



Bringing the future into focus

Pippa Malmgren views the world economy through a different lens than most – one not limited to data points.

Transparent pants.

From Pippa Malmgren's vantage point, they are a window into not only, well, everything underneath them, but the world economy. And before you dismiss the idea as ludicrous, consider Malmgren accurately predicted events few others saw coming: the financial crisis, Brexit, the election of Donald Trump and more.

So, hear her out.

"This is a zeitgeist issue," she said. "A popular trend in fashion right now is transparent clothing, whether it's very fine lace or completely see-through plastic jeans, which sound dreadful, but they are really popular. If you go to your Instagram account and look at Hollywood stars, they are literally wearing completely see-through clothing."

And what does this tell us about where the economy is going?

"Personally, and I know this sounds crazy, but I think it's a cry for transparency," Malmgren said. "People are feeling the loss of trust in institutions, in ideas, in their own future, and they are begging for more transparency. And they will literally express that in their choice of clothing. I think that is an interesting signal we can toy with in our minds."

"I can put it another way: Do we live in a world where everybody feels the emperor is wearing no clothes?"

Certainly, Malmgren sees things many others do not. Hans Christian Andersen tales are not Morningstar rated, though, so Malmgren relies on another tool in her successful career as a financial analyst, geopolitician, author and speaker:

Imagination.

"Your imagination is the key to getting it right," she said.

Malmgren picks her head up from the array of datasheets on a typical advisor's desk to take in the world around her. She looks for innovation. She follows the signals, as she calls them, there for anyone to see.

Few, however, look.

"I think we've been seduced by what you could call Western reductionism, which is the idea that everything can be reduced to a number," Malmgren said during a recent phone call from her home base in London. "It's a very attractive idea, right?"

The snag, of course, is that real life rarely adheres to a formula. Yet, taking the time to figure out things that don't fit into the model is costly, and there's the terrifying possibility it could turn out to be wrong. So, we stick with data.

"We feel safe when we're hugging the numbers," she said.

The daughter of a brilliant mathematician, Malmgren dared to be different. She decided at a young age she could never do data better than her father, Harald Malmgren, a scholar, international negotiator and aide to U.S. Presidents John F. Kennedy, Lyndon Johnson, Richard Nixon and Gerald Ford. So, she embarked on a career in investment banking by going beyond the numbers, using her gift for storytelling to connect the world around her to economics.

Hemlines. Tension in the South China Sea. Sci-fi movies. Trump's election. Food production in the Ukraine. Electric cars.

Malmgren, who served as an advisor to Presidents Ronald Reagan and George W. Bush, sees all these seemingly random things as interrelated. And she thinks financial advisors should be aware of the ways art, technology and world politics can influence the financial markets.

"Geopolitics is fascinating," she said.

Geopolitics considers the influence of geography, economics and demography on politics and foreign policy. Globalism versus nationalism. Nuclear weapons in North Korea. Russian sea and air incursions in the Baltic. The One Belt, One Road initiative connecting China to the rest of the world, enabling Chinese brands to become global brands.

“We don’t think imagination is a necessary tool when you’re in financial markets. I profoundly disagree,” Malmgren said. “I think imagination is your most valuable tool in your whole toolkit. It’s your ability to imagine a possible future that allows you to invest in it. Imagine scenarios instead of dismissing them and saying, ‘Oh, that will never happen.’ Think about what you would do ‘if ...’”

Malmgren starts explaining how all of these and more affect the global economy, and 45 minutes go by in a flash. The question, of course, is to what degree a financial advisor should pay attention. Not to the same voracious degree as Malmgren, perhaps – not everyone has time to read the full minutes of the U.S. Federal Open Market Committee meetings – but enough to keep up with the type of investments you care about.

“Ignorance will not be rewarded,” she said.

So, if you’re interested in oil, pay attention to what’s happening in Saudi Arabia and Iran. If you’re interested in infrastructure, be aware that the Chinese are among the world’s leading infrastructure investors. And no matter what you’re interested in, pay close attention to technological innovations, as challenging as it may be.

Whenever she speaks to financial advisors, Malmgren asks how many read Wired magazine. Very few hands go up.

“How can you possibly invest in anything without having some idea what the technological innovations are?” she said. “It boggles my mind.”

Attitude, Malmgren said, is an issue for many in the financial markets, who tend to be established in their careers and are dismissive of technology and social media platforms such as Twitter and Facebook. But the mobile phone in your pocket, she points out, has more computing power than it took to send a man to the moon.

“You ignore that power at your own peril,” she said. “It may be that the only person in your home who knows how to harness it is a 14-year-old. Go, sit down with that 14-year-old, have a conversation and get them to start showing you that universe.”

Financial advisors, she said, should be especially aware of artificial intelligence. Not only is it the future, it’s the competition.

The answers to what the future holds, she said, are not in a spreadsheet. They are in the world around you.

“A spreadsheet is numbers, which means we’ve reduced reality, and that means it’s only about the past,” Malmgren said. “Instead, you should go out into the world and be your own judge about what kind of restaurant is working these days, what kind of fashion is attracting people’s attention, how people are using their mobile phones.

“Literally, it’s about what’s happening in the world around you.”

Malmgren loves to tell the story about the Queen of England asking her economic advisors how they could possibly have failed to see the financial crisis coming. Nine months later, they gave her their answer: a singular lack of imagination.

They simply failed to consider the possibility.

“This is very powerful because we don’t think imagination is a necessary tool when you’re in financial markets. I profoundly

disagree,” Malmgren said. “I think imagination is your most valuable tool in your whole toolkit. It’s your ability to imagine a possible future that allows you to invest in it. Imagine scenarios instead of dismissing them and saying, ‘Oh, that will never happen.’ Think about what you would do ‘if ...’”

Among Malmgren’s contrarian positions is her view on the overall health of the stock market. Looking beyond price-to-earnings ratios and extended valuations, she does not see a bear market just around the corner.

“People seem to be so pessimistic and they all give the same reasons: ‘Well, stock markets are at all-time record highs.’ Yeah, but we put \$18 trillion into the world economy. We flooded the world nine years ago with all this liquidity and central banks have not taken it back.

“Okay, where is it?”

Increasingly, it’s in cash, Malmgren said, which she sees as a mistake in an environment with rising inflation. So, we are reluctant to buy stocks at record prices, and bonds are unattractive, given the amount of debt governments around the world are carrying.

What’s that leave?

Entering the real economy, Malmgren said, either by buying stocks, buying private equity, building a business or lending to someone to build a business. And all of those, she said, make the stock market go up.

“I think the bigger risk,” she said, “is that we continue to have a melt-up that nobody is prepared for rather than the meltdown everyone is waiting for.”

Of course, it’s not easy going against the grain of consensus.

But Malmgren can’t imagine doing anything else.

“Let’s hope you’re swimming against the current,” she said, “because if you’re in the current, you’re not making any money, are you? If you’re with the consensus view in the market then, by definition, there is no more juice, there’s no more profit opportunity, there’s nothing to extract.

“You have to pick positions the market has not yet priced in, otherwise, there’s no point.”

It’s about seeing what’s in front of you.

Just like transparent pants. 🙄



Pippa's imagination starter kit

Pippa Malmgren sees the world differently than many in the financial services industry. To her, relying solely on data to make decisions is the equivalent of having only one eye open. She prefers to open both eyes to look for innovations, which can come in the form of a gadget, an election result or a new style of shoes.

“Imagination is like a muscle,” Malmgren said, “you have to exercise it.”

SET GOOGLE ALERTS

Google alerts contain links to news articles or information about a specific topic. You can set them for just about anything. Malmgren recommends these for financial advisors:

Artificial intelligence: It's such a difficult subject – “even the scientists don't understand,” Malmgren said – but it's so transformational that it will affect almost everything in which we invest, as well as the financial industry itself.

Blockchain and Hashgraph: These cloud-based innovations for digital assets have the potential to change the financial industry, Malmgren said. “They'll capture everything – every transaction, every action that you make, every physical movement and every emotional reaction that you have,” she said. “All of them will be lifted up into the cloud one way or another through all the sensors that you carry and are in you more and more.”

Asset classes and investments: Whatever you're into, whether it's agriculture, infrastructure or retail, set a Google alert.

APPRECIATE ART

No one captures the zeitgeist, Malmgren said, quite like artists, including fashion artists and movie makers. These days, period pieces glorify the past and science-fiction movies show a frightening future. What does it mean? “People are hankering for the past and they are very afraid of the future,” Malmgren said.

ASK “WHAT IF?”

Don't say Donald Trump will never get elected, or Brexit will never happen, Malmgren said, because you close your mind to any other possibility. And no one has a crystal ball. Malmgren treasures this Mark Twain quote: “You can't depend on your eyes when your imagination is out of focus.”