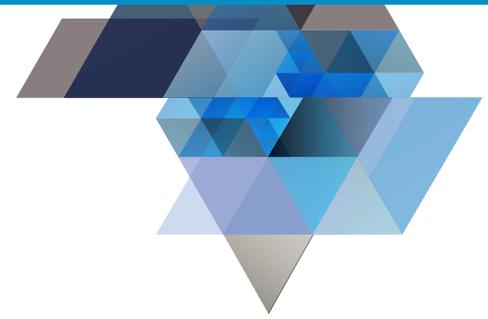


# ROBERTSON STEPHENS

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## INVESTMENT RESOURCE GROUP

Jeanette Garretty  
Managing Director  
Chief Economist  
[jgarretty@rscapital.com](mailto:jgarretty@rscapital.com)



## NEW WORLD ORDERS, PART II

In 1966, Buffalo Springfield hit the charts with “For What It’s Worth,” which became something of an anthem for its time, the beginning of an era of tremendous demographic, social and economic change:

*“There’s something happening here  
But what it is ain’t exactly clear  
There’s a man with a gun over there  
Telling me I got to beware*

*I think it’s time we stop  
Children, what’s that sound?  
Everybody look—what’s going down?*

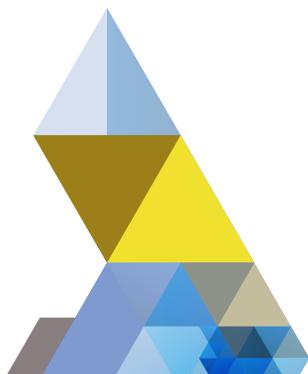
*There’s battle lines being drawn  
Nobody’s right if everybody’s wrong  
Young people speakin’ their minds  
Getting so much resistance from behind*

*It’s time we stop  
Hey, what’s that sound?  
Everybody look—what’s going down?”*

The baby-boomers are now doing it again, throwing out the old order without a clear sense of where the new order will take them. That’s not a criticism, but a fair statement about disruptive change in general. If the change is truly earthshaking, one can never be entirely sure where the tsunami will hit, when the tectonic plates will shift next, when the ground will stop shuddering.

Paul Krugman in this morning’s *New York Times* offers up a long view that is as apocalyptic as what must have been the view to some in 1966. “We are very probably looking at a global recession, with no end in sight.” He qualifies this – all good economists know to qualify their forecasts, and this is a Nobel Prize-winning one – by saying, “I suppose we could get lucky somehow.” An alternative view that still gives ample due to Dr. Krugman’s concerns about free trade, globalization and debt is one that sees change in a more positive light. With change there is opportunity, albeit at sometimes-considerable cost. For that reason, opportunity is a challenge, a gauntlet thrown down, waiting to be picked up.

At whose feet do those gauntlets lie this November morning, fifty years after Buffalo Springfield’s clarion call?



### The EU

Even with the acknowledgement that the Brexit vote and the election of Donald Trump are not so much “clear decisions” as “uncertain directions,” the powers-that-be in the EU must be recognizing that they represent the old order, an old way of thinking about communities and economies that is in need of serious reinvention. Quickly. The EU’s self-sense as the bastion of wisdom and leadership, creating a modern utopia, suddenly seems as outdated as a 1950’s sci-fi novel.

### The Tech Community

All you “disrupters” out there, consider yourselves disrupted. In many ways, the US elections vividly illustrate that technology has NOT bridged the gap between urban and rural communities, has not convinced all people that their lives are better because of technology (even if it’s true), and may be to blame for some of the income/opportunity inequality that is fueling populist anger. On a bad day, social media simply looks like a vehicle for terrorist attacks, bullying, racism, and conspiracy theories. It is likely that technology and the innovators who create technological change will be an important part of addressing the broad challenges of this world highlighted by the popular movements in Britain, the US and elsewhere; technology will be instrumental in turning the challenges into opportunities. But technology innovators are going to have to become leaders for the greater good. And contend with a US President-elect who reportedly does not use a computer.

### The Late Twentieth Century Business Model

At some point in the early 1990s, globalization hit full stride as the alternative to internationalization. Whereas many large businesses in the US and elsewhere had long had an international sales focus, globalization was a profit model built on the efficiencies of hiring, assembling, producing and selling wherever the comparative advantage dictated. At the same time, US businesses adopted employment-at-will policies and moved away from the stakeholder model of corporate governance (which included communities and employees as stakeholders, along with shareholders) to a shareholder model. These changes may not have been explicitly understood by many at the time, but it may be that the emotional understanding of the consequences is what drove the election returns in the US and partially in Britain. A twenty-first century business model is being called for, but the uncertainty over how to execute on it while protecting profit growth is notable.

### The Economists

Economists tend to prefer to talk to other economists for the same reason that observant religious people avoid talking to atheists. Economists believe in free trade, globalization, entrepreneurship, productivity growth and (mostly) capitalism and as long as they are talking to other economists they don’t really have to explain why. Admittedly, describing the benefits of trade zones and mobility of labor and capital, for example, is surprisingly complex. Nevertheless, economists must do a vastly better job of making economics understood to be useful and meaningful to non-economists, while at the same time acknowledging that the “real world” can be messy. The formulation of fiscal policy without the guidance of economic knowledge and thought is a truly scary concept – almost as scary as all the mathematical and economic models that fueled the 2008 financial crisis and the Long Term Capital Management crisis before that.

### The Policy Makers in the World's Major Economies

In some ways, the political developments of 2016 should now make it easier for those charged with formulating social and economic policy to address the cold, hard facts of low birth rates, aging populations, cultural identity, costly entitlement programs, income inequality, education and training deficiencies, etc. Social and demographic changes are structural forces with economic consequences that can be managed, maybe modified, but seldom stopped. Politics and politicians may try, especially if a “mandate” is perceived, but that would just be a return to the old approaches that have put developed market societies on edge. And mandates aren’t what they used to be. Ronald Reagan thought he had a mandate to eliminate regulations and appointed James Watt as Secretary of the Interior to eliminate environmental protections, only to find out that everyone really did want clean water and pristine national parks. Health care, education, safety nets to protect in times of economic volatility, equality and fairness at work, protection against fraud and many other things are still core expectations of developed market societies. The challenge is how to meet those expectations more effectively, not to deny they exist.

### The Electorate

Adapting to change is hard work, requiring information, thought, relearning, and mental effort that demands physical energy. Changing things that need changing may not immediately “feel better” because one does not realize the degree to which one has adapted one’s life to the existing, disliked, realities. Going back to a vaguely recalled historical nirvana is not possible while plunging forward into a new reality is periodically exciting and always exhausting. Having moved two great economies forward into a new place, the heavy lifting to be done by the electorate has only just begun. The popular force that has, perhaps understandably, demanded a new way of doing things, needs to transform into the work force that will actually get those things done. It won’t be easy.

It is possible to look at both the Brexit vote and the US presidential election as wiping the slate clean, inviting in the new as part of a clear and honest conversation about the structure and goals of society. Economists can evaluate the choices, but ultimately, the decision lies with society. Just as was the case in 1966, it will take many years for the consequences to play out, at which point there will, no doubt, be another earthshaking upheaval. Both gloom and doom and wild euphoria seem inappropriate at this moment. It’s just going to be a lot of hard work.

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