

Populism in our Time

“Be even more suspicious...of all those who employ the term *we* or *us* without your permission. This is another form of surreptitious conscription, designed to suggest that *we* are all agreed on *our* interests and identity.”

- Christopher Hitchens

Merriam-Webster defines *populist* as “*a believer in the rights, wisdom and virtues of the common people*”, and when the word is capitalized: “*a member of a U.S. political party formed in 1891 primarily to represent agrarian interests and to advocate the free coinage of silver and government control of monopolies*”.¹ The first definition seems to be the very point of representative government; the latter what happens when representative government is no longer representative.

The use of the word “populist” among professional politicians implies an off-the-run candidate or leader with ill-intent - an irreverent voice deigning to challenge established institutions by speaking directly to the deplorable rabble, bypassing the narrative perpetuated by vast political and media infrastructures. Those inclined towards transitive logic might infer that governments and the Fourth Estate propose, but are not structured and do not work, to serve the rights, wisdom and virtues of commoners.

We won't get idealistic about democracy or the gaping separation between political rhetoric and execution. In non-revolutionary times (about 99.9% on a timeline) governments serve the privileged. It is what they do. Political leaders throw bones to commoners, providing bread, circuses and welfare - distractions eminently better than brioches chucked at them by Marie Antoinette, but decidedly worse than most people's conception that their government abides by the principle of equal access for all.

Liberal democracies are like major medical insurance policies. They will, in the end, protect freedom and most liberties, but they do not provide preventative health care. (Indeed, as their promotion of systemic debt shows, they are not above distributing the fiscal equivalent of cigarettes to their citizens.)

We would argue that the manner in which resources are distributed (i.e., where an economy falls on a spectrum ranging from heavy government subsidies to entirely free commercial markets), is the most critical determinant of economic sustainability and social tranquility; an influence even greater than religious and cultural identities. Fitting government into popular needs and expectations is an ongoing balancing act, requiring authorities to continually synchronize public needs, capabilities and expectations.

¹ Merriam-Webster; <https://www.merriam-webster.com/dictionary/populist>.

Brexit, Trump (Le Pen, Frexit?), etc. are manifest samples of popular will seeking more equitable resource distribution. What is the difference between Les Misérables in 1832 and Ms. Clinton' *Deplorables* today? About 4,000 miles and a hundred or so years.

The best "the people" (and investors) can hope for from governments today is that regime changes will be swift, orderly, and will keep the principles that sustain patriotism intact, even if those principles do not comport with reality. Reality ultimately resides in popular will, not in the narrative wealth-funded institutions foster. Diverse societies with a plurality of political ideals, social mores and economic goals are great. We should all watch out when they coalesce around a general sense of helplessness.

Fake News

Fake news is the deliberate spread of misinformation through traditional news or social media with the intent to mislead for financial or political gain. We are shocked (shocked!) it has become *a thing* today:

- In the first century, Octavia launched a campaign of misinformation against Mark Anthony.
- Benjamin Franklin wrote fake news about murderous "scalping" Indians working with King George III in an effort to influence public opinion towards revolt.
- In 1835, the New York Sun reported that astronomers confirmed bizarre life on the moon. The Sun's subscription based increased despite admitting soon after that it was all a hoax.
- The Nazi Party rose to power in Germany in 1933 and established the Reich Ministry of Public Enlightenment and Propaganda under Joseph Goebbels. All published fact and fiction were dubious, to say the least.
- Also in 1933, *The New York Times* published false reports written by its Moscow bureau chief (who won a Pulitzer Prize them), denying Russia was purposely starving millions of its citizens.
- For some unknown reason (facetious), modern examples of fake news episodes promoted by established media are difficult to come by...in established media.
- Social media is where all the fake news is today (facetious again).

The old saw about not believing everything you read in the papers never threatened established media until there was an alternative news source. While old media's journalistic standards for sourcing and editing are no doubt generally superior to new media's, the advent of internet-based news is shining a harsh light on a fundamental problem that has always existed with the press, but no longer does: the tight, clubby control of the Fourth Estate over a narrow information channel.

The de-centralization component of the internet has thrown a grenade into that channel and the result has been information disintermediation, which we think is, on balance, a great thing. *The market for information is now free, even freer than the market for stocks and bonds.* The difference is regulation. The process through which the public can consume securities is highly scrutinized while the process through which the public can consume information is not (in the US, thanks to the first amendment).

There are two directions popular opinion can go today regarding fake news: 1) demand that public information be regulated, or 2) embrace the idea that all information may be false. We believe the public has already decided overwhelmingly that it wants access to all news – real or fake, no matter.

If global communications authorities really want to set standards for news distributors then they would have to prohibit news organizations from being for-profit companies with incentives to sensationalize. This would apply to the New York Times as well as everyone posting cats that look like Hitler on Face Book. Practically, there would be very little compliance and such so a scenario is a non-starter.

The difference between news and information, whether fact or fiction, is in the eye of the beholder, not the editorial judgment of the publisher. This is where it belongs. Consumers of information beware. If we are to be honest, fake news is information meant to manipulate us and it will be with us always, as it always has been.

Regulatory Populism

Securities regulators should follow the non-action of public communication regulators - drop all standards related to the distribution of market information so that market participants become aware that they do not (indeed, cannot) have equal information and that information is not distributed simultaneously to all.

As for timing, an investor who witnesses first-hand a terrorist event or natural disaster is at an advantage, should she choose to act on it. More common, unscheduled information typically arrives on our screens two to ten minutes before financial television stations broadcast it. As for information itself, investors that do not make the effort to know all public information, or do not hire people that make the effort, will always be at a disadvantage. This is as it should be if we want to investing to be fair and merit-based.

Regulators cannot enforce how people communicate amongst themselves, but they can try to enforce how those with non-public information act on it. Identifying an illegality can be challenging. What if an investor who was about to take a position comes to understand something will soon happen that would make him suffer losses were he to do so? How can regulators get in the minds of investors?

Our sense is that regulatory oversight mostly exists to provide a means of weeding out the most heinous abuses of the public trust. The public trust is an interesting concept on its own. Question: Why are investors supposed to always trust the markets? Answer: So they stay invested. Question: Why are investors always supposed to stay invested? Formal Answer: We have no idea. (Informal Answer: To benefit rentiers with money and those closest to the credit channel, and to attract global wealth.)

Thus, market regulation is more a tool to sustain *the perception* of fair markets so the public stays invested than a means of actually ensuring fair markets. *In a normally functioning economy, which at this point has been fictionalized, the factors of production would actively decide whether to save or invest.*

Financial Populism

Our series of reports last month on passive vs. active investing highlighted a trend towards financial populism that has taken hold recently in the form of exchange traded products. (Vanguard, for example, took in \$2 billion *each day* to their ETFs in the first quarter – monster inflows at the expense of active managers with educations, experience, and sometimes dissenting market views and opinions.)

The greater trend towards financial populism has been in place for a long time. The establishment of defined benefit pensions and mutual funds created consensus opinion, which brought together how economic and market information is framed and consumed. Certain information – popular economic data series, asset valuation metrics and political narratives – would reliably migrate in and out of vogue like herds of sheep, but with the speed and dexterity of cattle.

The herding behavior of helpless animals is analogous to the survival instincts of contemporary investors who think they have learned that they cannot get richer than their neighbors by speculating in alpha-seeking strategies. They are enthusiastically embracing beta strategies that promise market returns - nothing more, nothing less.

The demographically-driven, credit-driven popularity of financial asset markets over the last generation, combined with loss protection provided by exogenous market forces (i.e., central bank “puts”), have given financial asset markets the patina of risk-free sanctuaries. They are anything but. *The truly unintended consequence passive investors will discover (soon, we think) – is that beta investing is not saving. Investing in financial asset markets remains speculative...now more than ever.*

In our view, equity and real estate markets will soon destroy vast amounts of perceived wealth, either in nominal (price) terms or in real (inflation-adjusted) terms, most likely the latter. The destructive cause will not be a sudden change in popular sentiment, because even that would not change how and where perceived wealth is warehoused. The cause will be the necessary dilution of currencies in which financial assets are denominated. (We would be happy to provide more on this.)

We agree with elites that see populism as dangerous, but for an entirely different reason. The status quo *is* the fundamental problem, not an institutional framework to which we can revert for protection. The very way contemporary societies think of resources and wealth is at issue. The way we will be richer than our neighbors will be by satisfying our liabilities with our assets in real terms; not a very popular notion.

As for our particular relationship with populism, we agree with Cyril Connolly of the New Statesman: “Better to write for yourself and have no public, than to write for the public and have no self.”

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