Twitter Thread by Woody



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Some insights I wanted to share with you from Tony Deden's speech (in his own words) at the Observer's conference from late 2018.

This is PURE GOLD, some incredible gems being dropped by Deden, as usual. It's especially relevant now more than ever.

1/

Savings accumulated over a lifetime is something precious & irreplaceable & in order to protect it one must first respect it, & in seeking to deploy it one must acquire a sense of detachment from the noise of the dance hall & find what is valuable in context of irreplaceability 2

The idea of a prudent man has been replaced with microsoft excel, financial calculus, risk officers and the compliance industry. And the idea of investment value became very fuzzy. 3/

A prudent man must seek to satisfy himself about the means to an end. This demands that he revisit, again & again, the elemental principles of his craft. What is money? What is wealth? What is savings? What is time? What is scarcity? What is value? What is risk? 4/

At the root, we all inevitably measure value in terms of money, overlooking the fact that money in itself can never be a measure of value. It made no sense. It seemed to me that there must exist an understanding of value independent of the money in which it is expressed. Why? 5/

We talk about financial markets but don't have genuine markets in the sense they are free from coercion or intervention. Extensive interventions, regulation, legal uncertainty, banishment of failure as natural means to corrections, etc, make the modern notion of markets a mockery

If we don't have real markets, we have no price discovery. Our forefathers understood that without a free market in the price of money, all calculation becomes false. Money is the defining element in any economic calculation and once destroyed via inflationary policies, the ...7/

...the distortions create an unreal framework characterized by the booms that cause the ensuing busts. Uncorrected, the errors compound. Yet, why do we insist on using error-induced prices to calculate investment value? 8/

Private equity didn't exist in the past as an asset class, and would not be possible today were it not for another word that also didn't exist then: EBITDA - a word that owes its very existence and relevance to dishonest money. 9/

"Well, this is all philosophical." Indeed, we look to prices on an exchange to reckon value, failing to see that wealth creation via stock market doesn't create resources in the economy. 10/

Booming markets without savings is not an accumulation of resources but an accumulation of claims on existing resources. We hail growth by looking at meaningless aggregate such as GDP, hoping for higher prices, dismissing fact that such growth in money terms more often 11/

comes from debt creation and consumption of our capital. Yet we reckon all this as a modern financial miracle. We've abolished the idea of failure. In GDP terms, it looks terrific. But it is neither enduring nor real. 12/

A promise to pay is not money. How many really understand this? We dress it up as a bank deposit, a T-bill, or some variation and insist on calling it an asset. But we also laugh at the man who chooses to keep his cash in gold. 13/

The price of something becomes our value determinant rather than its characteristics in being real, enduring, or suitable as a means to our objective. 14/

Take the notion of "intrinsic value" as an example. We conjure future flows of money, something we guess from a business whose results are subject to interventions & distortions, we then discount it all by a number - a rate of interest that bears no relationship to anything. 15/

We get a number & compare it to the monetary value of an investment instrument. The math can be impressive to the customer, but what does it really mean? I propose it means absolutely nothing. 16/

At the root, we eagerly look to authorities to find solutions to the very problems they created in the first place. Indeed, many of the problems we face are intractable. Their resolution is too painful to contemplate. But we know that the undoing of massive errors is unavoidable.

How we view investment value must be reassessed in the light of the scarcity of our capital & in light of what we consider valuable, as a means to our specific ends. 18/

In the fog & distorted noise of a world of boom/busts, the sanctity of our savings demands an escape from what is merely financial. The only one I know is that of seeking to find what is scarce & valuable to me...what is real and what is enduring. 19/ (final)

@JeffBooth - H/T for opening my eyes to the sustainability of the current path we're on
@PrestonPysh - H/T for opening my eyes to a new framework to think of price discovery in today's world
@radigancarter - H/T for introducing me to Deden's writings