How Now Horatio Alger?

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Horatio Alger[1] was an American writer of novels about impoverished boys rising from humble backgrounds to middle-class security and comfort through hard work, determination, courage and honesty. His writings were characterized by the "rags-to-riches" narrative, which continues to have a formative effect on many entrepreneurs today.

The "rags -to-riches" theme is part of the North American consciousness that helps attract people from around the world to seek their fortunes and success. It is also tied to the idea of free markets as the driver of American pre-eminence globally.

But do we really have free markets anymore? And how does the answer to this question affect your approach to investing in today's markets? Does hard work matter in an era of unlimited money creation by the Federal Reserve and other Central banks?

According to the Horatio Alger mythology, a free market economic system rewards success and punishes those people who fail in the marketplace. The reality today is that with Governments around the globe playing an ever-growing role in their economies, the rewards for personal effort and achievement appears seem to be declining.

When Governments decide which industries to support over others, we end up with "crony capitalism" whereby ties to Government are more important than business viability.

During the recent COVID quarantine in North America, large retail stores and warehouse outlets, were able to continue operating (with Government permission), while their smaller rivals were forced to close until the risks eased. There is no known science to support this treatment of small companies versus larger organizations. None. Yet, large retail organizations were granted privileges that had nothing to do with their business performance.

Recent reports also show that while many private sector employers continue to shed workers (U.S. unemployment applications are at 50+ million people as of early August[2]), Government hiring is up!

The US Federal Reserve is also (as per many media reports) propping up various sectors with direct cash infusions (airlines and cruise lines) or through direct debt purchases from various companies. This activity is a form of centralized planning where Governments are picking winners and losers in the economy. This type of intervention props up many companies that would otherwise go bankrupt – in effect they are supporting zombie companies, much as Japan and other countries have done in recent years.

Many economists have pointed out that letting companies go bankrupt (creative destruction), is a key feature of capitalism. Yet direct interference by Governments and their proxies, the Central Banks, in the economy indicates that we no longer operate in a completely free market economy.

The implication for investors is to recognize the danger of ONLY buying passive investment vehicles that attempt to replicate the entire economy. This strategy can lead to owning a lot of zombie companies and others of lesser quality. These poor-quality companies are characterized by poor earnings (profit) growth and generally poor business success.

If the North American economy remains weak for some time, there will be distinct advantages to using active portfolio managers (with stock picking skills) who can be nimble and responsive to market and economic moves.

Call us today to discuss [1] how we can position you for investment success in these challenging times!

[1] *https://en.wikipedia.org/wiki/Horatio_Alger* **[2]. Retrieved on August 17, 2020.**

[2] *https://www.forbes.com/sites/jackkelly/2020/07/09/nearly-50-million-americans-have-filed-for-unemployment-heres-whats-really-happening/* **[3]. Retrieved on August 18, 2020.**

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