December 21, 2011

Vice Admiral James Stockdale was a pilot in Viet Nam. He was shot down and spent almost eight years in a Viet Cong prison. He was the highest ranking naval officer held as a prisoner of war in Viet Nam. He wrote a book on his experiences called “In Love and War”. He writes about why he thinks he survived when others – sometimes much younger and physically stronger than he was – did not. In his words, the ones who did not make it “were the optimists.” He wrote, “Retain faith that you will prevail in the end, regardless of the difficulties.” But he also makes a distinction between his beliefs and what others call “optimism”. The distinction between the two is what writer Jim Collins calls the Stockdale Paradox. “…confront the most brutal facts of your current reality, whatever they might be.” The point is that you must develop “an ability to continue making realistic assessments of one’s current life situation measures and apportion one’s energies and reserves to better face each challenge as it comes, thus positioning one with a stronger chance to prevail.”

Just before Remembrance Day – when I should have written this – there was a story about Albert Brown (the godson of Wild Bill Cody), a survivor of a Japanese labour camp and the infamous Bataan death march. He was 40 years old at the time. Of the 78,000 that began the march, over 11,000 died. (Japan this month issued a formal apology regarding its treatment of prisoners during WWII) A doctor told Albert Brown that he wouldn’t live to see his 50th birthday. He died this year at 105 years old. He kept notes during his captivity. He too, wondered why he survived while some of the younger, stronger ones did not. Like Admiral Stockdale, he focussed on the “bright spots”, and never gave up his will to survive.

As a very pale parallel to the ordeal of these men, this concept can apply to the current financial situation. The issue that transcends most human behaviour is the concept of optimism versus reality. There isn’t anything wrong with optimism as long as it is couched in realism. Warren Buffet spoke directly to this point, “The future is never clear, and you pay a very high price in the stock market for a cheery consensus.” He also said: “The most common cause of low prices is pessimism - sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer.”

Having tried multiple times now to save Greece, Italy etc and also bail out multiple banks (on both sides of the ocean) can lead to the optimistic belief that, with a “little more” capital (which is debt), we can right a damaged ship. Optimism is the remarkable belief that the Federal Reserve in the U.S. should now also consider supporting the Eurozone – on the backs of U.S. taxpayers no less. This passes for realism? As an aside, the Eurozone has a policy on the sale of cabbage which runs over 26,000 words. Michael Lewis’ book Boomerang talks about things like this. The Declaration of Independence is 1,300 words. The Lord’s Prayer is 66 words. The current Eurozone is an arcaich, bloated, unworkable solution couched in nothing but optimism. Without any discussion about Canada’s debt to disposable income levels (159%) that now surpasses both the U.K. and the U.S., I really don’t think it’s realistic to expect lower volatility and stable equity markets until we see concrete solutions rather than procrastination. As Churchill said, “Americans can always be counted on to do the right thing, once they have exhausted all other possibilities.”

I am optimistic that Christmas (Can I use that term? And is a Menorah now referred to as a “lamp”? ) will be a white one. Realistically, above zero temperatures suggest otherwise. However, I am optimistic that Santa will visit our house again.

Good Health and Happiness to you all.

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