MAI VIEW

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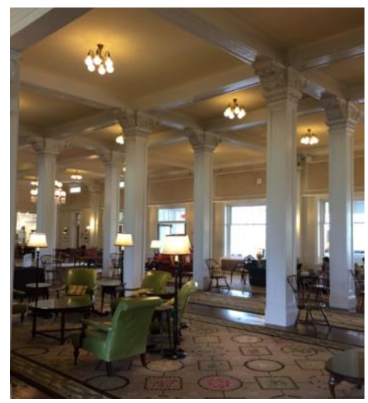
Sign of the Times

Last week we visited the Mount Washington Hotel in Bretton Woods, New Hampshire, where in 1944 the US hosted allied nations to arrange the post-WWII global economic order. The goal was to work out a plan that improved upon the terribly flawed, reparation-filled one that followed *The Great War*. Currency mismanagement, hyperinflation, seething resentment, social unrest and, ultimately, World War II would follow. This time, "Bretton Woods", as it came to be known, would hatch the World Bank, the International Monetary Fund, and of course, the US dollar-dominated global monetary system in which $35 would be convertible into an ounce of gold.

An objective analysis of Bretton Woods suggests there was not much discussion. Europe and Asia were about to be liberated from tyrannical threats thanks to American military intervention, and the US used the confab to inform allies how it was going to be, global trade and all. The gathering was originally intended to be a secret, however, war-torn delegates invited family and friends to the bucolic wilds of New England. So many came that guests were forced to sleep in hallways and on the grounds. We presume Lord Keynes found a bed.



A bit of chaos raised its head again last week at the Mount Washington when Bain & Company held a retreat for up-and-coming corporate management consultants. The eager aspirants no doubt basked in the irony of the getaway's theme, "Bainstock", dutifully dressing as Woodstock hippies parading in protest (make love, not war!) on their way to sipping G&Ts on the terrace. Subsequent bonding sessions on the veranda seemed to suggest the cocktails and bell bottoms successfully raised confidence and reduced inhibitions. ("Our pod's analytics, logic and relationship development is off the f _ _ king charts!")

We were happy for Bain and its well-bonded pods learning to better work together to optimize client revenues, earnings and enterprise values, even if it meant littering the elegant space with convention swag and decidedly un-corporate vulgarisms. In fact, here was something very fitting about it.

The hotel has always had a curious relationship with commerce. It was built in 1902 for $1.7 million and charged $20 a night for one of its 200 rooms at a time when most American hotel rooms were charging $5 a night. There was never any way the Mount Washington would turn a profit for its original developer.

We suspect the Bain folk are very aware of such economics, then and now. After managing it for private owners, Omni Resorts bought the hotel in 2015 and appears to be in the process of squeezing out every last cent. This includes ridding it of inefficiencies and early twentieth-century decorum while keeping token reminders of its past glory – the "monetary room" where America told the world how it was going to lead financial affairs; a 1903 telephone for guests willing to pay half a night's room rate for a three minute call; a chandelier with the dubious distinction of having its only twin hang in the Titanic at the bottom of the sea; "the cave" bar that hid a speakeasy during Prohibition; portraits of the hotel's original Grand Dame and resident ghost, Carolyn Stickney. Such gestures cannot recapture the hotel's romance; romance that can only be truly achieved by being luxurious to the point of unprofitability. Today, such superficial reminders tend to evoke remorse for the elegance it no longer provides guests.

We do not have a personal history with the Mount Washington and so we lack sentimentality towards it. In fact, we think the world may be a wee bit closer to balance if the hotel turns into a self-sustaining destination where guests enjoy beautiful views and modern conveniences at market prices. From a valuation perspective, the gracious layout never deserved respect. It existed thanks to the first-mover disadvantage of a love-struck coal broker determined to impress an overbearing wife. The 800 pound gorilla in the ballroom is that a hotel that always labored to be viable provided the setting for a centrally-managed global monetary system. Far out, man!

The history of the Mount Washington hotel provides a very fitting symbol of the trouble with the dynamics of contemporary macroeconomics. A developer that pays too much per room is destined to fail. A restaurant forced to pay too much for rent must pass-through high costs in a plate of spaghetti Bolognese. *The issue is the impact of balance sheets values on output and income statements. When is the Bolognese priced too high for the average diner in the neighborhood? At what point does the pace of growth in assets and liabilities diverge too far from the pace of wage growth? When will this yawning gap force an adjustment to one or the other, either in terms of lower asset and liability prices or higher wages and unemployment? Capital formation and economic sustainability are linked to profitability. Well-bought is half sold and well-shorted is half covered. There is nothing far out or romantic about it.*

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