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Living in a World of Déjà Vu

It's difficult to invest without believing in cycles. From business cycles and product cycles to stock market cycles, there is a tendency for patterns to repeat in variations on the theme over time.

In his most recent book, **The Storm Before the Calm**, geopolitical analyst George Friedman gives a new perspective to today's political hostility, riots and turmoil. We are at the intersection of two major cycles in American history, he maintains. The first, an 80-year institutional cycle, results in a dramatic change in the way political and social institutions work and the relationship between state and federal governments. The second, a 50-year socioeconomic cycle, results from deep social and economic dislocation and dramatically changes social relationships and economic policy.

The 2020s are unique in the history of the U.S. in that both cycles turn over in the current decade. The good news is that these cycles are necessary and healthy, resulting in new technologies, opportunities for "disruptors" to excel, and ultimately a better country. The bad news is that the decade before the shift is characterized by political instability, electoral chaos, economic distress, and social discord for much of the population. And that's all without the impact of Covid 19, which was just beginning to surface when the book was published.

Friedman's message is disturbing in that he sees no quick resolution to the uncertainties and difficulties of life for many Americans. But it is also reassuring from the perspective that this is not new, it has happened before, it will pass, and the end result will be a better world -- until we outgrow the benefits of change and slip once more into the storm.

Institutional cycles, which shape the character and nature of government, have historically been driven by war, according to Friedman. Wars require rethinking and restructuring government. From December 7, 1941 to December 31, 1991, when the Soviet Union was officially dissolved, the U.S. was in a permanent state of war. Decision making in Washington was streamlined for crisis, not routine decisions. Efficient decision making beneath the crisis level has become rare. Two elements of the problem are diffusion and entanglement. Authority and knowledge are distributed among departments or agencies each with their own expertise but lacking a center. Multiple federal agencies are often engaged in managing parts of the same problem resulting in overlap and battles for turf and funds. The federal government no longer operates in a timely or efficient manner, forcing a new institutional shift, which will begin, based on the three preceding shifts, around 2025.

Based on Friedman's timetable, the fifth socioeconomic cycle, in which we are currently, will end with the president elected in 2028, beginning a new 50-year cycle. During the transitional phase, we can expect political instability and chaos, followed by social and economic earthquakes.

What is oddly reassuring about Friedman's scenario is the realization that we have been here before and past cycles have resulted in improvements in social, economic and government environments. They have also produced new disruptive technologies that transformed the lives and centuries old traditions of Americans and the world. "At the end and the beginning of each cycle, there is a sense of failure and disaster. Yet each time the United States has re-created

itself, perhaps imperfectly, but with a rebirth of startling superiority," maintains Friedman.

This barely touches on the information in Friedman's book, his sixth publication, including two New York Times bestsellers. It's an intriguing read and worth your time, particularly if you are feeling discouraged by current events. Is Friedman's view of history correct? We will only know in hindsight, but it is a reminder that with change comes opportunities for investors, opportunities that we want to be alert to and ready to exploit.



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