



INVESTMENT ADVICE IN ITALIAN FICTION

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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.

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