



## THE STATE OF THE WORLD

JUNE 2019

Here is a little test to see how much you know about the state of the world. Is it getting better or worse? Is there hope for humanity or are we on a slippery slope to extinction?

**In 1950 the average length of human life in the world was 35 years. What is it today?**

50, 60, 70 years

**The world population has doubled over the last 50 years, when is it expected to double again?**

50, 100, 150 years

**In 1950, the percentage of the world living in extreme poverty was 70%. What is it today?**

50%, 25%, less than 10%

**Over the last 20 years the percentage of the world population classified being in the middle class has?**

Remained about the same, doubled, tripled, more than tripled

**How many people in the world have access to electricity?**

20%, 50%, 80%

**In the 1950s deaths from natural disasters was ~75 million per year. What is it for the past decade?**

100, 50, less than 10 million

**Battlefield deaths per million hit a high during World War II of about 2,000 per million. What have they been for the past decade?**

1000, 100, about 10 per million

The answers to all these questions are the last, the most optimistic outcome for humanity. The same can be said for deaths from infectious diseases, education, technology, productivity, innovations, child labor and woman's rights. The world is getting dramatically better in every measurable way at an unprecedented rate.

**What group did best at answering these questions?**

The general US population, journalists, multinational company executives, Nobel laureates, chimpanzees.

The answer is chimpanzees using just blind luck. Everybody else was systematically too pessimistic by a wide margin! That's right, the world is getting better at a rate of change never seen before in human history, but almost nobody seems to know it. The question is why and how can we benefit from other people's pessimism.

## WHY

The reason the human race is experiencing exponential improvement can be boiled down to two factors. One, we are the only species that learns as a whole and doesn't forget. Put simply, a clan of monkeys might learn how to use sticks to get into a bee hive, but they won't transfer that knowledge to all monkeys and if there is a lapse of one generation the knowledge is gone. We began to learn how to read and write several thousand years ago. That skill has been steadily progressing ever since, leading to an explosion in knowledge because our knowledge base is cumulative.

Second, we benefit from specialization to a degree no other species duplicates. Specialization allows us to advance beyond one person or group's knowledge. As I write this there is a computer mouse on my desk that is almost the exact size as a scraping tool used by cave men thousands of years ago. That scraping tool predated knives and can be found in every prehistoric sight worldwide. It was one of the first tools we learned to use as a species, and while there may have been someone in the clan who was particularly good at making stone scrapers and cutters, it was never far from its maker.

Compare that to the computer mouse. There is no single person on earth that has all the knowledge or skill to make one. Not even one company has the knowledge necessary to do it and the parts come from all over the world. It requires at least petroleum products to make plastics, molding equipment, metallurgy, electronics, silicon chip technology and software. All this can only be accomplished in a highly integrated production process spread over several continents and made possible by highly specialized knowledge.

Better yet, now that we have learned to produce complex things like a mouse, we will build on that knowledge to produce better, lower cost, more productive machines that we can't even dream of today. Like personal computers or cell phones our parents could not have imagined less than a generation ago. Compare that to the thousands of years it took to improve on that stone scraper!

## THE STATE OF OUR MINDS

Why are we so negative? There are a lot of explanations, but here are the ones that make the most sense to us.

**Lack of perspective:** Anyone born even a few decades ago has seen the greatest advance in human history, but was not alive during the 500 years of western civilization before that to compare their life experience with what came before. As a quick example; 18<sup>th</sup> century kings lived in squalor compared to the average person today. They had bad hygiene, lice, poor dental care, were subject to plague, constant fear of violence, poor education, and couldn't travel more than a few miles without being in grave danger.

Nor are westerners from their privileged position able to see the great advances in third world countries. We didn't directly observe that for the first time in history the majority of the world is enjoying a middle class income or better, but it is the reason why GM sells more cars in China than the US, Starbucks and KFC are opening more stores there than the US, and Nike is seeing overall growth despite flat US sales.

**The fear instinct:** We are animals and as such, innately fearful. "Great news fellow cavemen, there are far fewer lions eating us this year." "Fine, but we should still teach people to hide if they hear a roar!" Fear worked well for the past 5,000 years, but rationality would be more productive now. Someday our species may change to let our rational minds overcome emotion, but we are not there yet.

**The manipulators:** Knowing that fear moves people, everyone from politicians to parents use it to control us. That's fine if it helps us solve problems and avoid mistakes, but a constant emphasis on the negative doesn't paint an accurate picture of the world. Unfortunately, it does make a lot of people powerful and rich that shouldn't be.

**The perfect excuse:** If things just aren't going your way. You might be unhappy with your job, or your kids hate you, or your health isn't great; the thought that the world is going to hell makes perfect sense. It's not your fault that the world somehow has changed for the worse. That narrative fits perfectly into your life experience, but it's not reality for most people.

## **HOW TO MAKE MONEY ON YOUR NEW OPTIMISM**

Now that we feel better about the world, how can we make money? First of all, take advantage of other people's innate pessimism and propensity to panic. Markets are nothing more than the collective opinions of people. Since fear is a much stronger and more pervasive emotion than greed, it makes sense that markets will give investors opportunities to buy when the herd panics. That is the basis of what we do.

Sometimes it's a great company that has a single event blown out of proportion. Other times it's a whole industry that gets torched because of the fear that the economic cycle is changing and won't return to growth. Best of all, is when the entire market gets crushed in what appears to be the end of the world. They are all opportunities to make money off of other people's natural pessimism.

Next, avoid long term investments based on the mistaken belief that the world is a zero sum game and we are unable to adapt. Because of our unique ability to learn and share specialized knowledge there is no limit to the size of our pie. Explosive growth in developing countries is not a threat to us; it is the best thing that could happen to a country with an aging population and slowing growth.

Likewise, counting on shortages is usually a flawed investment strategy. The world has always been running out of something that will cause us to stop advancing. In the 18<sup>th</sup> century Malthus said we were running out of land which would doom us to perpetual wars and starvation. The same was said of fertilizer, water, gold, whale oil, coal, oil and clean air. In every case a short term shortage leads to innovation and we leaped forward. Instead of worrying about the shortage, we try to find the really great investments in companies that innovate around the perceived shortage.

We seem doomed to pollute our environment before we fix it, but given the rapid advances in alternate energy sources and batteries over the last decade there is no doubt we will have the technology to fix the problem when we take it seriously. Not that many years ago, we stopped burning coal in cities when we couldn't see down the street anymore, and we stopped using rivers as giant sewage dumps when we began to see people die from the sludge. Our species can adapt and learn.

## **THE AMERICAN ADVANTAGE**

The US enters the era of exploding growth with several advantages over other countries, which is why we have a large percentage of our portfolios in US based global corporations. First of all, we have traditionally been a multicultural society, a melting pot. That's a big advantage in a world requiring cooperative specialization and globalism. Compare the multicultural backgrounds of some of our best CEOs and most successful entrepreneurs to Japan, Europe or even India and China.

We are an aging and deeply indebted country, not unlike Europe or Japan, but we have a much larger land mass, have welcomed immigrants and our corporations are truly global giving us the opportunity to grow our way out of our problems. While there is room for improvement, we utilize woman in the work force much better than most countries, allowing us to be much more productive as a society.

On the negative side, the current trends toward protectionism, anti-immigration, fiscal irresponsibility, misogynistic policies and class warfare at a time we can least afford it due to our aging population and world interdependency is disturbing. The pessimists are worried that these trends are a threat to our long term thesis of a better world. The optimist says that these are nothing more than reactionary short-term counter trends to a world progressing towards a better, fairer, richer future. The optimist will be right, at least in the long run.

### **CREDITS**

The statistics and most of the thoughts represented in this newsletter come from two sources. *Fatefulness, Ten Reasons We're Wrong About the World- and Why Things are Better Than You Think* by Hans Rosling and *The Rational Optimist, How Prosperity Evolves* by Matt Ridley. We highly recommend you pick one or both up next time you get depressed about the current state of the world.

### **THE COMPASS CLIENT PORTAL**

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