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1, Is the American economic model really so undoubtedly superior? In the last few years, the consensual view has been this. In an interesting analysis, The Economist (April 10 issue) had to go back just ten years though to find statistical evidence challenging this belief of the day. When compared in a ten-year retrospect, which is only fair because it considers whole economic cycles in each country, some basic statistics of the US, Japan, and Germany demonstrate no clear superiority at all. GDP growth in the 1989-98 period in the US was the same as in Germany (2.6% annually), while Japan was not much behind (1.9%). On a per head basis, the US was not better than Japan, both behind Germany. It is very instructive to see the numbers on productivity, especially in the light of debates, in the recent months at least, in Canada about our lagging productivity figures behind the US. Maybe we should select yardsticks that are more demanding! Productivity in the last ten years grew at less than 1% annually in the US, at about 1.3% in Japan, and at about 2.6% in Germany. America is clearly ahead of the other two countries today in terms of job creation: their unemployment rate is 4.2%, while that in Germany is 10.5%, and in Japan, it is 4.6%. But for the whole ten-year period reviewed, the average German rate is about 7.5%, the American is almost 6%, and the Japanese is less than three percent. Although the recent improvements in employment might suggest otherwise, average incomes have risen similarly in the three countries, and income inequalities are much wider in the US than in the other two countries. For example, despite higher average incomes in America, the poorest 20% in Japan have about 50% more than the poorest 20% in America.

Do these data prove that the American model is not better than the others are? No way! These are interesting because they demonstrate that it is foolish to tout one economic model or the other as inherently superior to others. The same lesson can be learned from a short overview of several other "wonder models" of recent history. Even the alleged wide differences among various models are frequently just assumed, the article argues. One of the references made is to the American economy in the 1920s. It looked a world-beater then, just to become a deadbeat in the next decade, without any big change in the economic model itself. As for the near future, flexibility, more innovation, and more advanced information technologies may serve America better than they may serve the others. On the other hand, poor education and low savings are seen as risk factors for the US. As The Economist put it, "if Germany and Japan can grow as fast as America even when their incentives are blunted by an inflexible model, imagine what they might do were their economies to be set free."

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2, Many investors expect from financial sales people and advisors that they suggest and sell them stocks or funds that will provide exceptional or at least above average returns regularly. These expectations are futile. The future is a closed book for even top forecasters, money managers, economists, let alone salespeople and advisors. We all try to peek into this book, but only a few experts can boast with a respectable record of accomplishment in this. Even the evidential value of an excellent track record is questionable. An almost 20-year-old study referred to in Fortune magazine recently serves with some enlightenment. According to this, it would take about 70 years of data to 'prove' beyond statistical doubt that those few money managers who repeatedly outperformed the market are really that skillful, not just lucky. As an index-fund manager quite aptly put it: "If you have 1000 people flipping a coin, a certain number of them will flip heads ten times in a row. [However,] you don't ordain them at the end of the contest as superior coin flippers." Another big Fortune article on the state of economics teaches a similar lesson. Though the best economists in the world today finally speak the same language, none of them can come up with a coherent, reliable science of economics that would give definite answers to grand questions. Instead, they give sometimes starkly different advice to the captains of government policy and businesses. In retrospect, they turn out to be wrong in many cases, ... but at least they do not claim certainty regarding their predictions or advice.

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3, It probably needs considerable intellectual, emotional and ethical maturity to acknowledge that the best we can do, regarding the prediction of the future, is to offer hopefully intelligent guesses. I found it alarming when I recently read a longish article in the Financial Post by a 'senior economist' of an investment advisory firm. In it, the myopic and / or unscrupulous advisor essentially called everyone who has doubts about the market's entirely rational behaviour, and who warns about its dangers and uncertainties, as ignorant scaremongers.

behaviour, and who warns about its dangers and uncertainties, as ignorant, scaremonger, bubble-ist, and prophet of doom. People like this alleged economist, both ridiculous and dangerous, are worse, I think, than the real doom sayers. Yes, there are real dangers in the market, and yes, in the last few years we witnessed an exceptionally vigorous bull market, especially in the US (or rather, [an important distinction!]: in a small section of US stocks). The truth is, nobody in their right mind would have bet on it beforehand. The only sensible reaction to market unpredictability is the old commandment: diversify!

As for the equity portion of a diversified portfolio, the Fortune mutual funds report suggests avoiding excessive expenses and trading costs, and putting little trust in great past returns. Their number one candidate for a core equity portion of any portfolio is a Wilshire 5000 index fund. This benchmark contains all the regularly traded US stocks. Its 25-year return is the same as that of the S&P 500, and it looks like it will be even more attractive in the future. Though not widely known, this index is available in Canada as well. The next advice from Fortune is that index fund cores in equity portfolios should be supplemented with investments that are underrepresented in the index. This is probably even more important in Canada than in the US. The article suggests mainly European funds for this purpose. Finally, it is meaningful to distinguish small and large cap funds when someone assesses the potential value active fund management may add to returns available from index funds. Small companies are much more likely to offer this chance.

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4, The Economist is arguably one of the best business magazines in the world. A good recent example for how uncertain predictions can be is their story of the new European currency, the Euro. A week after it was launched at the beginning of this year, The Economist, when discussing the weaknesses of the US dollar, wrote that in the medium term the beneficiary of this weakness might be the Euro. Since then, the Euro lost almost one tenth of its value against the Dollar. (This, however, does not eliminate the conclusion of that analysis in January: America's expansion is unsustainable. Overvalued stock market, a credit-driven consumer-spending boom, and huge and increasing current account deficit all support this opinion. Since 1990, only 20% of the rise in the S&P 500 index was linked to increased profits.)

In early March, the headline across the cover page of The Economist said: "Drowning in oil." Their analysis of the world's oil situation led to the conclusion that the then \$10 price of a barrel of oil will probably go further down, maybe to \$5, or even lower. While they might be right on the long run, by the end of March the price of oil was up by more than 40%.

Another telling story is the treatment by the media of the climb of the Dow Jones Industrial Average to new highs. In March, for about two weeks, newspaper headlines were talking about how closely it approached the 'magic' 10,000 level. We learned the details with precision when it passed it, and for how long, before it dropped back, ... finally, there was the big 'Awe!' when it stayed there at the close of the day. In the next few days, we learnt from various sources how the history of the Dow evolved, and when it passed previous landmark levels, etc. It is good, or at least interesting, to know that it took more than fourteen years for it to grow from 1000 to 2000, more than four years to grow from 2000 to 3000, ... and finally less than one year to grow from 9000 to 10000. What bothers me a bit is not that there was conspicuously less ado about the event when the Dow passed the 11000 level just five weeks later. Rather, that there was hardly any economic and historical analysis, assessment of contributing factors, risks, and prospects in the media. Instead, mainly pages of sensationalism, and later declining interest in the topic, while increasing alertness would probably be more appropriate. I must admit that I can increasingly understand people who are willing to pay some extra charge for the safety that segregated funds provide, even if I still do not want to invest in segregated funds myself. After all, after the Depression of the 1930s, it took more than two decades for the Dow to get back to its pre-Depression level, and the Nikkei index has also had whole ten-year periods recently in which the return was negative.

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5, Both trust in index funds and the most advanced diversification methods rely on modern portfolio theory. This theory has strong research and historical support. However, as B. B. Mandelbrot, mathematician, one of the founders of fractals geometry used in theories of chaos, put it in the February issue of Scientific American, it "poses a danger to those who believe in it too strongly." It reflects reality 95 percent of the time; unfortunately, the major events usually happen in the remaining 5 percent of the time. Fractal geometry does not offer better specific predictions, but it can give better estimates of probabilities pertaining to various scenarios. In that excellent article, Mandelbrot shows various stock price movement diagrams, ... some real, some based on portfolio theory, and some generated by fractals. Even for a layman, just a glimpse of these diagrams makes fractals very appealing: the diagrams created by them look very realistic. On the other hand, the ones created by portfolio theory look utterly unrealistic. Investors and advisors, or even fund managers, for that matter, do not have to master this new field of science. Nevertheless, the latter should soon learn to use the experts who do master it. "In the past, money managers embraced the continuity and constrained price movements of modern portfolio theory because of the absence of strong alternatives. But a money manager

modern portfolio theory because of the absence of strong alternatives. But a money manager need not accept the current financial models at face value." For the most of us, it is enough to be aware of just this, and maybe keep our eyes open for managers who will first apply the new tools offered by fractal geometry.

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6, Are you concerned about the state of our natural environment? One of the most promising Fortune articles I stumbled recently into is about some path-breaking companies that finally recognized their responsibilities to future generations. According to this article, the CEO of Interface, a huge American carpet manufacturer, is one of the important figures behind the 'tectonic shift' in managerial thinking in increasingly more companies. Due to the growing international consensus that the greenhouse effect and global warming are real and that the burning of oil and natural gas is largely responsible for this, several large companies embarked on cutting their use of these resources and the release of various pollutants. The transition towards a sustainable (non-polluting, non-wasteful) economy will surely be a long process. It is good to know that some businesses have started paying more than lip service to it. Their example has shown that at least in the early stages of this transition the changes can be profitable as well. In addition, the stock price of this particular company has grown significantly since the initiation of changes in 1994. Let us hope we will soon see similar undertakings in Ontario as well, and that these kinds of efforts will be rewarded by the markets. I think, investing in environmentally conscientious and ethical funds is one more good enough reason to invest not only in index funds. Hopefully, it can boost not just one's conscience but financial returns as well.

There is accumulating interest in and evidence for the viability of green, ethical, environmental conscious, socially responsible... you name it ... type of investing all over the world. In the US, where this trend started and where it is the strongest, over US\$1,500bn is invested in about 180 such funds. This sector has tripled in size in five years and now represents 10 percent of all US mutual fund investment. The total investment in around 40 UK ethical funds is about US\$3.5bn. Good performance of many of these funds demonstrate to many people that they don't have to make concessions against profits for investing into companies that are screened according to their values and ethics. In 1998, e.g., over 70 percent of the most popular ethical US mutual funds finished as top performers. One can cite impressive numbers for the few available Canadian funds of this type as well. As The International, a monthly for international investors, put it: "ethical investment - or green greed - is becoming big business."

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7, A recent Canadian survey by the Environics Research Group indicated something that is related to the increasing interest in ethical investing. They found a large increase in "apocalyptic anxiety" compared to survey results of previous years. Namely, 47% of their respondents, mainly the younger generations, believe the world is heading for disaster within the next 10 to 20 years. They (perhaps I should say: We) are unclear as to whether the disaster will be ecological, technological, financial, social, natural or even religious, ... but there definitely is a growing feeling of unease. As the researchers found, fear of the infamous Y2K computer glitch is just one minor component of this issue. In general, individuals feel increasingly more fragile, and they are longing for more control of their life. Indebtedness, growing social disparity, international and global problems, weakening social safety net, "an increasingly Darwinistic world" create the sense that one wrong move or misfortune could cause one's life to fall apart. Some may deduct "nothing really matters" kind of fatalist dispositions from this concerning their life. For others, it is a wake up call to get involved in various causes, to think over and plan their life with various scenarios in mind, ... ethical investing is just one of the many options.

8, Can we infer some insights regarding the above major concerns from the following dialogue?

Patient: "Tell me Doctor, is that true that I will stop wetting my bed if I take these pills?"

Doctor: "Well, you will not, ... but you will not bother about it any more."

