

Five Viral Lessons

By John Mauldin | May 8, 2020



Five Lessons Changes Coming Around the World from My Home

We live in truly historic times. “There are decades when nothing happens, and weeks when decades happen,” says a quote usually attributed to Vladimir Lenin. It certainly fits now.

For thousands of years, people who lived through what we call “history” didn’t realize it. We are the exceptions. We’re seeing history and we know it. The Vietnam War was certainly historic, but the coronavirus killed more Americans in the last two months than died in that long conflict. The Great Depression was historic but by some indicators we are well on the way to matching it. The Manhattan Project and the Apollo missions were historic, but right now even more massive, world-changing technology and biotechnology are being hastily developed under pressure.

What will future generations say of 2020? What clever term will they devise for this period? And what dramatic events will they recall that we, in our time, still haven’t seen? These are unknowable questions for now. We can only speculate.

I’m thinking of history because last week I ran across a powerful essay by Morgan Housel, whom I knew when he wrote for The Motley Fool. He is now a partner at The Collaborative Fund and still writing. His article looks at five lessons from history that, on the surface, have nothing to do with coronavirus, Trump, China, the Fed, or any of our other usual topics. But at the same time, it has *everything* to do with them.

Today, I'll share a little of that essay with you, using Morgan's five points to review the big events unfolding around us. As you'll see, they aren't so surprising once you step back and take a long view.

And speaking of the long view, next week it's finally here: the 2020 [Virtual Strategic Investment Conference](#), which instead of happening live in Scottsdale will be live on the same screen you are looking at right now or even on your TV.

We'll start Monday morning with the famed Dave Rosenberg, followed by Samuel Rines and Lacy Hunt—a kind of economists' trifecta. Then after a lunch break we'll hear from Matt Ridley, Bruce Bartlett, and Bruce Mehlman. Then we'll go into the political panel featuring Bartlett and Mehlman plus David Bahnsen and Ben Hunt, moderated by Rob Arnott.

After a quick break we'll hear from top Wall Street trader Renè Aninao, then Ben Hunt will come back for his own presentation that promises to be, ahem, colorful. And that's just Monday. We have four more days of equally impressive analysis and debate. Here's just a few names:

The whole team from Gavekal, Louis and Charles Gave, and Anatole Kaletsky. One of their other associates will be doing the emerging market presentation. George Friedman, Felix Zulauf, and Ian Bremmer. What a powerful European panel and geopolitical focus.

Woody Brock and Jim Bianco will join Lacy and Sam for the ultimate monetary panel moderated by Renè Aninao (you're going to become very familiar with that name over the next decade).

Then we turn to China. Michael Pettis, for 15 years a professor at Beijing University, is joined by the enormously influential Jonathan Ward.

Of course we look at technology. Peter Diamandis, Karen Harris, the director of the Macro Trend Group at Bain, technology superstar Cathie Wood interviewed by Barry Ritholtz. We are finalizing what is going to be a powerful energy panel on Tuesday the 19th. On that same day we will hear from Felix Zulauf, David McWilliams, and Niall Ferguson, as well as the ever-popular Mark Yusko.

The final day has Leon Cooperman, top mortgage analyst Barry Habib, Doug Kass, Jeff Saut, and Peter Diamandis (with a very powerful presentation on the wonderful future in front of us).

One nice feature: Since no one has to travel, we're able to extend the experience a bit. The program occurs on May 11, 13, 15, 19, and 21. I think those open days in between will let us absorb the information better and make the whole experience more enjoyable and useful.

Your pass also includes audio recordings you can download for later listening (when you get to start commuting again, for instance), video you can watch at your leisure and written transcripts of every session. So you're getting weeks and maybe months of enlightenment. [Join us](#). You know you want to. My week has been packed with dozens of calls with speakers and panels. I am simply blown away. Already there's so much to absorb. [Be there](#).

Five Lessons

Now, let's move on with history. Morgan Housel lists five important lessons, all of which fit like a glove with our present reality. I'll list them one at a time and then draw some connections.

Lesson #1: People suffering from sudden, unexpected hardship are likely to adopt views they previously thought unthinkable.

That sparked a memory. Back in June 2016 I wrote a letter called [Thinking the Unthinkable](#), drawn from my presentation at that year's SIC. I talked about the then-unthinkable idea the US would have to monetize its debt and eventually see a worldwide debt jubilee, what I would later call The Great Reset.

For me, simply entertaining those thoughts was a giant step. Yet here we are, just four years later, seeing some of them on the horizon. But it doesn't end there.

In 2020, we're all thinking unthinkable things. I never expected to endorse the kind of massive fiscal stimulus Congress has unleashed. A bunch of Republican senators and representatives never expected to vote for such bills. And I bet some Democrats never thought they would approve some of the business bailout provisions. Yet they did. Similarly, I doubt Jerome Powell would have ever said having the Fed buy junk bonds was feasible or advisable. Or any non-bank corporate bonds at all, for that matter.

But they aren't really suffering the kind of "hardship" Morgan means. Unfortunately, many people are. A lot of middle-class workers never thought they would get suddenly furloughed and then have to stand in food bank lines because their unemployment benefits are stuck in bureaucracy. Now it's happening all over.

April's headline unemployment rate (U3) came in this morning at 14.7% (and would have been nearly 5 percentage points higher if workers were classified differently during the survey data collection, the BLS noted). The broader U6 unemployment number, which includes people working involuntarily part-time, or not looking for a job because they expect to go back soon, jumped to 22.8%. That's probably closer to a "real" unemployment number. However, the survey ended in the middle of April. We have seen 10 million more unemployment claims filed since then. The May numbers will be much uglier, with U6 likely over 25%. These are Depression-era numbers. We have never seen a spike like this.



Source: [Peter Boockvar](#)

Side note: it is quite clear that the BLS revised its methodology to better reflect the on-the-ground reality of the Covid-19 economy. This is going to draw some criticism, as they are guessing on those numbers. But they are entirely correct in making the attempt.

These things change attitudes and they do it *fast*. In his essay, Morgan talks about the elections of 1928 and then 1932. Americans elected Herbert Hoover with one of the biggest landslides ever, then voted him out with a landslide the other way. Then the real changes started: gold standard gone, massive public works spending, Social Security, and more. The years 1933–1935 saw some of the most consequential economic changes in history, all because the Great Depression’s hardships made people think the unthinkable. Roosevelt made some good decisions but also some bad ones, sparking another recession. It was a mind-bogglingly bad situation and it can happen again. I think it will.

I fully expect the economy to recover, if over a few years. However, we need to recognize that government decisions and monetary policy can make a bad situation even worse.

Lesson #2: Reversion to the mean occurs because people persuasive enough to make something grow don’t have the kind of personalities that allow them to stop before pushing too far.

Business school doctrine says entrepreneurial business founders rarely make good CEOs after the company attains success. They are two different skill sets. In fact, they aren’t just different; in many ways, they are incompatible. As Morgan puts it, “The same personality traits that push people to the top also increase the odds of pushing them over the edge.”

You can probably think of some example names. I certainly can. But more important, I think we all, collectively, may be in this trap. Maybe the habits and attitudes that built the world economy to what it is (or was a few months ago) are unable to keep it there.

“Resiliency” is suddenly a buzz word. We are seeing how ultra-optimized global supply chains are actually quite fragile when unexpected events occur. We pushed too far in trying to save the last penny. Now we’ll have to not just rebuild, but rebuild *differently*, and it’s the opposite of everything known to generations of engineers and consultants.

Same for investors. The person who takes big risks for big rewards often has a hard time turning cautious. They stick around too long and eventually the risk-taking catches up with them. I think we’re seeing some of that, too, and it probably won’t end well.

Lesson #3: Unsustainable things can last longer than you anticipate.

This one is near and dear to my heart. One of my talents is putting the pieces together to see what’s coming. How *fast* it’s coming is a different question. Usually not as fast as I think.

For instance, I’ve been saying for years that our massive government debt is unsustainable. Ditto for gargantuan private debt. Yet both are here, and in fact growing considerably as this crisis pushes politicians to spend and also pushes the Fed to buy.

For that matter, who thought the Fed could sustain near-zero interest rates for over a decade, and now possibly another decade to go? I'm pretty sure even Ben Bernanke didn't think it would happen that way.

I keep highlighting the woefully underfunded public employee pensions. Many state and local government plans, weighed down with ridiculously generous benefits for a few high-level bureaucrats while most public servants get crumbs, are doomed by any rational calculation. They were already hurting before this crisis and now will be worse.

As Herb Stein said, "If something can't go on forever, it will stop." The question is, of course, when? The euro was a bad idea from the beginning yet they have kicked that can down the road for 20 years now. We may finally be reaching a point where they either have to mutualize the debt or split up into multiple currency zones. Not this year or next, but it is coming. So is a final reckoning for state and local pension plans. Sigh...

Lesson #4: Progress happens too slowly for people to notice; setbacks happen too fast for people to ignore.

Morgan illustrates this lesson with the Wright Brothers airplane quest. Obviously, motorized flight was a hugely consequential, world-changing invention. But strangely, no one paid attention for years after their first flight in 1903. The first major press account wasn't until 1908. And even then, no one saw the significance. *The Washington Post* wrote in 1909, "There will never be such a thing as commercial aerial freighters." Oops.

The kind of personalities who make great discoveries are not the best at promoting. They have to be discovered by someone who can. And even stranger, the greatest inventions are often more about luck than genius. Hence the famous Isaac Asimov [quote](#), "The most exciting phrase to hear in science, the one that heralds new discoveries, is not 'Eureka!' (I found it!) but 'That's funny...'"

Conversely, setbacks happen quickly. We are certainly seeing it now with the coronavirus. We spent a decade thinking the slow-growing economy would eventually take off. Now we would love to have that kind of "progress" back, and it happened in just a couple of months.

Lesson #5: Wounds heal, scars last.

I talk a lot about "muddling through." We have all kinds of problems but we get through them somehow. We adapt to new circumstances and find new answers. I suspect Morgan would agree, but he also makes a distinction between *wounds* and *scars*.

The people who muddle through a calamity are, by definition, the ones who survived it. So I can correctly say the US will muddle through the coronavirus, but some 70,000 Americans *won't* muddle through because they are dead. That number could rise considerably higher.

Surviving family members will carry emotional scars the rest of their lives. It's not a small number, either, when you add the families, friends, co-workers, and (God bless them) the healthcare workers heroically fighting this battle for us, and seeing so much suffering and death.

And that doesn't even account for the scars yet to be earned as we go through recession and a long, slow recovery. People are going to lose their homes as well as their jobs. Children are going to see parents break up. Once-promising careers will be ruined.

We Baby Boomers didn't see the Great Depression but we heard about it from our parents. We know the scars it left on them and, indirectly, on us. This generation will be scarred too. Not in the same way but scarred nonetheless. The future economy will reflect it.

Changes Coming

But let me finish on an optimistic note. There are millions of entrepreneurs around the world. It's not in their DNA to simply quit. Governments cannot lead us out of this crisis. They can make sure the conditions are favorable, but it is those entrepreneurs who will figure out how to create businesses and jobs in the new world.

This same phenomenon has happened after every major crisis and war since before the Industrial Revolution. There is no reason to think it will be any different this time. What will be different and utterly fascinating will be the new business models and services these entrepreneurs create. They will blend the old knowledge with new technology, giving us something completely different.

Yes, we'll have to go through Neil Howe's Fourth Turning and the geopolitical chaos George Friedman predicts, not to mention my own Great Reset, (all of which will be talked about at the conference), but it will happen at the same time the greatest entrepreneurial and technological boom in the history of humanity is brewing. There will be so much opportunity if you are prepared to take advantage of it. The world is not ending. It is just changing and it's going to get better.

I'll end there. You can read Morgan's full essay [here](#). *Over My Shoulder* members can see an annotated version [here](#).

Around the World from My Home

Up until this week, I will admit to not being a fan of video conferencing. I have done a lot of TV interviews. I'm used to going to studios, putting on makeup, and connecting by satellite. And while I wouldn't put on makeup if you came to the house or if we met at a restaurant, I somehow feel that I should have makeup on when I'm in front of a camera. But this week didn't allow that.

I literally had almost a dozen video conference calls, some with as many as nine different participants, literally from all over the world. None of whom were wearing makeup. Many were old friends and it was fun to meet and talk and exchange ideas. I soon became comfortable and realized that watching their expressions, something you can't do over a telephone, really improved the level of communication. I will actually be doing more of these one-on-one in the future.

All of those meetings, and perhaps a dozen phone calls, were in preparation for the [Virtual Strategic Investment Conference](#) starting this Monday. We have more panels this year than ever. Great panels, where the conversation quality is paramount, require planning. Panelists need to meet each other in advance, hash out what to say, discard some ideas and focus on others. Great moderators are critical.

We have always done this conference preplanning by phone, but videoconferencing really improves the communication. I'm not on most of the panels, but I needed to hear them to make sure the entire conference has the right "flow." I also want all the panelists and speakers to understand what comes before and after their parts. This helps the experience for everyone.

You can't imagine how much work it is to pull something like this off. I want to thank my team for their long hours and work. I can hardly wait for the conference to start Monday. I will be coming to you live from the corner of my bedroom, where we have set up my "studio." It has the best lighting and background.

I can already tell, just from the preconference meetings, that this particular SIC will influence my writing/thinking/personal investing for years to come. I think you will find the same. If you haven't already, [join us at the SIC](#). I know, we keep asking that. But honestly? I think as many people as possible should be watching. This will be life-changing for many people. I know it will be one of the highlights of my year if not the last decade.

By the way, whether you're attending SIC or not, [follow me on Twitter \(@JohnFMauldin\)](#) for some behind-the-scenes highlights.

And with that, I will hit the send button and wish you a great week!

Your amazed at the quality of the speakers and thinking I have heard this week analyst,



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