

## Investment Outlook



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### HEDGEHOG TIME

Sometimes I think life can be divided between the foxes and the hedgehogs. No, those aren't Canadian football teams subbing for the Lions and the Rams on Sunday afternoon. A fox is a fox, and a hedgehog is - well - a porcupine, more or less. The two have contrasting styles, different ways of approaching life - and perhaps Isaiah Berlin's famous essay said it best: "The fox knows many things, but the hedgehog knows one big thing." Life is full of foxes and hedgehogs. Take sports, for instance: Ty Cobb was a fox; Babe Ruth was a hedgehog. Bill Russell was a fox; Wilt Chamberlin was his contemporary hedgehog. In politics, Jerry Brown is a fox; Jack Kemp is a hedgehog. You get the picture. Both animals have survived millennia and at last report neither was on the endangered species list. But it seems to me that while there's obviously room for both of them, there's a time and place when one or the other's style is more appropriate. Down by three runs with the bases loaded, I think I'd rather see Babe Ruth than Ty Cobb at the plate.

And so it is with investing. With the sharp increase in volatility during the last few years, many money managers have become self-annointed foxes. "In and out" is their credo. Markets go up only so that they can go down the next week. The foxes know many things and they use their cunning to dart back and forth between fully-invested and heavy cash positions in an attempt to outperform the competition. Investment hedgehogs, on the other hand, know one big thing - that markets tend to move like broad secular waves which begin miles offshore. Ultimately, they crash on the beach of political, sociological and economic change, but theirs is a longer - although not necessarily smoother ride.

1982 and perhaps beyond should belong to the hedgehogs. Certainly, the recent advances in both bond and stock markets must have seemed like tidal waves to any short-term timer who happened to miss the advance. What's important, though, are the reasons behind the moves and the possibility that they may possess more longevity than many of their bull market predecessors.

Perhaps the dominant factor influencing both markets has been the extraordinarily high level of real interest rates that developed in 1980 and '81. Based upon a tight Federal Reserve and the release of historical financial controls, which used to slam the gate on our economy at far lower yields, real rates became onerous and ultimately destructive. Not only domestic corporations but many foreign countries became technically bankrupt. In addition, millions of productive workers were jobless and Reaganomics was