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# INVESTMENT PERSPECTIVE 4Q 2019

## TOIL AND TROUBLE

*Be bloody, bold, and resolute; laugh to scorn  
The power of man, for none of woman born  
Shall harm Macbeth.*

So goes the witches' prophecy to MacBeth at the outset of the tragedy. Trusting their promise of invincibility, MacBeth embarks on a bloody rampage that ends in his destruction. Of the many layered interpretations of Shakespeare, I always opt for the simplest. For me, the lesson of *MacBeth* is, always wash your hands and don't take advice from witches. Under the annual deluge of Wall Street prognostications, it's good advice to bear in mind.

To compare the perennial ritual of forecasts to sorcery does an injustice to witchcraft. In fact, Wall Street forecasts are now so universally maligned, they're generally accorded the same respect as the Farmer's Almanac. It's a parlor game that both sides are in on. 'My bosses require me to write this, but you and I know it's idle fun, so just play along.'

It's become virtue signaling to claim that one does not make forecasts. But that's also disingenuous. Anyone holding financial assets is necessarily forecasting. Whatever you

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own – large cap U.S. stocks, Treasury bonds, ESG stocks - embeds some tacit view of future states of the world. What those people are really saying is, my forecasts are no different from what is currently discounted.

On our recent year-end webcast, we looked at how exceptional the decade just past has been. Large growth stocks – especially in the technology sector – have trounced other strategies. The U.S. stock market – heavily exposed to the aforesaid names – has put paid to its peers. So much so, that its supremacy over other assets seems, well, invincible. However, a review of the last several decades of global market performances shows that the winners tend to rotate, reflecting the changing starting valuations and willingness of markets to pay up for different characteristics over time. Ex ante, those variations were exceptionally hard to call.

Take the humbling case of Japan. In 1989, Japan represented 60% of the EAFE index. Its global champions – Sony, Panasonic, Sharp – seemed destined to dominate important growth segments. U.S. business scholars fawned over Japanese management practices and corporate governance. If you're under 50, you will just have to take my word for it. It was a hero cult that trumps anything like that accorded Bezos, Musk et al.

To be fair to *MacBeth's* witches, their forecasts were literally true. It turns out that MacBeth's nemesis, MacDuff, was delivered by cesarean section – therefore not 'of woman born.' Easy to see with hindsight, much harder to grasp from the fog of the cauldron scene.

Our path forward humbly acknowledges the inherent uncertainty by diversifying across multiple return drivers – from passive indices to risk factors to skilled active managers. Our goal is to construct portfolios that are resilient to the vagaries of markets and postured to pivot into new opportunities as they emerge.

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