



Holland Macro Views: Credit Cycles & Secular Growth

Reading and thinking

Outside of looking at individual companies that we consider mispriced we also like to engage in the above two activities. With this in mind we share below our brief thoughts on a number of books and webcasts that we have found inspiring and thought provoking. We do so under three headings:

- Market and Debt cycles
- ‘Enlightenment’ and Secular Growth
- Other (e-commerce/Cyclical investing and John Cleese)

Whilst some of the reading here is maybe best set aside for when you have the time/wish to think of something other than Brexit (or Christmas!) the work on Debt and Credit cycles is relevant right now we believe. Credit spreads are jumping by the day in US markets and maybe the UK (via a left-wing Government) is set on starting the downturn of a long-term Debt cycle? (Arguably 2008 was only a short-term Debt cycle for the UK).

Market and Debt cycles

In much of our macro work we have often talked about the distinct cycles that we think affect investors should be mindful of, particularly the market/credit cycle (i.e. the one that is born of greed and fear). Also having made a close real time study of the last debt cycle lead to us being more than a little interested in two recent new publications:

- ‘Principals for Navigating Big Debt Crises’ by Ray Dalio
- ‘Mastering the Market Cycle’ by Howard Marks

Simply put these are two fantastic studies of the subject areas and we cannot recommend them enough to readers. Howard Marks’ book is a must read for all investors and businesswomen as he lays out a framework for interacting with markets and the inevitable cycles they go through. Why are they inevitable? – Because of human involvement. The books lays out a framework for investors to approach investor psychology, credit cycles and real risk (i.e. that which pertains to a real chance of losing money not a Greek letter). We could easily write 5 pages on this book but will refrain. This is £25 you will be pleased to have spent!

Dalio’s study is even better value. The whole 565-page study you can download for free on his website: <https://www.principles.com/big-debt-crises/> (we recommend the 60 page Executive Summary).

It is a great study not just of the recent Debt Cycle the world experienced starting in 2008 but 47 other cycles that were similar to it. Whilst a little more detailed than Howard Marks’ book it is a wonderful piece of work.

There are many fine conclusions. Here are just a few:

1. There is a big difference between deflationary credit cycles and inflationary ones with the study providing a good way to identify which you might be looking at.
2. Money printing is not inflationary (if being used in a deflationary cycle). We note that many, many people were telling us otherwise. Wrongly, it seems.
3. Austerity does not work in helping fight a debt crisis. This is interesting and I think would be news to the likes of George Osborne + many inside the EU currently fighting the fiscal expansion efforts in places like Italy.

Pleasingly (for us at least) Dalio makes the analogy with the game of Monopoly, suggesting that if you understand the board game you can understand how the credit cycle works for the whole economy. I.e. at the beginning of the game it is better to have property, but later in the game you need cash. Why pleasing for us? Well your author made the Monopoly analogy himself (post a game with his children) in a pre-credit crunch research piece in 2006. In it he compared the games money supply acceleration and how it drove property prices higher with the real world property experiences we had at the time. He noted then when and where the game was invented (the US in 1935) i.e. when they had just lived through a huge money supply boom and bust.

Enlightenment, Factfulness and Secular growth

I decided to read **Enlightenment Now** (Steven Pinker) – due to Bill Gates recommendation. He describes this book as “*the greatest book I have ever read*”. Now Bill is no slouch; In addition to his own modest achievements he spends time with a few smart fellows who know a good book when they see one. So an endorsement like that was enough for me to dive in.

Thirty pages in we were wondering what all the fuss was about as a long and slightly self-indulgent intro rather washed over us. Then the analysis started pouring out of it.

To profile the book, we will just say that it is a great antidote to what I might call ‘project fear’/ #societyhasfailed sort of commentary. We are surrounded by negativity from malnutrition in Africa to insufficient NHS funding and the rich getting richer and poor poorer. These are the news stories that we are confronted with daily. The book instead gives the remarkable front page stories that would be carried if newspapers were only written every 30 years rather than every day. Here are a few examples:

- A 20 year old today has a better chance of having a living grandmother than a 20 year old in 1900 had of having a living mother.
- A woman in the USA today has as good a chance of surviving breast cancer as she did childbirth in 1920.
- In just ten years between 2003 and 2013 life expectancy in Kenya jumped 10 years.

Our enthusiasm for this book is not for any political message it may bring nor to suggest that as societies we should not be striving for continued improvements in the challenges that face us. It is for us to see perspective in what today we seemingly find important (Brexit, Trade spats, Trump economics and global warming). Rather than be depressed by some of these uncertainties, we need to see them in the context of the immense achievements that have been made by global societies against similar headwinds before now.

[But this is irrelevant for an investor – Right? – Wrong \(very wrong\)](#)

Having spent time (maybe too much) in bigger stock-broking firms we have seen the simply enormous activity that chases a story, trend or company of the moment. Almost all of it futile. This short-termism comes with a side helping of what financial services does best, a questioning cynicism that always looks for the pitfalls. So, when some years ago we came across Buffett what struck us was his optimism. We have heard more than a few say ‘he is just talking his book as owns lots of America’ and whilst this is not factually untrue it is hard to make a successful lifelong business that way. Buffett has always been genuinely bullish on the American capitalism and entrepreneurship often noting how much better off each generation is than the last. With a ‘forever’ holding period he has spent a lifetime looking for secular growth – seeing such trends as a ‘snowball’ growing as it rolls. What we think a book like ‘Enlightenment Now’ will do for the reader is make them realise that human achievement can continue to create more and more secular growth than might be otherwise expected. It also will help all of us think about our preconceptions more realising that many of them are false. Lastly, at its outset the book outlines that entropy is the natural state of all things. Against this state society’s achievements are even more impressive. As we are looking investors we should also perhaps remind ourselves that entropy (general decline) is the natural state of companies unless they are constantly improved by innovation and entrepreneurship.

When we have mentioned ‘Enlightenment Now’ to a few people they have recommended ‘Factfulness’, by Hans Rosling. This is not a book we have read yet, but one that looks to make similar points. We watched a number of presentations by the author recently and enjoyed them a great deal. Some of you may have seen the Washing Machine Ted Talk, But we recommend the second one too that gives a summary of the Factfulness book. Do make sure that you get to the end (... Globalisation started in the bedroom!).

<https://www.bing.com/videos/search?q=hans+rosling+ted+talks+washing+machine+&&view=detail&mid=4BD016846881AC3D7E394BD016846881AC3D7E39&rvsmid=48A561B9BA5E7E77B2F548A561B9BA5E7E77B2F5&FORM=VDRVRV>

<https://www.youtube.com/watch?v=hw0qTj2tfqM>

The bubble charts that he uses (from Gap Minder) are a fantastic visual way to understand the facts that both these books highlight. Click on link below and then scroll the years left and right. If you are not wowed by what you see, maybe you are in the wrong job:

[https://www.gapminder.org/tools/#\\$state\\$time\\$value=1913;.&chart-type=bubbles](https://www.gapminder.org/tools/#$state$time$value=1913;.&chart-type=bubbles)

Other (hardly an inspiring category)

A few other publications/talks have interested us recently.

[E-commerce](#)

Below is a presentation by a respected US venture capitalist (who talks even faster than your author does!) on the prospects for the e-commerce world:

<https://www.ben-evans.com/benedictevans/2018/11/16/the-end-of-the-beginning>

Counter-cyclical investing

As we try to think counter-cyclically we have looked at shipping a little this year – only to find ourselves reminded of just how damn hard cyclical investing is – even when you think you are right at the bottom! For a light-hearted reflection on why shipping is not an easy place to make money we recommend the ‘The Shipping Man’ by Matthew McCleery.

<https://www.amazon.co.uk/Shipping-Man-Matthew-McCleery/dp/0983716307>

Where to go for growth

South Africa and India interest us currently, predominately for the fact that their economic potential is possibly underestimated. We think it interesting that both countries now have very economically friendly leaders in Ramaphosa and Modi, and with both stock markets down now is a good time to study them.

Whilst we have read a lots on Narendra Modi (Indian PM) no one piece stands out. On South Africa however we were recommended this book by an investor that knows the market well.

<https://www.amazon.co.uk/RAMAPHOSA-Man-Who-Would-King/dp/1868428346>

Wider wisdom

Normally such a title would be an introduction to a Charlie Munger piece. Well not this time! Below is the link to a great summary of John Cleese’s best ideas. It is a bit of a treasure trove and has more than a few witticisms that we think Munger himself would be proud of.

<https://25iq.com/2018/04/28/business-and-life-lessons-from-john-cleese/>

As the UK government implodes upon itself and we reflect on whether the real probability of a proper left-wing Government is a little higher than people think Cleese’s words seem apt:

“You never know what’s going to catch on. Nothing is harder to predict than the outcome of word of mouth” John Cleese

With best wishes

Andrew

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PS: With thanks to the person who recommended the Hans Rosling links to us.

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