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Taking Stock: Has Political Correctness Entered the Financial World?

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In the U.S. political arena in 2016, political correctness had been experiencing a serious challenge from the far right. The deep-seated resentment over political correctness among segments of the American populace among other issues, helped propel Donald Trump to the presidency.

Political correctness has many definitions that vary, but it often seeks to eliminate forms of discrimination beyond what we used to consider standard in prior periods of time. It can exclude language that could be self-deprecating, potentially offensive or disadvantageous, especially to certain groups of people.

We have seen it permeate little league sports teams as scores are not kept and winners are not decided, so that those on the losing side do not have egos or feelings hurt. In major league sports, some teams that had their names for decades have faced pressure to change them, or face severe criticism and possibly see their events boycotted (even though it can be argued, the names of such teams were not chosen to be insulting or deprecating, but were selected because of a noble trait in that particular characterization). In the course of time, we could see teams with names that include references to Badgers, Cougars, Eagles, Hawks, Lions, Pythons, etc., also face pressure to change, since the names may be considered offensive to animals.

On the geopolitical stage under the virtues of political correctness, a country that is misbehaving might not be openly rebuked for such behavior anymore, but addressed in a rather gentle way, the belief being that by being nice and polite, a malefactor may then decide to be nice back.

I sometimes wonder whether this push towards political correctness has also permeated the investment industry. In the opinion of the author, I think it has to some degree, or at least there has been a push towards softer language. Let us consider some of the following (I am also trying to be a bit outrageously humorous for effect):

- **Central Banks**—it seems we are less willing to say anything that is detrimental to the behavior and actions of central banks. They are omniscient and are the saviors of the world. Their venture into uncharted territory through their policies is a detail that some want to point out as worrisome, but highlighting this fact can be seen as politically incorrect. We should not say anything that could be offensive to central bankers.
- **Asset Discrimination**—it seems that any statement that favors a particular investment or security over another, is much more tempered today. Let us not disparage any particular asset class. Let us make less relative assessments. We can be wrong.
- **Market Forecasting**—we probably do not need that activity anymore, since the world has become so much more stable. We have learned the lessons from the past. Everything is just going to move along in a straight line so let us not have anyone spoil it by saying this is not so.
- **Market Timing**—that has become an almost hateful, dirty word. Anyone engaging or suggesting such an action can be condemned and labeled as ignorant and silly. Any strong opinion on future market performance is now often muted, since it can also create fear.
- **Litigation**—let us not say anything negative about any particular financial or investment action, since this could generate adverse legal action. After all, do we truly know if a particular security or investment is truly bad or not? It is all subjective as the saying goes.
- **Asset Inflation**—I find that most are less willing to admit asset bubbles are being created. We can find or invent some metric (someplace) that can show that certain investments are not that expensive, after all. There are no absolutes.
- **Price Inflation**—there is no such thing. Even though it seems that what we buy at the supermarket is getting more expensive or the packaging is becoming smaller, we are looking at the wrong stuff. Let us not get too excited. Referring to any type of inflation can be prejudiced and biased.
- **Competition**—the desire for different groups to outdo each other is totally unnecessary. Let us have competition eliminated and adopt a more conciliatory tone. No one is going to charge us too much if they know their product is the only one on the market, since everyone is good-natured. They will keep their prices low for the greater good. The idea that people are greedy when they are the only providers in town, is purely hypothetical.

- **Currency Hedging**—hedging currency at 50 percent is the perfect politically correct response. We can be half-right or half-wrong and everyone will be happy. No one needs to be unreasonably biased in one direction or another. Having a glass half full or half empty is the perfect example of varying perceptions.
- **Active vs. Passive Investing**—let us avoid the active-passive investment debate altogether by buying investments such as smart beta or factor-based ETFs (Exchange-Traded Funds). No personal decisions need to be made (i.e., it is all rules-based eliminating the impact of emotion and opinion), while we still have the opportunity to exceed the benchmark and everyone is satisfied. These investment solutions are a perfect politically correct response. The angst of choosing between an active or passive investment strategy is now gone.

Perhaps my references above may be a stretch as far as political correctness is concerned, but I have noticed a softer, gentler tone within the financial industry in the past number of years. There is a fear of being dogmatic, a lack of being overly confident in any particular view or idea (relative to the past), and possibly an open-mindedness that is gone farther than necessary. I used to like hearing strong and bold statements about investment opportunities and scenarios, and these seem to be more lacking these days. Or maybe it is the result of a financial environment which is far more uncertain and unpredictable, and hence there is a desire to stay unlocked from a firm position.

GETTING BACK TO REALITY

Various statements made during the 2016 political campaign were labelled as negative (and outside the realm of being politically correct), but they did represent reality to many. For example, Mr. Trump said the following:

"I just say this: We are a country that doesn't win anymore. We don't win anymore. When was the last time we won? We don't win on trade. We don't win on the military. We don't beat ISIS. We don't do anything. We're not good. We're just not the same place. We are going to win, so much.

"We're going to win at the military; we're going to win on trade; we're going to get rid of Obamacare and come

up with great, great powerful, wonderful health care. I'll tell you what. We're going to win again. We're going to win at every single level, and we're not going to be laughed at by the rest of the world."

As mentioned before, political correctness can exclude language that is self-deprecating. The above quote is a very good example of that. The Clinton campaign liked to portray that the U.S.'s best days were still ahead and that all of the Trump language just brought the country down. We do not want anyone or any particular group to feel bad.

There is a reality that we see on display every day in the financial world. The world is competitive and we cannot assume certain details do not matter. Perhaps because the U.S. has always managed to "dodge the bullet" whether it be in financial crises, wars, social upheavals, etc., some do not want to focus on the negative. But ignoring the negative will result in no solutions being put forward—we cannot ignore bad events under the assumption that everything will work out in the end. Action does have to be taken since the world is not actually a nice place. Consider the following:

- **We Cannot All Be Winners**—being a loser can benefit a person more than they realize. They want to try harder the next time. They want to create better products and solutions. There is a big desire to win in all of us. It may not be politically correct to think like this, but this can help everyone who does not give up. Learning to deal with negative emotions effectively helps one to rise to the challenge the next time and try harder.
- **Investments Do Fail**—we cannot assume every investment can be a good choice, even if every one of them is supported by the best of intentions. We know that pretending that all investments are created equal is not true. Evaluations need to be made and then adjustments can follow to better serve the needs of investors.
- **The \$20 Trillion U.S. Federal Debt**—something is wrong when a country such as the U.S. continues to mount up huge levels of federal debt, and this is also true for its other programs such as Social Security and Medicare/Medicaid where the deficits continue to skyrocket.
- **There Are Dishonest People**—we may have to call out those who are not acting in the best interests of the public. Being passive is not the best solution for our society. Political correctness should not be used as an excuse to not identify those who are acting inappropriately and can hurt investor confidence.
- **Supporting Weakness Creates More Weakness**—protecting vulnerable industries is not often the best solution unless

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they have also been treated unfairly. We need to properly assess which is which. Sometimes foreign goods are not better choices, but they may have received advantages created by currency exchange differences, support by their governments or generous subsidies. On the other hand, certain industries may need to shrink or fail if they no longer make sense. A soft tone towards potential areas of weakness does not produce positive reform.

- **Decisions and the Herd Instinct**—political correctness can blur decision making and create a herd instinct as some investors become less discriminating in their choices. Sometimes choices need to be made and these decisions are tied to a particular reality, not based on the belief that all factors in a decision must be weighted equally. A refusal to identify certain factors in investment decision making will often result in more parties making similar conclusions, as the range of factors considered is reduced.
- **Evolution Does Create Progress**—Regardless of what one thinks about the theory of evolution, the survival of the fittest principle does lead to greater progress and innovation. When we try to make all levels of play equal which can happen through regulation and protectionism, it can stifle the upward mobility of an industry or the speed of innovation.
- **Nations Do Not Play Fair**—when a competing country knows that another country is unwilling to confront emerging issues due to various sensitivities, it can pose some serious disadvantages. We see this today with the debate over immigration, where some countries are willing to be open to all types of immigration while others are now being quite restrictive. The flow of new individuals into or out of a country can change the degree to which local social services are being strained and impact the use of local resources. This is also something that needs to be addressed, but being politically correct often results in the conversation being avoided altogether.
- **We Cannot Be a Welfare State**—sometimes political correctness aims to protect those who are disadvantaged, but sometimes the net result becomes an endless cycle of dependency. Often the greater good is achieved when everyone tries to be productive. A prod is sometimes required to get people motivated again, rather than to avoid the problem altogether by ignoring it, thinking that the alternative is too sensitive and can hurt people's feelings. Assessing the problems more realistically can divert limited resources to those who need it the most, but political correctness can again prevent the issues from being assessed objectively.

- **Denial of Geopolitical or Other Risks**—being overly concerned that open criticism of a nation state can be too provocative, is not a solution to avoiding various global risks. Sometimes peace can be achieved by pointing out improper activity or behavior and working through it. We are a global community that can be impacted by the actions of various countries and this can impact investment performance.
- **Those Who Do Not Embrace Political Correctness Make Money**—political correctness can help others make money. When restrictions are placed on economic or financial activity in the name of political correctness, then those who do not have such impediments can take advantage of the situation. Until the world as a whole moves along together with a similar mindset, advantages and disadvantages remain. An example of this may be responsible investing, where we may not want to invest in a certain company because it exploits the behavior of various groups, but until the spotlight is focused on the matter, some will benefit inappropriately. We need to raise the playing field across international boundaries, but this takes time.

SUMMARY

Political correctness in 2016 has sometimes been attacked as being on the verge of ridiculous, no longer being properly reflective of the world we live in. It may have gone too far. One remark that had often been made about Mr. Trump (that made him popular), is that “he tells it like it is.” The attempt in our society to make all things equal and to avoid pointing out the things that are failing in areas such as the global economy, in the spirit or name of political correctness, is not useful or productive. Only by focusing sometimes on the negative can we also better the society and the economy, even if we feel like losers for a time.

In the area of investments, we may also be finding a hyper-sensitivity as to how investment performance and activity is described and portrayed. Maybe the above comments on how political correctness has also affected the investment world have some validity, or maybe the author is becoming hypersensitive to the subject himself and is seeing something that is not truly there, and needs to be politically corrected. ■



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