What Stands in the Way Becomes the Way

I am neither intelligent nor stoic enough to utter something so wise. That title above belongs to Marcus Aurelius, not me. However I have always been attracted to stories where – or indeed required that – there was an obstacle in the way. I seek and am drawn to investment ideas where I believe there is something affecting the psychology on the other side of my trade. Consequently, as two ideas diverge in red or green tape, I often take Robert Frost's road less traveled.

Historically, my views and motivation were almost always from the bottom up. I got excited about individual ideas. I still do. But for the first time in a long time, I wonder if the top-down setup isn't worth some attention too.

Over the past several months, I've done a few podcasts[i] and published an op-ed[ii] about the potential pending opportunity in the rusty old-world cauldron of European equities. I wonder if it is darkest before the dawn. I wonder if the wind won't always be in our faces. But in none of what I have stated was communicated as well as Jason Zweig did in his recent column[iii] for The Wall Street Journal.

Here are some excerpts from Jason's piece:

> *"Stock prices impound the expected. If the future unfolds according to the consensus, markets won't move much. Surprise is the source of extra returns, magnifying gains and losses alike.*
>
> *Enterprising investors—those who are willing to put time and effort into diverging from the crowd—should always be thinking about where the potential for surprise is the greatest. For U.S. investors right now, that could mean venturing abroad.*
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> *On just about every dimension, international stocks look and feel miserable. The economic news is dismal, currencies are crippled and returns have been rotten for years. Things are likely to get even worse before they get better.*
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> *Europe is caught up in a war that could escalate without warning or limit—as well as an energy crisis that's all but certain to cause a severe recession. Fierce energy inflation will also make European manufacturers less competitive.*
>
> *U.S. companies may be so much more innovative that they deserve to be more richly valued than stocks elsewhere in the world. But how much of a premium do they deserve? Could the vast outperformance of U.S. stocks be blinding investors to the simple fact that international stocks are cheap?*
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> *Turning your back on international stocks today, however, is a bet that their lousy performance is pretty much permanent. And not many things in markets last indefinitely.*
>
> *The obvious negatives are already priced in: a prolonged war in Ukraine, an acute energy crisis and raging inflation, a brutal recession, floundering currencies.*
>
> *With pessimism this pervasive, it wouldn't take many positive surprises to overturn the obvious—and make global diversification lucrative again"*

Are we, or are you, going to absolutely be right with perfect timing if you immediately shift some assets out of the US and into European markets? No, that's extremely unlikely. But has the US-led growth bubble now been exposed? Has psychology changed? Is Mr. Market's appetite for long-duration, low-vol stories potentially waning? Do those that gave credit to low interest rates for driving certain stocks higher or lower now see a new environment? Is the paradigm shifting?

And on the other side, there is conventional wisdom. Has Russia invaded the Ukraine? Yes. Are natural gas and other energy costs in Europe skyrocketing? Yes. Is inflation rearing its head, disastrously in some areas. Yes. Is the dollar crushing the Euro and Sterling? Yes.

But tell me something I don't know. Tell me something Mr. Market doesn't already know.

And ask yourself if maybe a weaker local currency isn't terrible for exporters. Or if restarting nuclear plants isn't a much-needed sea change in national policy. When there is blood on the streets, ask yourself if you would rather be looking for things to sell, or things to buy.

I guess what I am saying is I don't think that Aurelius, Frost or Zweig would disagree that the road less traveled might have a little more alpha in it.

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[i] *Fault Lines in U.S. Equities and Behavioral Finance, with Drew Dickson and Morgan Housel* *https://go.alpha-sense.com/wod-stm-state-of-the-market.html?utm_source=twitter&utm_medium=social&utm_campaign=STM_Webinar&utm_content=*

Standard Deviations with Dr. Daniel Crosby – Stay in the Game with Drew Dickson *https://www.standarddeviationspod.com/episodes/2022/6/9/drew-dickson-stay-in-the-game*

Investors First Podcast with Frank Garcia and Colby Donovan: Behavioral Investing, Bias-Bias, and the Intersection of Sports & Investing with Drew Dickson *https://www.cfasociety.org/orlando/Pages/Investorsfirstpodcast-Drew-Dickson.aspx*

[ii] *Here's why European value stocks could top U.S. growth plays over the next decade, by Drew Dickson* *https://www.marketwatch.com/story/heres-why-european-value-stocks-could-top-u-s-growth-plays-over-the-next-decade-11651510245*

[iii] *Where You Can Find Stock Market Bargains, by Jason Zweig* *https://www.wsj.com/articles/international-stocks-investing-analysis-11663340128?*