

Swamp Notes



“No Mud, No Lotus” - Thich Nhat Hanh

Herewith, a look into our notebook where we hold many dissonant thoughts. It’s messy and unpredictable, but our goal remains to wade through the mud to get to [The Other Shore](#).

You may be among the many clients who have asked for more regular updates regarding our investment thinking. Here, at last, is an answer to your call.

Why Now?

Previously, I have hesitated to share these thoughts, not for fear of appearing wrong or foolish (I can do that just fine without going to print), but because of the deluge of financial information that already exists for those who wish to seek it out.

False Narratives result in False Crises: The battle for your attention is more pitched than it has ever been. The world has progressively gone shrill. Consider how we have gone from “Global Warming” to “Climate Change”, and now to “Climate Crisis(!!)” - nothing like a fresh crisis to grab eyeballs.

But if everything is a crisis, nothing is. The vast majority of financial “journalism” also falls into the wastebasket that I like to call *Crisis Media™*. Clickbait news, meant to garner attention at all costs, generally follows a well-worn path: a story is newsworthy if only it can stoke fear or is lurid enough to attract attention.

Psychologists have authored study-after-study detailing the deleterious effects of what the British Psychological Society has called the “[catastrophizing of personal worries](#)”. The advent of the 24 hour news cycle and social media content meant to colonize our attention have led to more depression and stress in society. This is not something that we want to add to. Even if it means “more views” or “engagement”.

As a professional investor I'm already rather good at the "catastrophizing of personal worries" (maybe you are too!). As you probably know, the primary job of investment management is risk management. Therefore, I must use my imagination - I must consider all of the attendant risks, real and imagined, and assess their probabilities.

Fear and hype, however, are antithetical to a reasoned appraisal of such risks. So, rather than add to the flotsam of un-newsworthy news stories- meant to titillate or induce a cortisol response - and generally worsen the mood of my audience, I hope to add something positive to your mental discourse, not stoke more irrational fear. Go on strike! Eliminate clickbait news from your diet. I have (well, almost!).

I must confess that I sometimes consume *Crisis Media*[™] in order to understand the dominant narratives, shifts in narrative, and often as a **contra** - a consensus opinion to trade against (when trading is possible).

Here's one for you:

ARGUMENT *An expert's point of view on a current event.*

A BRICS Currency Could Shake the Dollar's Dominance

De-dollarization's moment might finally be here.

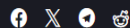
By [Joseph W. Sullivan](#), a senior advisor at the Lindsey Group and a former special advisor and staff economist at the White House Council of Economic Advisers during the Trump administration.



BRICS Influence in Oil Sector Grows, Puts US Dollar in Danger



Vinod Dsouza
September 20, 2023



De-dollarization: World faces threat of economic catastrophe

News > De-dollarization: World faces threat of economic catastrophe

Project Syndicate
economists
Economics

Will the dollar keep its global dominance?
The US needs to get its act together
Barry Eichengreen

Nov 11, 2023 09:03 EDT

The American position depends not only on relations with Russia, China and the BRIC countries, but on fixing its own economic and political problems

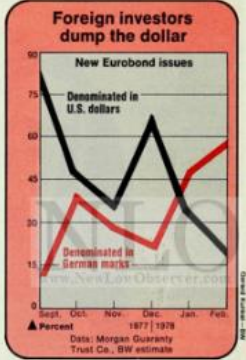


Have you been alarmed about the dollar's coming demise? If so, we advise you to relax! While we'd be the first to agree that the US dollar (USD) is quite imperfect, we must also admit that there is no legitimate challenger. There simply is not. And all of this talk about de-dollarization is just more *Crisis Media*[™].

The dollar fades as a reserve currency

The growing weakness of the U. S. dollar and the inability of the Carter Administration to check its continuous fall are beginning to erode the dollar's role as the world's major reserve currency. In the Eurobond market, investors who once wanted only dollar-denominated issues today insist on German mark securities. Not only are wealthy Arabs and Europeans scurrying to dump the dollar and move some of their cash into mark, Swiss franc, and Japanese yen assets, but foreign central banks, including that of Venezuela, are quietly doing the same. Just this past month, Saudi Arabia took \$1 billion, nearly all of its investable surplus funds for the period, and put them into German marks and Swiss francs. In the past the Saudis have kept 90% of their cash hoard in U. S. dollars.

Still more threatening, the crisis of confidence in the dollar is putting intense pressure to raise prices on the oil-producing nations that get paid in ever-cheaper dollars. If the dollar continues to plummet, the pressure may prove unstoppable either for an outright oil price increase or for pricing oil in a basket of currencies. A shift from the dollar would effectively mean a rise in oil prices.



Month	Denominated in U.S. dollars (%)	Denominated in German marks (%)
Sept	90	10
Oct	45	55
Nov	35	65
Dec	65	35
Jan	35	65
Feb	10	90

▲ Percent
Data: Morgan Guaranty Trust Co., BW estimate
www.NewLowObserver.com

"The Dollar Fades as a Reserve Currency." *BusinessWeek*, March 20, 1978, p. 150.
@NewLowObserver

As you can see from the attached 1978 article, claims of the USD's demise have been frequent and longstanding. Must be exhausting to fret for so long.

Of course, the USD has not been unseated. I don't mean to imply that this cannot happen, but what are the alternatives?

Who among the BRICs nations can trust each other? Would China accept Indian currency? Would Brazil (or anyone outside China) accept China's? Russia? Oh! Come on!

Because of this very real fact, many economists have proffered that the only way for a BRICs currency to work is for it to be backed by gold. As a gold investor, I would welcome this. But I

know it would be only temporary. I can *unequivocally guarantee* (maybe the only time!) that any currency arrangement that these countries enter into would be broken at the first sign of a financial crisis. Not just one, but *everyone* would break the peg. This doesn't require any advanced degrees to understand: history and human nature provide the template.

There is no crisis here. Keep calm and carry on.

Bias from Consistency and Commitment Tendency: Another- and more salient - reason for my hesitation to open up this notebook is that I hope to avoid what Charlie Munger has called "bias from consistency and commitment tendency". After a lifetime of consideration, Charlie Munger laid out what he has determined were the 25 major categories of Human Misjudgement in a [June 1995 speech](#) to the Harvard Law graduating class. He recounts the Bias from [Consistency and Commitment Tendency](#) as follows: ***"[Fourth,] and this is a superpower in error-causing psychological tendency: bias from consistency and commitment tendency, including the tendency to avoid or promptly resolve cognitive dissonance. Includes the self-confirmation tendency of all conclusions, particularly expressed conclusions, and with a special persistence for conclusions that are hard-won."***

He goes on to say, ***"[And] of course, if you make a public disclosure of your conclusion, you're pounding it into your own head. Many of these students that are screaming at us, you know, they aren't convincing us, but they're forming mental change for themselves, because what they're shouting out [is] what they're pounding in."***

Many of our investment ideas come to us after months or even years of research. Some of the conclusions at which we have arrived are, indeed, hard-won. None of us wants to believe that our efforts at research and understanding were wasted! So our tendency is to hold fast to those ideas we have invested the most in. And, of course, for many people, holding conflicting ideas in mind can be quite uncomfortable. A discomfort that begs for resolution.

What I find most compelling, of course, is the idea that ***"making a public disclosure of your conclusion"*** leads to more "wooden headedness" (to borrow from Barbara Tuchman). Because of our desire to appear "consistent", ideas publicly shared are harder to change or back away from.

Here at Equanimity Financial Partners we adhere to the doctrine of "Strong Convictions, Loosely Held". We also welcome cognitive dissonance as a harbinger of potential risks to our investment theses. However, it would be dishonest to say that publicly announcing a position is just as easy to retract as one held close. Hopefully our awareness provides an antidote. But be forewarned, our opinions and "strong convictions" can and will change- sometimes without notice.

Strong Convictions, Loosely Held

What are some of our "Strong Convictions, Loosely Held"?

I think there is going to be a recession, probably less severe than 2008-2009, but still no fun. I think we may already be in one.

I think, as a result, interest rates will fall - maybe a lot.

I think that gold will go up a lot

I think that “stocks” will go down quite a bit

I think that the USD will fall a little

I think that a fall in interest rates will allow the Fed to claim victory over inflation just in time for inflation to come roaring back again.

I think we are in an energy crisis due to our incoherent energy policies - which are not due to the Russian invasion of Ukraine, but were revealed and reinforced by this. This is ongoing.

Of course, there are other ideas in various stages of incubation. But this generalized list may shed light on why your client portfolios look like they do.

Thank you for reading! I hope you find this introductory **Swamp Note** helpful. Soon we'll be back with more information which we also hope you'll find useful. In the meantime, I welcome your thoughts and comments.

Best Wishes,

Chris

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