



Touchbutton

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Memoirs of an investment manager – a note from Japan

"I wish I could believe life really is something more than a stream that carries us along, belly-up."

"All right, if it's a stream, you're still free to be in this part of it or that part, aren't you? The water will divide again and again. If you bump, and tussle, and fight, and make use of whatever advantages you might have..."

Sayuri and Nobu - Arthur Golden, "Memoirs of a Geisha" (1997)

Crowds are interesting phenomena – most of us would admit that we dislike them, but most of us also have a paradoxical urge to follow them. Those who study investment fundamentals are having a hard time with this market. Those who refuse to follow the crowd and sell volatility, buy passive ETFs and love the NASDAQ in unwavering trust of central banks, are continually tempted to divorce our investment thinking away from fundamentals and towards 'the new normal', the crowded trades. However, in the midst of this mini existential crisis, a recent trip to Japan is a reminder of the virtues of not following crowds.

Japan is an incredible country; extraordinarily beautiful and enigmatic. Its beauty is epitomised by the most revered and mysterious entertainer there is, the geisha. An encounter with a geisha is something on the list of most visitors to the country, but these creatures are elusive and catching more than a fleeting glance is notoriously difficult.

There are many misconceptions about geisha; they are highly skilled in the art of dance, classical music and conversation. They entertain the great and the good of Japanese society at *chaya* (teahouses), mainly situated in the Gion district of Kyoto.

Gion at dusk is an enchanting place: labyrinth-like streets, walled with traditional Japanese architecture, intertwine with winding streams of water that could be mistaken for glass, all illuminated by blood orange lanterns hanging deathly still above closed doors one is desperate to look inside, but dare not.

Gion is where one goes to see geisha (*geiko* in Gion dialect), and we were no different. A large crowd of tourists with camera lenses suitable for supporting Long John Silver

seemed like a good group to tag onto, and so we began our trek through the labyrinth. Street followed street, lantern followed lantern; we saw none.

Hanami-koji or 'blossom viewing lane' is a wide, flagstone paved street surrounded on either side by *chaya*. This is the place of work for many of the geisha in Kyoto, so a change of tack ensued; wait where this fabled street meets the reality-constrained modern Kyoto, and the geisha should come to us. We lost count of how many we saw.

The above strategy bears some similarity to our current positioning in portfolios. We are not following the crowd. Our belief is that a cocktail of inflation, negative real wage growth, contractionary monetary policy, rich valuations and numerous event risks is bound to lead to a period of extended volatility. Life and markets are nothing more than a stream that carries us along, belly-up. We are ultimately slaves to the general direction of them, but in the meantime, we bump, and tussle, and fight, and make use of whatever advantages we may have. We are confident we are in the right, less crowded, part of the stream; we should let the markets come to us.

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