Market Commentary Fourth Quarter 2018

Published more than 30 years ago, *Finite and Infinite Games: A Vision of Life as Play and Possibility* is being passed around by a new generation of readers. James P. Carse's book is especially popular among Silicon Valley technocrats. Like those young people, I find Carse's approach to life intriguing. You might, too.

The book is as mind-bending as an M.C. Escher drawing in which figures seem to ascend and descend simultaneously—disrupting one's sense of orientation and perspective. Finite games are the familiar contests like chess or football, as well as social competitions like education and career. Finite games have rules and are played in order to win, at which point the game ends. Infinite games, by contrast, are "playful." The rules, and even the players can change--as long as the game never ends. Infinite games are found in culture, community, religion and relationships—those aspects of life without clear winners or losers.

As the book's title suggests, Carse says we could live fuller lives by giving up finite games in order to play the more mysterious, less restrictive, infinite games. Consider this Carse apothegm: "People who take on special diets and regimens to extend their youth and postpone aging choose to hate their life now in order to have it later." Or: "If you must play a game, you cannot play a game."

Carse's message is that by "playing" relationships as a finite game, instead of an infinite one, we lose players. They simply drop out of the game. Relationships must be nurtured, just like children.
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I'm sure you can see where this is going. Some investors "play the stock market" as a finite game. They're competitive. To them, it's a zero-sum game: "Your loss is my gain." These investors tally quarterly, monthly and even daily returns to see if they are winning or losing.

At 7Summit, we view investing as an infinite, multi-generational game. We don't try to "win" at anyone's expense. We invest in businesses selling for below the company's intrinsic value and we take defensive positions to cushion our portfolio against market downturns.

For two years, we have warned that rising interest rates could wreak havoc on the global economy. Massive corporate debt is coming due in a year, and emerging countries' IOUs swoon with every 25-basis-point hike. So, we were not surprised when Fed Chairman Jerome Powell stated that we will see fewer rate increases in 2019 than planned.

In response, we have been slowly allocating assets to emerging market debt, a sector within fixed income that we consider deeply undervalued. Emerging markets had a tough year in 2018, what with Turkey, Brazil and Argentina's largely self-induced problems. Add in a stronger U.S. dollar and trade disputes with China, and you had a perfect economic quall. But we're in the space because emerging market countries are the engines powering growth at a pace almost double that of developed markets. We expect the growth gap to widen in the future.

We have also taken positions in infrastructure funds (as well as "social infrastructure" endeavors, such as charter schools.) Allocating assets to infrastructure strikes us as good way to "play" infinite game investing. There are no winners or losers. Everyone benefits.

We see infrastructure opportunities in both developed and emerging markets as these countries build out first-generation projects—highways, airports and energy plants. Developed markets are re-habilitating infrastructure stock. Consider New York City's La Guardia Airport, ranked 14th worst in the world. The airport is undergoing an $8 billion makeover—just one case of how the U.S. has deferred maintenance to a woeful degree.

Carse writes, "A society is defined by its boundary, but a culture is defined by its horizon. A boundary is a phenomenon of opposition. A horizon is a phenomenon of vision." At 7Summit, we focus on the horizon.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang