

September 2018

Coffee and Courage in the Himalayas

by TriLake Partners' [resident barista](#)



I was at a personal crossroads in the summer of 2016 when I journeyed to the Himalayas to seek wisdom, inner peace and career advice from this guru I had heard about. Seymour J. Danuthers had been a successful investment manager until disillusionment with the trappings of wealth and success made him walk away from Wall Street in 2011.

I managed to book an appointment over coffee at the Lhasa Starbucks across the used-yak dealership. He looked a lot like the Brad Pitt character in “The Big Short” only with a venti Frappuccino under his chin. He frequented the place because the internet access was better than his place so he somehow kept in touch with markets but had stopped trading altogether.

“It’s not what you probably think,” he said. “The things you own end up owning you. But I didn’t give it all up and enter a monastery to meditate in a yurt all day. My wife and I live quite comfortably here. My personal portfolio is intact and I look at it once in a while. But I no longer check on prices every other minute. I don’t get alerts. I don’t wake up and sleep to business TV. I can actually hear and read the news

outside the context of my investments. It’s not all bad news out there.”

“Not all bad news,” I conceded, “but a lot of it nonetheless.”

“Those who tell the stories rule society. That’s Plato. Reason and logic don’t always win the argument. Which storytellers extol the virtues of globalisation and how it has lifted millions out of poverty and created new markets? Those storytellers are scruffy guys who write in dry text, scholarly articles and economic papers. After all, complex issues often require complex explanations and solutions. The more effective storytellers have a different story to tell—hard-luck tales of jobs lost overseas, wistful reminiscences of an imaginary Gilded Age—and these stories are directed at the disenfranchised middle classes in the developed markets. They don’t write scholarly articles vetted by academic peers. Instead these storytellers broadcast from their bully pulpits in language that resonates with their audience. They appeal to emotion, not reason. They assure their audience that they are victims. They feed their audience’s discontent. The audience need villains to

blame and rally against. Hungary's right turn, the Philippine elections, Brexit, Trump's candidacy—"He won't win. I don't even think he wants to win. And even if he does, there are enough safeguards in the system to protect the country from his conflicted interests and authoritarian bent."

Seymour gave me a condescending smile. "Trump will win the election. The US electorate has no problem with a so-called strongman who will lead the charge against all of these perceived liberal affronts—gay marriage, greater diversity, immigration, tree huggers—things they code as "political correctness" or "anti-business" or "soft on crime." He will actually push for his border wall and his Muslim travel ban and call for more deportations and less refugees. He will push through a tax cut that favours corporations and the wealthy. He will pull out of NAFTA, the Paris accords, the TPP, the Iran deal, even NATO. He will dismantle the EPA, the Interior Department and privatise education. He will totally embrace Putin and abandon their allies because their leaders represent the old world order that the US established after World War II. He will launch a trade war with China, maybe using the South China Sea issue as justification. He will set the Supreme Court on a conservative course for the next generation. And enjoy a lot of taxpayer-paid golf weekends in his own resorts."

"You're joking."

His face turned grim and we stared at each other for several seconds until a smile crept along the corners of his mouth and came out as a rip-roaring laugh.

"Of course I'm joking! Can you imagine? If Hillary did any one of those things, she'd be lynched."

"So how do you read the news now and do absolutely nothing to your portfolio?"

"It's an election year so there's a lot of noise. But markets have always been able to brush off politics and focus on corporate earnings growth. We know that quality businesses can still thrive under juntas, single-party systems and repressive regimes. Remember that investment requires only three things: money, time and a market economy. Capitalist, socialist, totalitarian, those will absolutely affect the allocation or misallocation of capital but the need for products and services and the opportunity to profit from that need remains.



"Western populations are ageing. There are doomsday clocks projecting the date when the last Japanese person will be born and die. But then you think about artificial intelligence and robotics and how that may enhance or even replace human productivity in these ageing societies.

"Technology is changing everything and at a record pace. How we move our bodies and our stuff, how we design cities from the software up. I'm convinced that the truck I bought last week for my farm will be my last vehicle with an internal combustion engine.

"My point is, there's a lot of good things going on out there. I think the criticism that most of today's innovation is incremental and not monumental is unfair. Why compare the advent of air travel with the rise of social networking? The advances in materials and alternative energy are tremendous. Then there's quantum computing."

"I still don't understand what that is."

"Neither do I but I hope to by 2018. I also want to learn about this thing called blockchain."

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"Our valuation methods cannot adequately measure the intrinsic worth of many of these companies."

"Using those valuation methods, many of these companies are at nosebleed prices. Would you really buy

Amazon at \$700?"

"I have a bit of it and I felt sick to my stomach when I first bought it at \$80 before the market fell in '08. I added some more in 2010. Not sure I'd buy now though. But even if they don't get a slice of China and India, they still have room to grow with the cloud computing business. If you're waiting for certainty, you're in the wrong business. By the time you're sure, a lot of other people are as well and they've already bid up the price."

"Are you saying I have to roll the dice at some point?"

"Not at all. I'm saying you have to lessen the chances that you're taking too many of these dice rolls. Is Visa a gamble? Bank of China? Roche? They'll still be around 5, 10 years from now. Heck, I think Tencent and Amazon will be around longer than those guys. Sure, \$700 may be a ridiculous price to pay for Amazon's online shopping business but the market is more often an optimistic forward-looking beast. It tries to price in future earnings and prospects of such. The collective optimism creates more and more

buyers. Once in a while, it is wrong and it corrects. It runs out of buyers and sellers scramble for someone, anyone willing to buy their stuff. Wouldn't it be nice to be that someone who can set a price?"

"Even below intrinsic value."

"Our valuation methods provide a guide, nothing more. Prices are determined by human behaviour and it's often the trade that makes your ulcers act up that turn out to be most profitable. That's how I knew I was doing the right thing when I bought Amazon at \$80. Fear is a powerful thing."

"I think it's not a fear of losing money as it is about a fear of regret."

"You're exactly right. Most investors will not invest the rent and the grocery money in the market. But they will still fear regret. Courage is knowing what not to fear. That's Plato. Again."

"So what should investors not fear?"

"A permanent loss in a well-designed portfolio. Look, market corrections happen every year. Once in a while—maybe one in five—a correction turns into a bear market. Bear markets last about a year on average. Out of fear of a bear market, should an investor pull out and take a chance that this correction is that one out of five?"

"Investors may brush aside a correction but they do fear a crash."

"Those are rarer than bear markets. So I focus on the greater forces. A crash can hinder capital investment and development of agritech, solar energy, advances in healthcare and the internet of things but it won't stop it. A lot of the rest is now noise for me."

"It seems to me that the signal-to-noise ratio keeps getting smaller every year. There's so much data out there, maybe even information but precious little insight."

"That's a true skill nowadays—finding valuable information and filtering out the rest. Unfortunately many people choose to live in an echo chamber and

just hear what they want to hear. It confirms how right they think they are."

"I've usually tried to listen to views that could prove me wrong. Mixed results there."

"Keep doing it. Eventually you'll find credible sources of counterpoint. And keep managing investments. I suspect you're in it for reasons other than money."

"It's a living. But ever since I started selling mutual funds in the 80s, it wasn't my client's gains that got me going; it was how the fund manager made those gains."

Seymour and I walked out into a brilliant Tibetan sunset.



"So what are you going to do now?" he asked.

"I'm taking the job in Singapore."

A monk in orange robes stopped and looked at us curiously.

"Good. I'll let you know when I'm coming to town. I hear Gardens by the Bay is amazing."

"You live on a glorious Tibetan hillside and you think a garden under a big dome is amazing?"

"There are no baobabs in Tibet."

I'm pretty sure Plato did not say that. He shook my hand and disappeared into the wet market.

The monk smiled at me and said, "A man who talks to himself is either deep as the ocean or crazy as a fox."




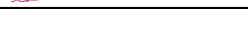
Market Update






Annualised percentage return for periods ending: 15/9/2018					
Asia Indices	Last	YTD (non-annualised)	1 Year	3 Years	5 Years
TOPIX (Japan)	1728.61	-2.01	9.67	8.65	10.31
KOSPI Comp* (Korea)	2318.25	-6.42	-4.52	4.98	2.86
S&P/ASX200 (Australia)	6165.30	5.07	12.38	10.75	7.95
Hang Seng* (Hong Kong)	27286.41	-9.47	-3.82	7.31	3.22
Shanghai Comp*	2681.64	-18.36	-19.71	-4.48	4.26
TWSE Taiwan	10868.14	5.25	5.38	12.75	9.62
STI Singapore	3161.42	-4.62	0.51	6.80	3.22
MSCI Malaysia	1266.48	-0.05	2.47	5.88	2.93
MSCI Indonesia	2170.69	-11.72	-4.26	9.54	5.15
MSCI Thailand	2153.89	2.29	8.78	12.35	7.34
MSCI Philippines	1705.99	-14.28	-13.10	1.08	4.05
MSCI Vietnam	818.23	-0.58	35.84	15.55	11.49
Sensex India	38090.64	10.58	16.32	13.94	14.87

*Price return only. All unmarked indices show gross total returns.

Annualised percentage return for periods ending: 15/9/2018					
Global Indices	Last	YTD (non-annualised)	1 Year	3 Years	5 Years
DJIA (US)	26154.67	7.97	20.19	19.92	13.58
S&P500 (US)	2904.98	10.16	18.25	16.42	13.29
Nasdaq100 (US)	7545.50	18.08	26.63	21.54	19.76
VIX (US Volatility)	12.07	--	--	--	--
MSCI Latin America	1256.40	1.68	2.53	14.05	6.73
EuroStoxx50	3344.63	-1.15	-1.43	5.82	6.65
SMI* (Switzerland)	8970.00	-4.97	-1.46	0.67	2.06
DAX (Germany)	12124.33	-5.88	-3.20	7.03	7.08
FTSE100 (UK)	7304.04	-1.83	4.83	10.46	6.14
CAC40 (France)	5352.57	3.78	5.89	9.39	8.71

*Price return only. All unmarked indices show gross total returns.

Percentage return for periods ending: 15/9/2018					
Commodities	Last	1 Month	6 Months	1 Year	1Yr Trend
Gold	1201.95	1.85	-8.39	-8.53	
Silver	14.22	-3.07	-13.75	-18.94	
Brent Crude Oil	78.12	12.75	22.26	42.49	
WTI Crude Oil	68.98	5.95	12.14	40.04	

15/9/2018					
10-Year Benchmark Yield	Last	1 Month Ago	6 Months Ago	1 Year Ago	1Yr Trend
USA	2.9879	2.8677	2.8439	2.2060	
UK	1.5290	1.2150	1.4300	1.3069	
Switzerland	0.0088	-0.0971	0.1116	-0.0104	
Euro	0.4420	0.2960	0.5680	0.4357	
Japan	0.1050	0.0872	0.0300	0.0298	

Source: FactSet financial data and analytics.

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