



Lesson Learned?

by Craig D. Hafer, President

SPRING / 2020

As he reflected upon the events leading up to World War II, Winston Churchill wrote, “Not one of the lessons of the past has been learned, not one of them has been applied, and the situation is incomparably more dangerous.” In hindsight, these words are a painful reminder of how quickly mankind is willing to overlook history despite how valuable these lessons can be, maybe not in preventing future calamities, but in being sufficiently prepared to address them.

When Churchill wrote that, he was reflecting on a time of peace for England. They had just fought the “war to end all wars” and favored a leader (Chamberlain) who appealed to the idea of “peace of our time” and not the sacrifice that Churchill was calling for to address a risk (Hitler) that seemed remote at the time. While that situation was vastly different from today’s coronavirus epidemic, there is a common theme.

This “theme” is best captured by an expression often attributed to Mark Twain, that history doesn’t repeat itself, but it often rhymes. If there is a “rhyme” to human history, it is mankind’s endless ability to discover new and wonderful things, only to later realize the hidden dangers they present. Whether it is the invention of fire leading to humans being burned, or Alfred Nobel’s invention of dynamite, which he intended to be used for mining and not war, or how modern transportation has allowed the world to spread illnesses across continents in weeks, if not days, human progress is always accompanied by unforeseen risks.

In previous newsletters, we have written about these unforeseen risks or “black swans,” as they are called. The idea of black swans goes back to the 2nd century, when the Roman poet Juvenal wrote “rara avis in terris nigroque simillima cygno” (“a rare bird in the lands and very much like a black swan”). In 2007, Nassim Taleb took the idea of black swans and applied it to investing. Taleb stated that events which are statistical outliers and deemed improbable should not be assumed to have no risk at all.

– continued



1940 *Punch* magazine cartoon showing Winston Churchill on the deck of a ship shortly after becoming Prime Minister.



As Taleb cautioned readers of his book, while black swans are rare, the amount of damage they may cause can be significant. For investors, this is a powerful lesson. While we cannot prevent black swan events from happening, how we react to them makes all the difference. Some may see them as a potential risk, however small, and prepare for them, while hoping that they won't occur. Others may think the risk is either too remote to be concerned about, or worse, may take on a feeling of invincibility.

For the Greeks, this sense of invincibility was known as "hybris," from which we get the word "hubris." In Greek mythology, the goddess Hybris was known for her reckless pride and ability to delude both poor and rich men into believing that they were invincible. Both Aesop in his fables and Herodotus in *Histories* warns readers to avoid Hybris, even fear her, and instead favor humility. Whether due to the actions of a goddess, or simply human nature, hubris often precedes black swan events. While we cannot prevent the improbable from occurring, we can take precautions to lessen the damage if it does. Only our hubris stands in the way.

Over the past thirty years, I have had the good fortune to meet and know many great investors and economists, and the thing that I admired most was their humility. Jack Bogle, founder of Vanguard, never talked about how rich he was, or that he was probably one of the most important people in the world of finance. He didn't need to. Likewise, I was taken by surprise when Nobel prize winner Dr. Alvin Roth told me (on the air) how stupid he was for ignoring his parents' advice and dropping out of school. I once jokingly asked him if he kept his Nobel prize on the family mantel. He said, in fact, he keeps it in a closet!

Humility is a cornerstone of investment analysis. Benjamin Graham (Warren Buffet's mentor and teacher) hit upon this very idea in his famous book, *The Intelligent Investor*. For Graham, the most important consideration for any investment is the char-

acter of the company's management. Are they honest and trustworthy? The second most important element is making sure the company is financially sound and could weather most storms. As we employ these prerequisites for our stock selection, I have seen first-hand why character and humility matter.

Several years ago, I spoke to Jack Bogle about Graham's criteria and why humility matters. Mr. Bogle shared with me a personal lesson in humility he had learned. "When I was a young man," Bogle told me, "I made a huge mistake." In the 1960's, he was head of Wellington Management, a well-respected, conservative investment firm. But as stocks were roaring in the 1960's go-go era and Wellington's performance trailed behind, Bogle strayed from their conservative investment philosophy and merged the firm with an aggressive Boston investment company. Instead of sticking with Wellington's investment principles, he chased the latest fad. When the market tumbled in 1973, Wellington lost nearly everything. As Bogle told me, it was a lesson in humility.

Humility is a tough lesson to learn. We don't often think of black swans as an opportunity for growth, but for those who heed Churchill's advice and learn from them, there is much to be gained. After 9/11, the SEC realized the need for investment advisors to be able to work remotely, and we developed a plan in case such a need would arise in the future. Due to planning ahead, we at Walsky Investment Management are able to maintain our normal operations remotely, without any disruption to service. This is just one example of how we at Walsky, as many others, have learned from the past.

What lessons will the coronavirus pandemic teach us? I am sure there will be many. However, the question is not if lessons will be taught, but rather, will we learn from them? All we need to do is heed Churchill's warning, to learn from history and apply it. Most of all, be humble and never assume we are invincible, for when we do, Hybris teaches us otherwise. 🙏