

# THE LONG RUN

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*I love the circus.*  
--*Factfulness* by Hans Rosling

As opening lines go, “I love the circus,” may not be as compelling as, “All children, except one, grow up,” yet it is appropriate for these times. Three-ring political summits, high wire trade tensions, and caged immigration policies have brought a sense of mayhem to what are generally staid negotiations. While stock prices advanced marginally under the “Big Top” of the past three months, the real excitement has been with illusions of how we interpret the world around us.

First, there was a resurgence of debate over whether you saw the “[blue or gold dress](#),” then a dispute over whether you heard “[yanny](#)” or “[laurel](#),” finally, some mind-bending that caused you to hear both “[green needle](#)” and “[brainstorm](#),” depending on which your brain wanted you to hear. While the sleight-of-hand of these games might give us some perspective on the division in our country, and how half of us see and hear the same events so differently, they also emphasize how difficult it is to understand our world and make sound, long-term investment decisions.

One effective, increasingly popular technique to make sense of the circus is through practicing *mindfulness*. By focusing on the present, and carefully observing your thoughts and feelings, it is believed that you can make better quality decisions. While appreciating the benefits of mindfulness, we find that its effectiveness can be greatly enhanced by combining it with a practice of *factfulness*. We view this as the desire to bring wonder and curiosity to learning about the truth of the world, especially when our worldview may be misinformed.

*Factfulness* is also the name of a new book by Hans Rosling that Bill Gates has found so compelling he is giving away copies to all college graduates this year. Rosling, who passed away last year, was dedicated to helping us make sense of the circus with a fact-based worldview and started the Gapminder Foundation to share this journey.

What Rosling’s research revealed was that everyone seems to get the world “devastatingly wrong” for a variety of reasons. He posed 12 questions to people around the world. Below are two for you to ponder:

1) In the last 20 years, the proportion of the world population living in extreme poverty has...

- a) almost doubled
- b) remained more or less the same
- c) almost halved

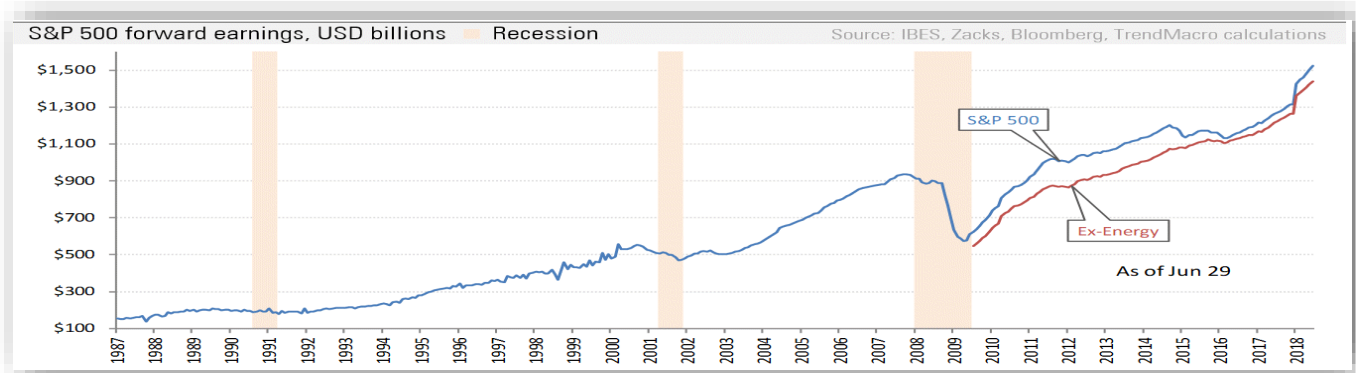
2) There are 2 billion children in the world today, aged 0 to 15. According to the United Nations, how many will there be in the year 2100?

- a) 4 billion
- b) 3 billion
- c) 2 billion

Worldwide, Rosling found that regardless of education or income level, respondents could only answer two of his 12 questions correctly. Only five percent of those in the U.S., for example, could correctly answer the first question we shared here. For those still wondering, the correct answer to both questions is “c.”

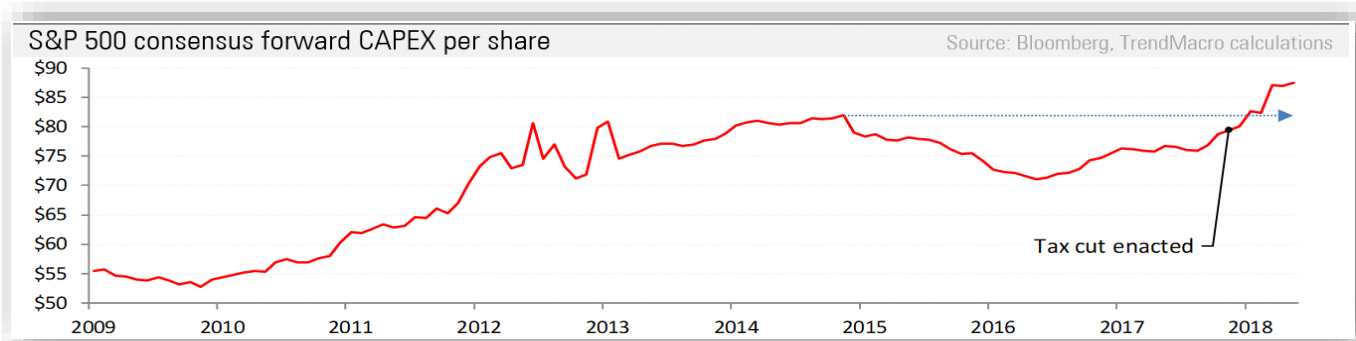
A primary reason we often answer these questions more incorrectly than even random guessing would suggest is that our brains tend to have a “negative instinct” and, “think the world is more frightening, more violent, and more hopeless than it really is.” This, of course, is occasionally overruled in the investment world with periodic tulip bulb and Bitcoin bubbles, although investors have largely remained negative during the stock market’s steady climb over the past 10 years.

So what does a *mindfulness* and *factfulness* approach to investing make of the circus now? We know for a fact that the global economy is doing well. It appears that worldwide economic growth picked up a bit in the second quarter and that it rebounded across all four of the major advanced economies. Combine this growth with the potential impact of tax cuts and it is not surprising that corporate profits hit new highs. Additionally, the U.S. service and manufacturing sectors had their best first six months of a given year since 2004.



While higher interest rates and energy prices may impede growth moving forward, we are mindful of major unfolding events that could also influence economic conditions. Trade negotiations, events in North Korea, and Italy’s possible departure from the European Union all make for higher levels of uncertainty. While positive outcomes could lead to robust growth, the chances that policy missteps could threaten that growth are very real. Chinese stock prices, for example, have declined nearly 20 percent from their previous highs over fears of a looming trade war.

As a result, we remain slightly cautious on stocks at current valuations, although this could change if we see that tax cuts lead to an increase in capital spending (CAPEX). After an initial surge, we have seen CAPEX per share flatten, as the following chart indicates.



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