

The Time Value of Money and What if the Trend of the Last 40 Years Reverses in 2021? (Part 1 of 2)



In 2002, four Wall Street businessmen sat down for dinner at the Balthazar in New York City. They ordered a Mouton Rothschild 1989 for the table.



The Balthazar lists this wine at \$2,000. Here's why.

The Mouton Rothschild 1989 is an exceptional wine, produced from grapes grown on 205 acres near Pauillac, just northwest of Bordeaux.

At the time the grapes were grown, the vineyard was owned by Philippine de Rothschild, a member of the infamous Rothschild family, the European banking family of the last 250 years.

According to the tasting notes of Liz Palmer, the wine critic, the Mouton Rothschild 1989 is "a lovely Pauillac that has reached its plateau of maturity; notably dark ruby in colour; It has an engaging cedar and tobacco bouquet with hints of mint; not much fruit concentration; the palate follows suit – is medium-bodied and continues the aromatic theme of cedar and tobacco; demonstrates great persistence; well-defined – 'old school'."

At a tasting in 2018, Jane Anson, the Bordeaux correspondent for *Decanter* magazine, gave it 97 points out of a possible 100.

That was the wine they ordered, but it wasn't what they got.

Instead, their server brought them an \$18 Pinot Noir. There had been a mix-up. The staff had poured the two wines into two decanters and sent the wrong decanter to the table. Five minutes later, the restaurant manager rushed to their table to explain what had happened.

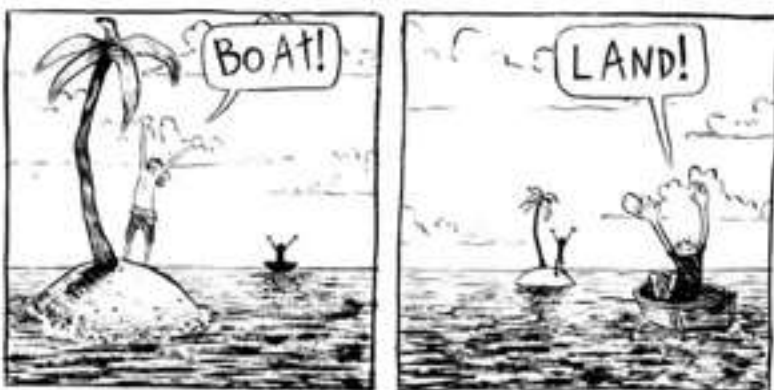
How did these businessmen react? With incredulity, that a restaurant could make such a costly mistake? That their dinner had been ruined? No!

Though they suspected what they were drinking wasn't the wine they had ordered, they had no idea they were drinking an \$18 Pinot Noir.

A few tables away, the beneficiaries of the mistake, the couple who ordered the \$18 Pinot Noir, didn't realize it, either. As they unknowingly drank the \$2,000 Mouton Rothschild 1989 they 'pretended to be drinking an expensive wine'.

So where on earth was the real mistake? the kitchen? the swapped decanters? the wrong wine at the wrong tables? None of those, really.

It's all about Perception



Surely, the real mistake was a mistake in perception - That an \$18 Pinot Noir and a \$2,000 Mouton Rothschild 1989 could be confused in the first place.

And it is at this point that you start to consider 'who were the biggest losers?

It is probably fair to assume the businessmen could afford the loss, though it is doubtful they were charged anything at all for their meal.

The Balthazar could probably have stood the cost, with little more than a frown from the accountant, so the biggest losers were probably the couple who ordered the Pinot Noir.

They could have potentially savoured the rare delight of drinking a \$2,000 bottle of wine, but missed it! Hopefully, they thoroughly enjoyed the 'Pinot Noir' though!

What does this have to do with investing, or financial planning, you might ask? Well, two aspects to this story come to mind.

Don't rely on tips and speculation, and don't assume quality is the same as price.

1). The **first** is that, like the 'Pinot Noir' couple who didn't knowingly get to savour the expensive wine, clients often tell me about how they ignored 'tips' or stock recommendations, and so missed a great opportunity.



Indeed, I heard this from a client recently. He told me about a European new energy company whose share price increased 350% in 2 months, but he didn't buy when he got the tip, and now he feels silly.

This kind of 'investment' is really speculation, regardless of the research my client may have done following the tip.

Had he bought and made 350%, he would have thoroughly enjoyed the experience, and would doubtless have that 'warm fuzzy feeling' of success for some time to come.

However, he didn't, just like the couple drinking the very expensive 'Pinot Noir'. Not having invested their \$2,000, they didn't get the benefit of savouring \$2,000 worth of wine, and the investor didn't get his 350% gain.

2). This really leads on to my second point. Every time an investor (or speculator, for that matter) buys an asset, there is an equally enthusiastic seller, and both parties think they are right!



The media world is now full of experts with often opposing views of a stock, a market, or an industry, and whilst we can make some reasonably educated assumptions and assessments, for most investors, a broad-based portfolio still makes sense against the backdrop of so much investment 'noise'.

Most investment commentators put together very sound arguments for their own view, and there is invariably the opposite viewpoint, backed up by logical arguments and statistics, available if we choose to look, and it ultimately comes down to the perception of the reader.

Some example headlines about economies and markets that can be related to this situation with the Mouton Rothschild 1989:

- UK to “Crash out” of the EU without a trade deal! = This Mouton Rothschild 1989 tastes like \$18 Pinot Noir!
- “We will probably leave the EU with an ‘Australia-style’ relationship and we shall succeed mightily” = This \$18 Pinot tastes bloody good, a little bit like Mouton Rothschild 1989.
- The UK and now the USA have approved Covid-19 vaccines, and the UK has started distribution. Community Covid immunity will increase rapidly in the coming months. = This \$18 Pinot tastes bloody good, a little bit like Mouton Rothschild 1989.
- Up to 25% of health workers don’t want to have the Covid-19 vaccine. = This Mouton Rothschild 1989 doesn’t taste like I expected, are you sure it’s not \$18 Pinot Noir?
- Thailand’s tourist industry, making up 20% of GDP, destroyed by Covid ‘lockdown. = This Mouton Rothschild 1989 tastes like \$18 Pinot Noir!
- Only 360 deaths in Thailand from Covid-19 = This very inexpensive \$18 Pinot tastes good, almost like Mouton Rothschild 1989.
- ‘The big five FAANG stocks have out-performed the rest of the S&P500 significantly in the last couple of years’ = Well, if you hold Facebook, Amazon, Apple, Netflix or Abacus (Google) then your Pinot really is a wonderful drink, but if you hold one of the many S&P500 ETFs, your Mouton Rothschild 1989 is probably not quite up to expectations, despite the S&P 500 having gained 43% in the last 2 years (14/12/18 to 14/12/20).

As usual, it comes down to winners and losers, buyers and sellers, and no matter how good the information, there is usually somebody with a different opinion, and the potential for a different outcome.

With Covid vaccines being rolled out, and markets in bullish mood as economies start to recover lost GDP, 2021 looks like it could be a good year for investors. But stick to the plan, diversify, stay within your risk comfort zone, and don’t assume you can time the markets. Then, perhaps your Prosecco will turn out to be Krug.