talking the economy. And yet it's entirely possible that both things I just uttered as my example could be true at once to test the validity of this thesis. Pretend you're not talking about somebody right now talking either about good labor conditions or bad credit conditions and that we're not wondering if they're pro-Biden or anti-Biden person, but if you did the same thing in 2019 and you turn on the TV and there's somebody saying, we've had the highest GDP growth since the financial crisis and it's not quite where we want it yet, but it's really far better, almost double than it was throughout the preceding eight years.

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Is it possible you would just interpret that person to be a MAGA Trump sycophant just pumping up the sunshine of the Trump economy? Or is it possible that if you turned on and heard someone saying, I'm really worried about the trade war and we think there could be downward pressure coming, the yield curves inverted, it's 2019 and we wonder if there's economic turmoil ahead. Would you assume it was somebody down talking the economy again, very likely some sort of a anti-Trump moment, right? It cuts both ways politically, it cuts both times. But here's the thing, that's a real life story. All four of those things, the 2019 good, the 2019 bad, the 2023 good, the 2023 bad. All four of those things were really said because that person was me. I've said all the above, and I don't know anyone who say I'm out pumping sunshine for the Biden administration or that I'm a political hack trying to downtalk it, or even in 2019 that I was some sort of MAGA sycophant or something.

There is nuance in the way we talk about the economy, unless you're talking about the economy for a political or agenda or a tribalistic purpose or a simplistic binary purpose where you only can sort of like a caveman say, economy, good, economy bad, but anything other than that, if you're being honest and intelligent, probably will have nuance. And in my particular case, I'm quite certain there was no political acts to grind and is no political acts to grind the way I describe the economy. And I'm also certain that I can't now or then refer to things merely in the one sentence soundbite of how good something is or how

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bad something is with a political agenda or without a political agenda. Objectivity requires caveats. It requires nuance if we're actually describing the economy. And yet this brings me to the longer term picture of understanding where we are, where I believe it is absolutely true that we face an economy that lives below its potential, that we face an economy that will be frustratingly low, slow, no growth, Japan as a result of excessive government indebtedness, that our productivity is lower than it ought to be, that our economic growth is substantially lower than it ought to be.

I've talked about these things over and over and over again, I believe all of 'em, and I believed 'em through. Now in the last, what now 25 years, three Democrat presidents and two Republican presidents and had nuanced views about the economy and all those periods. This isn't a political thing, but if we were to really look objectively despite those fears, those headwinds, those negative comments that one could make just about the general state of the economy and where it maybe goes from here, do we understand how good things have been the last three decades that we were 25% of global GDP 30 years ago when China was a nobody? And that now with China as the second economic superpower on earth and all of the things that have gone on, all the things that have hit our economy from the.com dust up to nine 11, to the financial crisis, to covid that we're still 25% of GDP now that we were, I want to get this right, 40% of the G7 and we're now 58% of the G7 that are Millennials make 9% more income than Gen X did at the same age, adjusted for inflation.

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They make 10% more than Baby Boomers did at the same age adjusted for inflation. Do we understand that the various numerical measurements of our GDP, of our productivity through all the challenges of the last 30 years have confounded the critics as this little engine that could, the American engine of a free enterprise continues to go on, and there's no part of that that makes me say, so therefore we don't face challenges, so therefore, 31 trillion of debt won't be a problem, or therefore the slowing of business investment and capital expenditures won't be a problem. I say it all to point out the nuance of two things being true at once, that there are various negative economic issues or headwinds, impediments. We have to overcome unfortunate constraints on our own capacity and potential. And at the same time, over the last 30 something years, our overall GDP per person was the same 30 years ago as Western Europe per person and Japan per person, and that ours has gone up 60% per person versus Japan and 33% versus Europe.

That on a relative basis, the United States has been the place to part capital, to deploy capital, to invest capital, and to put capital to work in a business endeavor. These things are undeniable objectively, and I would encourage those of us that are prone to wanting to put an economic narrative in a box the way people put a political narrative, this guy good, this gal bad, but you know, doesn't work this way. We're smarter than this, we're better than this. As economic commentators who are not paid to write about the economy, we are paid to manage

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finances within the economy. It behooves us to remember at my firm, our firm is pretty much committed to this idea of objective truth telling. But I will say that we are living in a time where the temptation to tribalization is severe and the temptation to pessimism is severe.

Now, there may be different motivations as to what wants to pull somebody pessimistic. There could be right wing and left wing if we're talking politics, but there could also be different personality types, people that are more naturally half full or glass, half empty types. There's all kinds of different motives, incentives to say things, psychologies, et cetera. But I believe that if one is content with the underlying message I'm offering you today that this has been an unbelievably robust economy for quite some time, that people who have been against it have regretted doing so, and that we are very likely to have ongoing opportunities for growth and prosperity, even as we have ongoing headwinds and instabilities. And that to me is the message of how we view the economy. Nuance is a good thing, objectivity as an important thing, and removing ourselves from anything that would remove nuance or objectivity in the way we analyze. That's the historical lesson and that's the prophetic suggestion I have for you here today in the Dividend Cafe. Thank you so much for listening, reading and watching the Dividend Cafe. We'll see you next week.

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