



## INVESTMENT ADVICE IN ITALIAN FICTION

FEBRUARY 2018

Nick Samouilhan

*Portfolio Specialist, Multi-Asset*

---

One of the most widely celebrated novels of the last 200 years, Giuseppe Tomasi di Lampedusa's *The Leopard* is set during the Italian Risorgimento (the unification movement that consolidated disparate states into one Kingdom of Italy). While ostensibly it tells the story of an aristocratic family navigating social upheaval in the 1800s, it can also teach us something about investing today.

Hear me out.

As his political and economic power ebbs in contrast to the newly-moneyed peasants, the patriarch in *The Leopard* faces a stark choice: adhere to 'old' aristocratic traditions and accept waning power, or engage with the 'new' socio-economic framework and preserve some influence. The crux of the dilemma is articulated in the book's most famous quote: "If we want things to stay as they are, things will have to change."

Di Lampedusa's quote is a useful way to think about means and ends as two separate things. This is, admittedly, difficult to do: as humans, we're prone to conflating an action with its expected outcome. As a result, we continue to undertake the same action even when the outcome changes, failing to instead think about the desired outcome and only *then* assess what we need to do to achieve it.

This is silly, because in investing – like much else – outcomes are more important than means.

It's important to remember the difference between the two, particularly as we're going through an inflection period in markets. While we can debate the timing and magnitude of the withdrawal of policy support, it will invariably turn a tailwind into a headwind. This will have a profound impact on the relationship between means and ends.

One example: by lowering interest rates globally, central bank actions significantly lowered the discount rate that is applied to future dividends. The result has been that broad equity markets, which are ultimately just the net present value of future dividends, have risen dramatically over the last decade. This has been a boon for investors, as even passively holding a broad, indiscriminate portfolio of equities has led to returns in excess of what clients wanted.

However, like the protagonist in *The Leopard*, we now face a choice between means and ends. We can carry on investing as we have in the past, while recognising the stage has changed and therefore our investment decisions are likely to have different outcomes. Or, we can instead focus on our objectives and work backwards, building our portfolios to achieve our goals.

As we enter a 'new normal' for monetary policy and markets, it is going to become much more difficult to generate returns. New actions will be necessary for any investor hoping to make the returns of yesterday.

For 21st Century investors as for 19th Century Sicilian society, for things to stay the same, things will have to change.

---

### Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

**EEA**—Issued in the European Economic Area by T. Rowe Price International Ltd, 60 Queen Victoria Street, London EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

© 2019 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.

