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CAPITAL MANAGEMENT

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Best Story Wins

"In order to win a man to your cause, you must first reach his heart, the great high road to his reason." – Abraham Lincoln



"Typical media bias. First they label the wolf 'the big BAD wolf' then they only give Little Red Riding Hood's point of view."

Back in 2011, I was employed as a trader with RBS on the US dollar interest rate desk. RBS shipped me out to Tokyo from their offices north of Manhattan in Greenwich, Connecticut a couple years earlier, to help grow the firm's Asia business. RBS, along with their competitors (Deutsche Bank, Barclays, Bank of America, etc.) were desperate to see trading flow increase from Asia's central and money center banks and were willing to invest resources in order to grab a larger market share. At the time, very large trades (\$250mm-1bln) in US Treasuries and Interest Rate Swaps were getting done in

Asia through our desk, which often times set the directional tone during the main U.S. session.

About twice a year, our firms trading and sales bosses flew in from the U.S. and London to check-up on us, see the desk's big clients, and of course party late into the evening. On one occasion, we were out having a late dinner at an izakaya, drinking far too much sake as usual, and stuffing our faces with karaage (fried chicken) and yakitori (grilled chicken on a skewer). One of my colleagues (I can't remember who), asked our visiting head of sales from the U.S. what advice he could give the younger generation. His response went something like this, "Learn to write and communicate effectively. Forget the formulas and all the technical stuff. Our business is about stories. I credit much of my success to my ability to write well and tell a good story."

Which leads me to a recent blog post that hits home, "Best Story Wins" written by Morgan Housel of Collaborative Fund.

Best Story Wins

By Morgan Housel

February 11, 2021

A truth that applies to many fields, which can frustrate some as much as it energizes others, is that the person who tells the most compelling story wins. Not who has the best idea, or the right answer. Just whoever tells a story that catches people's attention and gets them to nod their heads.

C. R. Hallpike is a respected anthropologist who once wrote a review of a young author's recent book on the history of humans. It states:

It would be fair to say that whenever his facts are broadly correct they are not new, and whenever he tries to strike out on his own he often gets things wrong, sometimes seriously ... [It is not] a contribution to knowledge.

Two things are notable here.

One is that the book's author doesn't seem to disagree with the assessment. Another is that the author, Yuval Noah Harari, has sold over 27 million books, making him one of the bestselling contemporary authors in any field, and his book *Sapiens* – which Hallpike was reviewing – the most successful anthropology book of all time.

Harari recently said about writing *Sapiens*:

I thought, 'This is so banal!' ... There is absolutely nothing there that is new. I'm not an archeologist. I'm not a primatologist. I mean, I did zero new research. . . . It was really reading the kind of common knowledge and just presenting it in a new way.

What *Sapiens* does have is excellent writing. *Beautiful* writing. The stories are captivating, the flow is effortless. Harari took what was already known and wrote it better than anyone had done before. The result was fame greater than anyone before him could imagine. Best story wins.

It's nothing to be ashamed of, because so many successes work this way.

The Civil War is probably the most well-documented period in American history. There are thousands of books analyzing every conceivable angle, chronicling every possible detail. But in 1990 Ken Burns' Civil War documentary became an instant phenomenon, with 39 million viewers and winning 40 major film awards. As many Americans watched Ken Burns' Civil War in 1990 as watched the Super Bowl that year. And all he did – not to minimize it, because it's such a feat – is take 130-year-old existing information and wove it into a (very) good story.

Bill Bryson is the same. His books fly off the shelves, which I understand drives the little-known academics who uncovered the things he writes about crazy. His latest work is basically an anatomy textbook. It has no new information, no discoveries. But it's so well written – he tells such a good story – that it became an instant *New York Times* bestseller and the *Washington Post's* Book of the Year.

Charles Darwin didn't discover evolution, he just wrote the first and most compelling book about it.

John Burr Williams had more profound insight on the topic of valuing companies than Benjamin Graham. But Graham knew how to write a good paragraph, so he became the legend.

Same with Tesla, isn't it? The company is worth seven times more than GM and Ford combined, not because it built a good business but because Elon Musk is good at getting people's attention. Customers. Investors. Twitter followers – he's told them all a good story, and the best story wins.

This drives you crazy if you assume the world is swayed by facts and objectivity – if you assume best idea wins. There's a devoted group of Harari critics obsessed with showing how unoriginal his work is; Musk is viewed with the same mix of confusion and contempt.

In a perfect world the importance of information wouldn't rely on its author's eloquence. But we live in a world where people are bored, impatient, emotional, and need complicated things distilled into easy-to-grasp scenes.

If you look, I think you'll find that wherever information is exchanged – wherever there are products, companies, careers, politics, knowledge, education, and culture – you will find that the best story wins. Great ideas explained poorly can go nowhere while old or wrong ideas told compellingly can ignite a revolution. Morgan Freeman can narrate a grocery list and bring people to tears, while an inarticulate scientist might cure disease and go unnoticed.

Novelist Richard Powers put it this way: "The best arguments in the world won't change a single person's mind. The only thing that can do that is a good story."

A few things about good stories worth remembering:

When a topic is complex, stories are like leverage.

Leverage is just something that squeezes the full potential out of something with less effort. Stories can leverage ideas in the same way debt can leverage assets.

Trying to explain something like physics is so hard if you're just deadlifting facts and formulas. But if you can explain things like how fire works with a story about balls rolling down hills and running into each other – watch Richard Feynman, an astounding storyteller, do that here – you can explain something complex in seconds, without much effort.

This is more than just persuading others. Stories help you just as much. Part of what made Albert Einstein so talented was his imagination and ability to distill complexity into a simple scene in his head. When he was 16 he started imagining what it would be like to ride on a beam of light, holding onto the sides like a flying carpet and thinking through how it would travel and bend. Soon after he began imagining what your body would feel like if you were in an enclosed elevator riding through space. He contemplated gravity by imagining bowling balls and billiard balls competing for space on a trampoline surface. He could process a textbook of information with the effort of a daydream.

Ken Burns once said: "The common stories are $1+1=2$. We get it, they make sense. But the good stories are about $1+1=3$." That's leverage.

Stories get diverse people to focus attention on a single point.

Steven Spielberg pointed this out:

The most amazing thing for me is that every single person who sees a movie brings a whole set of unique experiences. But through careful manipulation and good storytelling, you can get everybody to clap at the same time, to laugh at the same time, and to be afraid at the same time.

The key thing is that stories capture and direct attention, which is so important in a world where people are bored and impatient.

Good stories create so much hidden opportunity among things you assume can't be improved.

Rory Sutherland writes in his book *Alchemy* about the idea of psychological moonshots:

Making a train journey 20 per cent faster might cost hundreds of millions, but making it 20 per cent more enjoyable may cost almost nothing.

The Uber map is a psychological moonshot because it does not reduce the waiting time for a taxi but simply makes waiting 90 per cent less frustrating.

It seems likely that the biggest progress in the next 50 years may come not from improvements in technology but in psychology and design thinking. Put simply, it's easy to achieve massive improvements in perception at a fraction of the cost of equivalent improvements in reality.

This applies to so many things.

How many great ideas have already been discovered but could grow 100x or more if someone just explained them better?

How many products have only found a fraction of their potential market because the company is so bad at describing them to customers?

So, so many.

You'll get discouraged if you think every new book has to be about an original idea, or that every new company has to sell a brand new invention. There is so much more opportunity if you see the world like Yuval Noah Harari – best story wins.

The markets are running with the reflation story. Bond yields have been steadily climbing while equity markets are marching higher. On the one hand, I do believe the equity market has it correct – money will stay easy, fiscal policy will expand, and growth will increase. Bond traders on the other hand appear to be all one-sided, desperately

anticipating a re-emergence of inflation. I find this narrative unconvincing and so have taken the other side of this trade having added to long duration U.S. Treasury positions in client portfolio's. The bond bull market has been in effect since the early 80's and I see little reason to believe now is the time to bet otherwise.

Over the coming weeks, I wouldn't be surprised if we see a decent size pullback in equities, that may be just enough to shake out momentum based leverage players. Ultimately, I see much more upside potential in both domestic and emerging markets, and therefore would use market dips as an opportunity to increase exposure. For what it's worth, I do not think this year is going to be an easy one to navigate. Buckle up.

ASSET CLASS & SECTOR OPINIONS		
OVERWEIGHT	NEUTRAL	UNDERWEIGHT
U.S. Real Estate & Related Equities	Materials Sector	Energy Related Equities
Large Capitalization Technology	Communication Services Sector	Financial Services Sector
Consumer Discretionary Sector	Healthcare Biotech & Pharmaceuticals	Leverage Loans (Floating Rate Debt)
Healthcare Equipment	Consumer Staples	Treasury Inflation Protection Securities
Small Capitalization Stocks	Mortgage Backed Securities	Gold & Gold Miners
Aerospace & Defense	Local Currency EMG Bonds	
Emerging Markets Equities	High Yield Corporate Bonds	
U.S. Treasury Notes & Bonds	Investment Grade Corporate Bonds	
	International Developed Market Equities	

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Justin Kobe, CFA
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