



BOOTS ON THE GROUND, SKIN IN THE GAME

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Whether at a campaign event in the US, meeting foreign leaders in Europe or playing golf at his club in Scotland, US President Trump is never very far from 'The Football'.

A large, metal briefcase, 'The Football' contains all that is necessary for Trump to launch US nuclear weapons, allowing him, wherever he is in the world, to initiate a nuclear strike that could kill millions (if not billions) with a few key entries.

The problem here is easy to diagnose: the detachment of the decision process (typing into a briefcase) contrasts sharply with the impact of that decision (the probable end of the world as we know it). In 1981, academic Roger Fisher proposed an elegant solution for nuclear deterrence that better aligns the gravity of the decision with its outcome: he suggested implanting the nuclear launch codes in a volunteer, close to their heart. If a sitting president needed to launch nuclear weapons, they would therefore need to kill the volunteer to access the codes.

According to Fisher's theory, the reality of killing an innocent with his or her bare hands – spilling “blood on the White House carpet” – would drive home the impact of the decision for the president and likely keep nuclear war at bay.

The disparity between decisions and their impact occurs everywhere and has only been exacerbated by modern technology. Because we can easily view information without having to gather it personally, we often don't fully understand the shortcomings of that data. We can access statistical analysis at the push of a button, for example, without doing the calculations ourselves, meaning we may not understand which assumptions have been made to produce the analysis.

This can pose a serious trap in investment management.

Without much effort, it's possible to obtain detailed information on a company without having to meet anyone from said company. And based on that information, we can choose to invest or disinvest from the comfort of an office chair.

We can – but should we? Here again, the gravity of the decision (transferring our clients' savings to a company to use at its own discretion) stands in sharp contrast to the relative ease with which it can be done. To take an extreme example, a client could invest in a passive high yield index fund, which involves handing capital to firms that may not pay it back. Does the client know every company within the index? Have they looked at each company, met the directors, examined the books and then decided to hand over their own money for the firm to use, under a promise to pay it back? Of course not. As in the case of The Football – albeit on a less dramatic scale – it's a decision that can be made without clearly understanding the weight of the implications.

At T. Rowe Price we do everything we can to make sure our decision process reflects the gravity of our investment decisions. Our global resources provide us the same information that other investors can access. But, conscious of our role as a steward of our clients' savings, we also spend an extraordinary amount of time travelling the world to meet with companies and ensure we know exactly where our clients' money is going.

In 2017 alone, we had over 5000 individual meetings with company managements. Could we have garnered the same information on sales, revenue, costs and valuations from our desks? Probably. Could we have saved a lot of money and time if we didn't travel? Definitely. Would we have gained the perspective and confidence we believe we need to invest our clients' money? No.

Investing for others is a serious business. We want to make sure our process carries the same weight.

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