

Marcellus Investment Managers

Three longs & three shorts: this week's best reads [25th Nov 2018]



At the end of each week, we will share with you our favourite reads. We would be grateful if you could reciprocate. This week's reads focus on the plastic backlash, the future of war, the isolated Sentinelese tribe, momentum investing and the perils of ignoring the short run for a long-term investor.

1. Long read: The plastic backlash: what's behind our sudden rage – and will it make a difference?

Authors: Stephen Buranyi

Source: The Guardian (<https://www.theguardian.com/environment/2018/nov/13/the-plastic-backlash-whats-behind-our-sudden-rage-and-will-it-make-a-difference>)

Plastic is the main background material of modern material life. “You might be surprised to learn, for instance, that today's cars and planes are, by volume, about 50% plastic. More clothing is made out of polyester and nylon, both plastics, than cotton or wool. Plastic is also used in minute quantities as an adhesive to seal the vast majority of the 60bn teabags used in Britain each year... Each year, the world produces around 340m tonnes of the stuff, enough to fill every skyscraper in New York City. Humankind has produced unfathomable quantities of plastic for decades, first passing the 100m tonne mark in the early 1990s. But for some reason it is only very recently that people have really begun to care.”

But getting rid of plastic won't be easy. Plastic is cheap, light and flexible. “...plastic made possible the cheap and disposable consumer culture that we have come to take for granted.”

So why have people become so worked up about plastic all of a sudden?

“The shift in thinking started with the public outcry over microbeads, the small, abrasive grains of plastic that companies began pouring into cosmetic and cleaning products in the mid-1990s to add grit. (Nearly every plastic product has a natural and often biodegradable antecedent – plastic microbeads replaced ground seed kernels or pumice stones.) Scientists began raising the alarm about potential dangers posed to sea life in 2010, and people were shocked to learn that

microbeads were in thousands of products, from Johnson & Johnson's spot-clearing face scrubs, to supposedly eco-friendly brands like the Body Shop.

The realisation that microbeads were pouring down millions of shower drains was a key moment in the public turn against plastic, according to Will McCallum, head of plastics campaigns at Greenpeace UK. "It was a design decision, a design flaw really," he said. "It led people to ask, 'How did this happen?'"

Then we learnt that synthetic fabrics like nylon and polyester would shed thousands of microscopic fibres with every wash. These fibres end up lodged in the guts of fish. Then came tyres – 60% of the volume of a tyre is plastic and these tyres shed even more microfibrils than our synthetic clothes.

As these issues built up, plastic became public enemy #1 and crowded out what are arguably more important issues like global warming. Part of the reason for this is that people feel they can do something about plastic – using a paper straw makes you feel you are doing something useful in saving the planet. That in turn has meant that across the world the campaign against single-use plastic has taken off. In contrast, with someone as big and as complex as global warming, many people have stopped believing that their own actions can make a difference.

Politicians too have realised that going after single use plastic gives them green credentials in a way that tackling global warming couldn't give them (because tangible progress with a mega-issue like global warming is hard to show).

2. Long read: The future of war

Author: Jason Korvold

Source: Financial Times (<https://www.google.co.in/amp/s/amp.ft.com/content/442de9aa-e7a0-11e8-8a85-04b8afea6ea3>)

This article provides a riveting insight just how high tech war has already become and how frighteningly sophisticated it is about to become. At the vanguard of this revolution in fighting are, as expected, USA and China, both of whom seem to be preparing for World War III. With America intent upon using India as a counterweight to China (and with India not really having any other high powered ally in its emerging conflict with China), it seems certain that some of our tax dollars will be spent buying these high tech weapons.

Patriots and nationalists out there who think war and fighting can solve anything should read this long and superbly detailed article. Some of the key points made in this piece are:

- The autonomous military vehicles of the future – tanks, drones, robots, etc – may have legs rather than wheels or tracks.

- Human armies seem likely to become obsolete as much of the fighting will be done by machines (who will fight other machines). AI powered robot-soldiers will be fighters of tomorrow.
- Robot-soldiers will come in all sorts of shape and sizes. Some will be the size and shape of dogs and will be sent on scouting missions to assess hidden threats. Others will be as small as insects and will attach themselves to sensitive military equipment. The possibilities seem endless.
- The US is developing hypersonic missiles i.e. missiles which fly at 5x the speed of sound.
- Tomorrow's bullets will use electromagnetic force so that they can far exceed the damage done by conventional bullets.
- High energy supersonic lasers which can zap drones and missiles are under development.
- The speed of warfare in the future will be blinding. Hence monitoring and management of war will require heavy use of satellite technology and tech grids which can feed information to the war planners/generals. Therefore, jammers which could block enemy satellites will be critical. Secondly, quantum computing – which works much faster than conventional computing – will be essential to have an edge on the enemy.
- To the extent, conventional soldiers will have a role, their bodies will be enhanced by high tech add-ons such as a “third arm” i.e. an exoskeleton arm which can hold a gun (or whatever else you want it to hold) and carry on shooting if need be (whilst the soldier assesses the battlefield using his optically enhanced visor).
- China has developed its own stealth fighter jets and put missiles and bombers in a string of islands on the South China Sea thus restricting the US' ability to protect longstanding allies like Taiwan and Japan. It is a fair bet that China will try to replicate this strategy in the Indian Ocean and seek to encircle India.
- It takes China less than seven years to build a weapon from idea to operational capability. It takes the US 16 years to do the same. Let's not even ask how long it takes India.
- China has vowed to become as strong as the US in AI by 2025 and become the dominant world force by 2030. Vladimir Putin has said that whoever becomes the world leader in AI will rule the world.

In the meantime, back in the ranch in India, we can't get our military procurement moving as scandal after scandal ensnares India's defence procurement. You don't have to be a long term thinker or investor to think through the implications of the above.

3. Long read: A visit to North Sentinel island: 'Please, please, please, let us not destroy this last haven'

Author: Madhusree Mukerjee

Source: Scroll.in (<https://scroll.in/article/903254/a-visit-to-north-sentinel-island-please-please-please-let-us-not-destroy-this-last-haven>)

In light of this week's news of the killing of an American man in the North Sentinel Island of the Andaman's by an isolated tribe, this book excerpt on Scroll.in is a fascinating read on what remains one of the last bunch of humans completely isolated from the rest of humanity and how very little is known about them. Indeed, it highlights the paradox of how the isolation has somewhat kept them alive (due to the tribe's lack of immunity to modern human diseases) yet the actions of the rest of humanity (climate change) might eventually send them to extinction.

"I had decidedly mixed feelings about the trip. The Sentinel Islanders should be left alone, I completely believed. On the other hand, many fishermen approached the island because of its rich waters, and one heard of foreign poachers as well. I felt I needed to know if the islanders were interacting with outsiders, for that was the beginning of the end. But I recognized that most anyone could construct a rationale for why she and no one else should have access to an endangered people....What would kill off the Sentinel islanders, ultimately, would not be the impoverished populations nearby, which are now held at bay. It would be the flatulence of the wealthy society where I lived, at the other end of the globe."

4. Short read: Proxy resignation service helps Japan's dutiful workers to quit dead end jobs

Author: Leo Lewis

Source: Financial Times (<https://www.google.co.in/amp/s/amp.ft.com/content/17ad1942-e588-11e8-8a85-04b8afea6ea3>)

Have you been in a situation where you desperately want to quit a job but you don't quite have it in you to tell your employer? Well, the Japanese have figured out a solution to this problem. In Japan, all you have to do is call a proxy resignation service, tell them you want to quit and when you want to quit. They will take it from there i.e. they will call your employer and tell that you will no longer be coming to office and that the employer needs to expedite – switching to Indian parlance use – the "full & final settlement".

The name of one of the more prominent proxy resignation service providers in Japan is Exit. However, this space, whilst uncrowded at present, is expect to see rapid new entry as in a labour starved market like Japan, it is really easy to quit a job you don't like and get a new one. As the market for skilled labour tightens in India, this sort of service would work really well in India.

5. Short read: Momentum Investing: It Works, But Why?

Author: Tom Petruno

Source: UCLA Anderson Review (<http://www.anderson.ucla.edu/faculty-and-research/anderson-review/momentum>)

From the time we entered the stockmarket, all of us have been taught that “if everyone knows that the stock is a BUY then that info is fully factored in the stock price and you can’t make money”. But if that is the case then how is that “momentum investing - which is betting that the stock market’s recent winners will remain winners in the near term and, likewise, that the recent losers will remain losers” – works.

In 1993 a pioneering study published in the Journal of Finance by Narasimhan Jegadeesh and Sheridan Titman, both at UCLA Anderson at the time, showed that “buying recent stock winners and selling recent losers generated significantly higher near-term returns than the U.S. market overall from 1965 to 1989.” However, Jegadeesh & Titman did not explain in that piece why momentum investing works

UCLA Anderson’s Avanidhar Subrahmanyam has had a crack at laying out some of the reasons why momentum investing works in his August 2018 paper for the Pacific-Basin Finance Journal.

“In his research into 25 years of academic literature on momentum, Subrahmanyam found that many of the rationales presented for the strategy’s success fall into one of two behavioral categories: Investors either overreact to important information, or they underreact to it. Because, after all, we’re only human.”

For example, we underreact to momentum because some stocks rise slowly & gradually. At a psychological level, it appears that our brain does not lock-into these winners early enough and discount the entire upside that can accrue in the future. Another example of a psychological bias which could cause momentum is if a stock has been doing well in our portfolio, we become wedded to it and fail to discount bad news on the company efficiently (our brain does not place a high enough emphasis on the bad news).

Leaving aside psychology, another reason momentum investing might be so successful is risk premia i.e. the upside we get from momentum investing is the return we get from buying a risky stock.

All of this being said, even Subrahmanyam concludes that the consistent & puzzling success of momentum investing is perhaps the greatest challenge to Eugene Fama’s “efficient markets” theory.

To read, Subrahmanyam’s fascinating paper, [click here](#):

http://www.anderson.ucla.edu/Documents/sites/faculty/review%20publications/research/Subra2018_Momentum.pdf

6. Short read: Time Horizon vs. Endurance

Author: Morgan Housel

Source: Collaborative Fund (<https://www.collaborativefund.com/blog/time-horizon-vs-endurance/>)

Another gem from Morgan Housel. The gospel of long term investing remains incomplete without acknowledging the importance of keeping an eye on events in the short run. At Marcellus, whilst we swear by our low churn, buy-and-hold philosophy, we do spend every ounce of our energy analysing any short term developments and trying to decipher the noise from the signal that can either validate or question our long term investment thesis on a continuous basis.

Housel writes, "It's wrong – dangerous – to assume that because you have a long time horizon you can ignore the short run. If you ignore something, you're unprepared for it. And when you're unprepared for it it will eventually take advantage of you. The beauty of a long time horizon is capturing a compounding effect that others who quit before you forgo. But that only works when you're keenly aware of, and prepared for, and managing for, the kind of short-term stuff that people with shorter time horizons don't want to deal with."

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