



## **LWM Market Commentary: Thoughts on Nationalism and Populism**

July 28, 2016

Dear Clients and Friends,

This commentary is going to be somewhat different than others I have written in the past. I am going to talk about politics. Never really done that before. But I am concerned about the state of the world --- and about some shifting political trends that seem to be sweeping the globe. Perhaps it only seems more important to discuss this now because we are in the middle of a presidential election cycle. More likely, I believe that current political trends really do pose unintended new dangers to our world. Truth is --- financial markets around the globe today are more manipulated by central banks/governments than ever before. That necessarily makes for a stronger connection between the financial markets and the politics that control governments. This stuff is important --- and seems to be getting more important. The following thoughts are meant to highlight a couple of potentially destructive global political trends --- and their ultimate impact on financial markets and your investment portfolios.

On February 27<sup>th</sup>, 1933, Marinus van der Lubbe intentionally set fire to an important government building in Berlin --- the Reichstag building --- which was the seat of the German Parliament. Van der Lubbe willingly claimed responsibility for the fire, an admission which earned him an execution by guillotine slightly less than a year later. More importantly, van der Lubbe was also a self-professed Communist.

The public was outraged and became fearful of a serious Communist uprising/coup --- something which had already become a major political issue of that day. Adolf Hitler, who had been sworn in as Chancellor of Germany less than a month earlier, urged the government to pass an emergency decree "temporarily" suspending civil liberties allowing him to more effectively combat this new Communist threat. With overwhelming popular support, Hitler's request was granted. That temporary order remained in effect for the duration of the Nazi regime. And the rest, as they say, is history...

On July 15<sup>th</sup>, 2016 a group of Special Forces in the Turkish military attempted to assassinate President Recep Tayyip Erdogan and overthrow his government. As we all now know --- that coup failed.

Once again, the public was outraged and became fearful of a radical Islamist uprising. And right on queue --- Erdogan urged the government to pass emergency laws "temporarily" suspending civil liberties to counter this "virus". And once again, with overwhelming popular support, his request was granted. Here is a list of some of the specific consequences of those laws thus far:

- 1) 130 media outlets have been closed. (<http://www.bbc.com/news/world-europe-36910556>)



- 2) 10,000 individuals have been detained, many of them beaten and/or raped.  
(<http://www.cnn.com/2016/07/26/europe/turkey-coup-attempt-aftermath/>)
- 3) Islamic scholars are being given state sponsored sermons to read verbatim during weekly Friday religious gatherings.  
(<https://www.theguardian.com/world/2016/jul/28/egypts-islamic-scholars-reject-government-issued-friday-sermons>)

The parallels between these two periods of history are fascinating. Please know that I am NOT trying to say that Erdogan is Hitler. But make no mistake about it --- Erdogan has obtained dictatorial powers. Nor am I trying to say that we are necessarily on the edge of World War 3. Hitler spent over 6 years in power before WW2 was fully engaged.

What I AM trying to say is that there are some similarities in the political climate between Hitler's rise to power and the state of the world today. Nationalism is clearly on the rise all over the world. It just so happens that Erdogan's Turkey marks a shockingly vivid example. However, it is not the only example. Brexit would be another one. Donald Trump's foreign policy agenda is clearly bent toward Nationalism as well.

Another trend which often accompanies Nationalism is Populism --- a revolt of "the people" against the political establishment. It is "the people" who often unwittingly but passionately exchange one regime for the next. Check out the following quote:

"Why would some poor slob want to risk his life in a war when the best he can get out of it is to come back to his farm in one piece?... It is always a simple matter to drag the public along, whether it is a democracy or a fascist dictatorship or a Parliament or a Communist dictatorship. The people can always be brought to the bidding of the leaders. That is easy. All you have to do is tell them they are being attacked and denounce the pacifists for lack of patriotism and exposing the country to danger. It works the same way in any country." Those are the words of Hermann Goring, who was instrumental in Hitler's rise to power and ultimately became the second most powerful man in Nazi Germany. (Hat tip to Ben Hunt at Epsilon Theory for this quote.)

What's my point, you ask? My point is this ---- Nationalism and Populism ALWAYS feel good and right to "the people" in the moment. **But history tells us that the cure is often worse than the disease.** The German people weren't purposefully choosing "Hitler". They didn't see Hitler as we see him. They were choosing a leader that promised to crush Communism. In the same way, the Turkish people are not knowingly choosing a dictator. They are rebelling against radical Islamist religion --- nothing more. Only time will tell how history judges Erdogan. But know this: with the rise of Nationalism and Populism around the world ---- comes increased risk of unintended consequences.

Erdogan's increased power, Brexit, the rise of Donald Trump, the rise of Marine La Pen in France, the persistent threat of ISIS, police shootings, shrinking middle classes in virtually every developed country... all of these are part of the same fabric --- growing Nationalism and



Populism around the world. Civil liberties are suffering. The free movement of goods, people, and ideas is slowing down. And here is the main point --- all of this is negative for the global economy.

But financial markets are shrugging off these concerns --- stocks are hitting new highs, bonds prices continue higher, and even gold is up recently. The bottom line is that markets will likely continue to go higher --- simply because governments want them to do so! Until governments lose control of markets --- risks in the real world don't seem to matter. Nevertheless, I believe a healthy skepticism is in order even as we participate, albeit reluctantly, in this charade.

Of course, at Laureate Wealth Management, we are focused on sourcing and holding alternative investments that can perform well in both rising and falling markets. The more we are able to do so --- the less dependence we have on guessing correctly when to get out of the market before the next big correction. I have no idea when that will actually happen --- but market corrections are as certain as death and taxes.

Please feel free to reach out with any thoughts or questions. I really do enjoy the feedback --- both positive and negative.

Kind Regards,  
Jeremy Boynton