

BY RICHARD "JERRY" HAWORTH

The illusion of certainty

The oft-quoted turkey analogy is a good one. Turkeys accumulate confidence in humans over time as they get fed, watered and left to their own devices for much of the year. So, by Thanksgiving, after a long period of harmony with humans, they get slaughtered ...much to their surprise.

I sense the buildup of certainty in the markets, especially the equity market which, if the analogy holds, is going to lead to a very uncomfortable bear market at some point in the future.

The reasons for this are many, but here are a few that come to mind...

Deficits just keep growing, ensuring the party isn't going to stop anytime soon. Trump will run the country like he ran his companies... hot and laden with debt.

The narrative around this though just becomes more and more bizarre. Want to run a big deficit next year? Just submit one to Congress and call it *"One Big Beautiful Bill Act"*. Who is going to vote against a bill with an implicit narrative like that (except Elon, if he could)?

The unanimous rage against DOGE and Elon Musk for trying, God forbid, to cut expenditure before inflation goes exponential.

The unwavering belief in passive investing, which is driving the 80:20 rule to absurd conclusions where "to him that hath, more shall be given", resulting in eyewatering valuations for a very small group of companies.

"The power of the lawyer is in the uncertainty of the law", said Jeremy Bentham.

The corollary is "the power of the portfolio manager is in the uncertainty of the markets". No wonder active management is slowly dying, as the illusion of certainty takes hold.

Should AI, the current mania, prove to be either a) not everything it is cracked up to be; or b) it is the real deal but there is no way to get a ROI on it; then the market cap of the biggest names is woefully overvalued.

The concentration of wealth in a small number of names is a tell-tale sign of a late-stage bull market. Radio stocks in the 20's, TV stocks of the 60's, internet stocks of the 90's.

The move into private equity and private credit could also be a tell-tale sign for the illusion of certainty.

I remember a time when liquidity and transparency were things to be valued and paid for.

We are also confident that the politics of the day is not going to create additional uncertainty. What??

We have numbed ourselves to politics because of the outlandish statement/ rollback dynamic.

At our peril...

Where is this all going?

With my macro lens, the balance of probability points to a late-stage bull market given the high level of perceived uncertainty.

The illusion of certainty seems to be a cycle. The fog of uncertainty lies before us, and we stare hard at it, trying to see into the future. Over time, we begin to delude ourselves that we can see through the fog and that the future is bright and clear. Illusion and delusion rule the day.

This seems to be where we are today.

What starts the “disillusionment”, and when it starts, is anyone’s guess but, we can say, given the tell-tale signs, that we are closer to the end than at the beginning.

Once that illusion/delusion is thoroughly dismantled, investors will begin to see more and more uncertainty that simply is not there. Thus, the fog envelopes everything around them and chaos seems to rule the day. *(Feb-March 2020 was a good example of this.)*

In the meantime, we watch with interest and amazement.

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