

The Anxiety Machine

The end of the world isn't nigh



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Last week the world became a better place. The surprise summit between North Korea's Supreme Leader Kim Jong-Un and South Korea's President Moon Jae-in looks like the first step toward ending North Korea's economic isolation.

The summit's symbolism, together with commentary from President Trump and other world leaders, suggests we have just witnessed an event as significant for North and South Korea as the fall of the Berlin Wall was for East and West Germany. If so, the future just became much brighter for millions of North Koreans, who may now be able to look forward to rapidly improving living standards. The world community may acquire a new trading partner and of course the risk of a nuclear war has fallen sharply.

This is all a far cry from the bellicose rhetoric just a few months ago, when North Korea was trumpeting the successes of its nuclear weapons program and President Trump was threatening North Korea's 'Rocket Man' with his own nuclear arsenal.

Looking back on those exchanges, it now seems likely we were just spectators in some pre-scripted game of international politics. Perhaps President Trump's rhetoric bounced the two Koreas into reconciliation, or perhaps it was quiet background diplomacy that did the trick. Whatever the backstory, President Trump has achieved a diplomatic breakthrough of historic importance and deserves considerable credit. We would pay good money to be a fly on the wall at the next meeting of the Nobel Peace Prize Committee.

Last year the Financial Times held a charity auction in aid of Alzheimer's Research. One of the sale items was a cartoon of an angry Donald Trump screaming at a globe with North Korea, marked out by its flag and a clutch of missiles, presumably nuclear missiles. We bought the cartoon for our offices here at Equitable thinking it would make an interesting talking point. As of Friday, we are happy to say the image now looks out of date. Hopefully we can find an equally good cartoon of the forthcoming summit between Donald Trump and Kim Jong-Un, to make a 'pre-crisis / post-crisis' pair. But we are not expecting the peace-summit cartoons to be anything like as entertaining. Conflict and crisis make

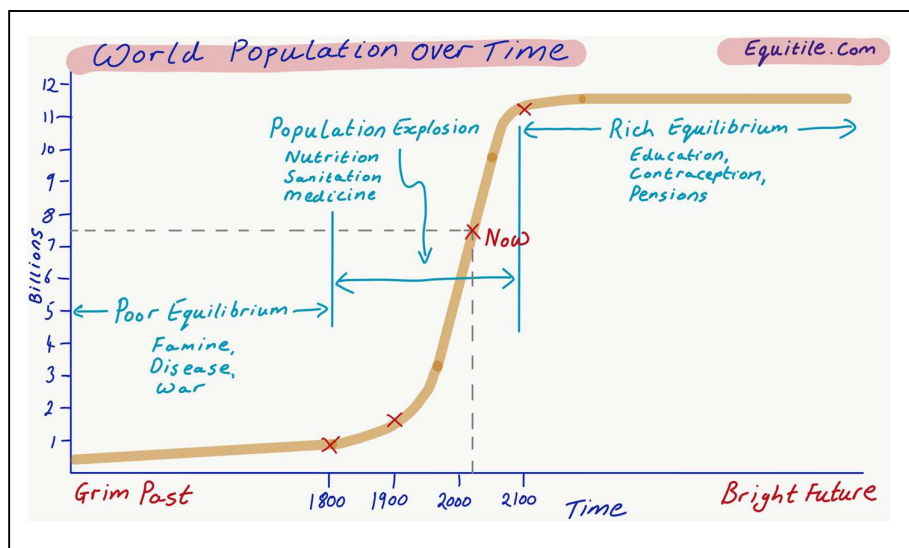
better imagery and more dramatic news than peace and reconciliation.

The tendency of the press to report news in an overly dramatic fashion, with a strong negative bias, is part of the message of the recently published book *Factfulness*, by the late Professor Hans Rosling.

Factfulness is really two stories woven into one book. The first story is a repeat of what first made Hans Rosling famous; simple statistics, presented in an engaging way, showing how and why life is getting better and the world is becoming a better place to live in. The second, story is new. It is a discussion of why we don't accept these positive statistics. Why, despite the evidence, we feel like things are always getting worse. The second story is, in effect, a description of yet another cognitive and behavioural bias.

Optimistic Data

Hans Rosling made a career out of trying to teach the world that we humans are in the process of fixing the Malthusian problem of over-breeding. That we were doing so voluntarily by choosing to have fewer children, and in doing so we are also probably



averting many of the social and environmental catastrophes we spend our time worrying about.

His argument rests on the well-supported observation that, as societies become richer, healthier and better educated they tend to have fewer children. On average, rich, educated couples tend to have about two children. That means the world does not face a demographic catastrophe. What's more, the data strongly

indicates the relationship between wealth and declining-fertility is universal across nationality, culture, religion and race.

Contraception and education have given people the ability to choose how many children to have. Better healthcare and nutrition mean most of those children now survive into adulthood. This allows people to rationally focus more resources onto fewer offspring. In addition, though Rosling does not discuss it, the emergence of reliable pension provision has also removed the imperative to breed our own pensions.

Due to this declining fertility, at some point in the future, the world's population will more or less stabilise. Current estimates put the stabilisation level at around 11.5 billion people, in about another 100 years or so. Of course, there is considerable uncertainty over the timing and level of this forecast. But, there is now little doubt that the current era of rapid population expansion will eventually come to a benign end. It is plausible that we may even move into an extended period of demographic contraction; Japan and some other rich European countries are already on that path.

For this reason, Rosling describes the current state of population expansion as a transition phase between two different population equilibria. The first low-population poor-equilibrium existed for most of human history and was characterised by high-fertility and high-mortality. Populations were held in balance by famine, disease and war.

Innovations in the industrial revolution – better nutrition, sanitation and medical care – brought longer average life spans and sharply reduced infant mortality. This in turn permitted the rapid population expansion we are currently living through.

However, that expansion phase is already beginning to ease as we transit into a new high-population rich-equilibrium, with low fertility rates.

A Demographic Aberration

We are living through a demographic aberration, an abnormal period of transition. This is good news both for humanity and for the other species on the planet. It suggests there is a good chance we will eventually learn to live in equilibrium with the rest of the planet's ecosystem.

The implications for economic growth and investment returns are also important. According to statistics prepared by the World Bank, population growth peaked at about 2% per annum

in the late 1960's. Since then it has already fallen to around 1 % today and is likely to fall toward zero in another century or so. This suggests we still have many years ahead of us where demographics will continue supporting economic growth.

In addition, the changing composition of the world's population is also important. The largest population groups and the most rapidly growing population groups are still playing catch-up with developed world living standards. As a result, the growth in the spending power of the world's population will almost certainly far outstrip the approximately 1% demographic growth rate. This wealth effect should provide a second support to economic growth, and investment returns, again for another century or so.



An interesting detail of this demographic transition is that almost all the projected future demographic expansion is due to today's children enjoying longer lives than their parents and grandparents. This means the world's population is going to age rapidly. The rate of growth of adults and pensioners will far outstrip overall population growth for many decades to come.

An aging population, in combination with rising wealth, is largely why we are so enthusiastic about the prospects for industries reliant on discretionary

spending and especially for the medical technology sector.

Pessimism Bias

Hans Rosling's optimistic facts are clear. But it is also clear from his writings, in the final years of his career, he became aware that his good-news story was not connecting, even with his own audience. Facts, it seems, are not enough.

The second story of Rosling's book is about why we humans suffer a powerful cognitive bias toward overly dramatic, overly negative narratives. We pay attention to unlikely stories of impending doom, while ignoring the reality of progress.

There are good evolutionary arguments in favour of this dramatic or pessimistic bias. We have evolved to survive. Over-reacting to a hundred false-alarms of enemy attack is the right thing to do if it saves us from being murdered in our sleep. It may be statistically sub-optimal but, from an evolutionary perspective, it is entirely rational.

The need to survive has left us pre-programmed to pay attention to dramatic negative scenarios. According to Rosling, it is our preference for those negative narratives which causes our media

industry to fill newspapers, websites and television channels with endless stories of crises. The world keeps getting better while the media keeps portraying it as slipping backward into chaos: *"We are subjected to never-ending cascades of negative news from across the world: wars, famines, natural disasters, political mistakes... Stories about gradual improvements rarely make the front page, even when they occur on a dramatic scale and impact millions of people."*

This reporting bias is already happening with the narrative around the North-South Korean summit. Stories of disingenuous intentions on the part of the North Koreans are being peddled, just days after the summit.

This is not the fault of the media industry, they are simply feeding our addiction for bad news. There's no point in offering good news. Good news does not help us avoid catastrophe, good news doesn't sell newspapers because we ignore it: *"The media can't waste time on stories that won't pass our attention filters."*

The future is bright, but we perceive it as dark, and probably always will. Perhaps this is a necessary state of affairs; if we don't worry about the risks we won't galvanise ourselves into action to avoid those risks. The future will be better, but only if we believe it won't be. Would we have successfully stopped ozone depletion without all those scare stories of imminent environmental catastrophe? The media may be an anxiety machine but that may be a necessary role.

Factfulness is not a book about investing but its messages have important implications for investors. If Rosling is correct: the global economy is probably going to grow at a very healthy rate

for at least the next century or so; we will likely avoid environmental catastrophe; we will live longer healthier lives. But, it won't feel like that. It will feel like things are getting worse or at least about to get worse. We will fret and worry the whole time even as things get better – it's in our nature to look for the downside risks.

Investors, who become overwhelmed by their preference for bad news and tales of impending catastrophe, risk forgoing the opportunities afforded by the real economic progress we are currently enjoying.

Part of our job here at Equitile is to pay the correct level of attention to the risk scenarios without losing sight of the big

picture, which remains one of progress and economic growth.

It is worth reminding ourselves that irrational pessimism can be just as expensive as irrational exuberance and sometimes far more so.

On a housekeeping note:

The misuse of data is just one of the many crises about to bring civilisation crashing down around our

ears. Fortunately, the European Union is on hand to save us from this impending doom. They are doing so with GDPR – General Data Protection Regulation – the upshot of which is: If you are not already a client of ours but would like to receive our emails you are going to have to give us permission to keep you on our distribution list. If you have not yet done so, just email 'Subscribe' or any other suitable affirmation, to info@Equitile.com ■



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