

HISTORY: A PATH TO BETTER INVESTMENT RESULTS

For those who became involved with the capital markets in the 1980s and 1990s the world was a relatively benign place. Before to the fall of the Berlin Wall in November 1989, the simple geopolitical polarity produced by the Cold War simplified the international landscape. The collapse of the Soviet Union heralded an era of ascendant economic power by the West in the 1990s which is unlikely to be seen again. Meanwhile, the US and most other capital markets were enjoying the benefits of steadily declining interest rates from their peak in 1981. The combination of relatively benign geopolitical and interest rate environments provided a tailwind for fixed income investors. Meanwhile, equity investors had the luxury of concentrating on stock selection without the need to be much concerned by macro issues. The world is now considerably more complex with global debt levels at unprecedented levels, central banks incorporating negative interest rates, fractures within the European Union and China and Russia seeking greater influence. The world is a remarkably different place than it was just 20 years ago, yet the investment practices of many have failed to respond to the changes. It is my view that an important ingredient needs to be added to the investment process to better respond to current circumstances.

I believe the most useful tool that many investors fail to use is the study of history. I do not mean just the study of the history of capital markets, but the broader history of mankind. The study of history is essentially the study of the human condition, with all its glory and sordidness. It will provide an insight into human character to rival a degree in psychology. It is axiomatic that psychology drives markets, as well as human motivations and actions. For example, the hyperinflation of the 1920s in Germany, and its terrible consequences, continue to influence German attitudes toward inflation to this day. This, in turn, shapes German responses to issues within the European Union.

Investors are becoming more sensitive to the importance of considering geopolitical developments and its effects on the global economy. However, a sound interpretation of geopolitical events is impossible without knowledge of history. The relations between most nations are influenced by centuries of history, and an awareness of that history can be invaluable in understanding motivations and anticipating future geopolitical developments. The current problems within the European Union do not come as a surprise to those who are aware of European history and the disparate cultures and economies involved. I wrote last year that the Euro might not last a decade. The recent Brexit vote may well have accelerated that timetable.

A reading of 19th and 20th century world history would furnish valuable context for the world of the 21st century. An understanding of earlier history would provide even more context. Edward Gibbon's *The History of the Decline and Fall of the Roman Empire* confirms that there is "nothing new under the sun." Gibbon's accounts of political intrigue and economic mismanagement are echoed in today's news. Human psychology hasn't changed much in thousands of years. People tend to respond in a similar manner to a given set of circumstances.

The macro environment suggests that the balance of the decade will be economically and politically tumultuous. I believe an interpretation of current events through the lens of historical perspective will help identify threats and opportunities to investors.

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