

Market Commentary First Quarter 2019

LITTLE THINGS END UP BEING BIG THINGS

Peter Senge is the person I'd most like to ask about Boeing's fall from grace. What went wrong at one of the most admired companies in the world? How did a faulty sensor design get the greenlight? Who gave the okay to skip training pilots on Boeing's automated anti-stall system? Did Boeing push for too much self-regulation at the Federal Aviation Administration?

Senge (pronounced sen-gay) grew up in Los Angeles and got an engineering degree from Stanford and a Ph.D. from MIT, where he's a star lecturer. He specializes in systems management. That's industry jargon, he says, for understanding how people, ideas and their environments interact—and how to improve. His book, *The Fifth Discipline: The Art and Practice of the Learning Organization*, became a corporate manager's bible when it was published in 1990, and since then, fisheries, farmers, school teachers, hospital directors, family therapists, as well as business executives, have embraced Senge's ideas. The book has disrupted my thinking in a positive way, forcing me to reflect on the hidden biases behind my decisions.

Senge was an early voice in understanding the value of collaboration. He warns that corporate survival (as well as Earth's) depends on teamwork. Without it, little things become big things. Why? One reason is because we don't think rationally or communicate clearly. We humans are hobbled by dozens of cognitive biases. (Google "cognitive biases" if you would like to find a list of them.)

Senge draws a comparison between corporations and families. Most of us understand how minor events ripple through families. Belittling behavior, selfishness or sarcasm can damage a family culture for years into the future. No one intends this for this to happen. But we lack awareness of our interdependence, which is why today psychologists increasingly ask to treat families instead of one individual.

Because of their complexity, corporations are even more blind to the importance of interdependence than families and organization experts have spent decades trying to get rid of corporate "silos." It doesn't take much imagination to see how the accounting side of Boeing, say, might have operated independently—and at odds with—its operations side. Operations people talk to customers and make products the outside world wants. Accountants, meanwhile, keep an eye on costs, seldom knowledgeable about how to make a widget—or a sensor.

The more complex the system, the more difficult it is to stay connected. Senge's five disciplines offers a vision of organizations as dynamic systems that can grow, respond, and lead change because, thankfully, individuals can learn. It's possible, in other words, to see both the forest and the trees. But like dieting and exercise, adopting his five disciplines requires willpower.

We have commented before on how little things end up being big things in the global economy—how Thailand's currency troubles

led to the 1997 Asian Contagion, how Greece triggered the eurozone debt crisis in 2011 and how a plunge in the Turkish lira rattled lenders in 2018.

At 7Summit Advisors, we don't make predictions about the stock market or the economy. We do, however, have a healthy respect for history and when we read that household debt in the U.S. has reached record levels, topping \$13.5 trillion in the fourth quarter of 2018, we wonder if that "little" thing will be the next big thing. Or maybe the little thing will be our national debt, which recently passed \$22 trillion for the first time, after being just half that a decade ago. Or it could be housing slumps in Australia, Canada and Britain.

Our approach is to hedge against the little things becoming big things. We try to choose investments that have the potential to provide solid returns, come what may. Our overarching thesis is that demographics will drive demand in key areas. Nuclear energy is one. While the world's population is estimated to reach 8.6 billion by 2030 and 9.5 billion by 2050, it's still 80% dependent on fossil fuels. To meet demand, energy supplies will have to grow by 2% a year, which means every energy source will have to be on the table, including nuclear. Aging Baby Boomers need more drugs and we see opportunity in generics. We have bought shares in a beaten up food company with near-global distribution system. Finally, we have allocated a portion of our portfolio to fixed income.

As a small but dedicated team at 7Summit Advisors, we know that we achieve excellence only to the degree that excellent people work at our firm. Clients trust us with increasing their financial value and equally, with hopes and dreams for a better tomorrow.

Almost from the first days of 7Summit I've had the privilege of working with Jaye Scholl—a special person unique in skills and wisdom who drafted these letters and provided wise counsel on how I might better serve you. Jaye was formerly a staff writer at Barron's who brought her experiences, as well as her warmth and sophistication, to infuse the 7Summit team with a character beyond our years. We lost Jaye suddenly this past week and now both miss her and appreciate deeply the work we did together. We'll work hard to continue to grow in excellence to honor her memory.

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