



# From the Desk of the President

July 2019

## Science Fiction and the Science of Investing

**“Well, all information looks like noise until you break the code.”**

*Snow Crash*, Neal Stephenson, June 1992



I have wonderful opportunities to meet and speak with a variety of clients, ranging from individuals to institutions. Most of the time, the discussion gravitates toward predicting something—and for me, the requested prediction often has to do with the direction of interest rates. Luckily, this piece will not attempt to do that since I do not have a crystal ball.

Instead, this piece will discuss two aspects of investing that I think get spoken about a lot, but are never truly understood: (1) focusing on the long term, or as I prefer to call it, the “long arc,” because the future doesn’t progress in a linear fashion, but instead in a series of increasing and decreasing arcs; and (2) how the future will unfold. The paper will also discuss a step we can all take that I believe will help us think about the long arc and its potential, sometimes unexpected, outcomes. That step is reading science fiction. It may sound strange but keep reading and I hope you’ll find a small nugget of truth.

Investors, the media, academics, etc. generally say that achieving the best investment results requires focusing on the long term. Unfortunately, I have met few investors in my career that actually, in true Warren Buffett style, invest that way.

As for how the future unfolds—many people have predictions and unfortunately, most of those predictions are wrong. Even when they are right, the predictions tend to miss both good and bad unintended consequences.

The point of predicting the future, in my view, is not to get it right all the time but to first examine the range of possibilities and then more importantly, determine the unintended consequences that might have a greater impact on the long arc. For example, the iPhone first sold in 2007. You may have foreseen the advent of the iPhone correctly—but would you have predicted how radically individual banking would change? How airport check in and ticketing would evolve? What the effect would be on international communication, and that Google Maps, Waze, and Uber would all be created? All of these developments are the unintended consequences of one invention.

So what does all of this have to do with science fiction? The goal of good science fiction, in my opinion, is to look at a feature of the world and think about its evolution—and then imagine all the possible offshoots of that evolution. In the iconic film, *2001: A Space Odyssey*, director Stanley Kubrick imagined videophones (already here), the potential terrors of unchecked Artificial Intelligence (we are working on that one as we speak—remember Skynet?), and the future of space travel (let's thank SpaceX, Blue Origin, and Virgin for pushing *that* envelope). These were all concepts that were far ahead of their time. In the 1984 classic book, *Neuromancer*, author William Gibson envisioned the Internet and many of its consequences far before any sort of mainstream thinking. *House of Suns*, by Alastair Reynolds, takes place over six million years.

Six million years—now that's a long arc.

So what does this have to do with investing? Science fiction forces us to think in ways that aren't natural to most investors. Unconventional concepts make us contemplate long term and unintended consequences—and most importantly, they challenge us to not look in the rearview mirror.

As bond investors, we at Wasmer Schroeder continually challenge each other to think about the long arc and the future consequences of current events. We strive to not focus on short termism and trendy discussions. In short, we seek to take a step back and think about what's going on over the long arc. When we buy a 10-, 20- or 30-year bond, we understand that a lot of events will take place during that time frame—but rather than predict the future, we want to map out how our investment thesis may change under different scenarios: What happens to credit quality? What happens to rates? What happens to the economy? What happens to inflation? What kind of event could actually alter the course of the world versus other events that just create noise and volatility?

Science fiction isn't the only answer, but it is a tool we can use to break free from the confines of our everyday thought process. We all have access to a broad base of information. That isn't enough, though—we need to crack the code. Doing that is a difficult challenge—one where we need all the tools we can get our hands on, and I believe this process is one of them. By the way, if you want some great TV, binge watch *Black Mirror* on Netflix to get an idea of what I'm talking about.

As an aside, one of my goals as the newly appointed President of Wasmer Schroeder is to write semi-regular thought pieces for our clients and friends to read. As one of my colleagues likes to say “We all have day jobs.” That's a true statement—which makes it all the more important to step back now and again to see the forest instead of the trees. I hope these pieces can help in a small way.

As always, please feel free to reach out to me or any of the outstanding people at Wasmer Schroeder if you have questions, comments, or other input.

**Best regards,**

**Justin**



**Justin S. Land, CFA**  
President

Justin Land is President and is responsible for developing and monitoring the firm's tax exempt strategies, as well as overseeing the Municipal Research Department. Justin is a member of the firm's Executive, Portfolio Management, and Investment Committees, and the Municipal, Corporate, and High Yield Investment Committees. He also serves as a client resource for investment solutions.

Justin earned his BA in History from Florida State University. He was awarded the CFA Charter from the CFA Institute in 2003, and is a past board member of the CFA Society of Naples, where he served as President.

**Disclosure:** The material provided is for informational purposes only and contains no investment advice or recommendations to buy or sell any specific securities. The statements contained herein are based upon the opinions of Wasmer Schroeder (WS), the data available at the time of the presentation which may be subject to change depending on current market conditions. This presentation does not purport to be a complete overview of the topic stated, nor is it intended to be a complete discussion or analysis of the topic or securities discussed. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. WS does not accept any liability for any loss or damage arising out of the use of all or any part of this presentation. This report should not be regarded by recipients as a substitute for the exercise of their own judgment and may contain numerous assumptions. Different assumptions could result in materially different outcomes. Please contact Wasmer Schroeder for more complete information, including the implications and appropriateness of the strategy or securities discussed herein for any particular portfolio or client.

**About the Firm:** More than 30 years ago, Wasmer Schroeder was founded on the principles of an unwavering commitment to service and a dedication to managing fixed income the right way. From its beginning, the firm has held steadfast in its spirit of collaboration—doing what's right for the advisors, investors, and institutions for whom we manage money. We do right by doing right by them—knowing their businesses, understanding their goals, and consistently finding solutions to meet their needs. As an active fixed income manager with a team of investment professionals across tax exempt and taxable strategies, we are dependable, collaborative, and insightful in our approach. Backed by research and emboldened by technology, our hands-on team is a true partner to the advisors, investors, and institutions who give us their trust.