



ANALYTICS INVESTMENT ADVISORS, LLC

The Clash of Competing Social Systems

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“The finest opportunity ever given to the world was thrown away because the passion for equality made vain the hope for freedom.”¹

“There is a strong case for reducing inequality of opportunity as far as congenital differences permit, and it is possible to do so without destroying the impersonal character of the process by which everybody has to take his chance and no person’s view about what is right and desirable over rules that of others.”²

“The choice open to us is: a system where it is the will of a few persons who decide who is to get what; or, one where it depends at least partly on the ability and enterprise of the people concerned and partly on unforeseen circumstances.”³

It is the very complex nature of the division of labor under modern conditions that makes competition the only method by which such coordination can be brought about... which is precisely what only a competitive price system can achieve.”⁴

What?

- The fundamental role of an economic system is to assign responsibility and reward, where responsibility takes the form of employment, and reward consists of money and social status, the latter of which most people submit should be according to merit.
- Why then is capitalism the only social system where competing economic interests improves everyone’s welfare, and opposing political interests produce intellectual freedom, under so much scrutiny today? Murray and Zingales offer the following explanations.^{5 6}

Why?

- *Crony capitalism* where top management take care of each other at shareholder expense.
- *Government collusion* where individual corporations create a competitive advantage through the cooperation of regulators.
- *Fortunes made quickly in financial markets* where wealth is created by making smart buy and sell decisions, which gives the impression of inside knowledge and access to information not publicly available.

¹ Lord Acton, “The History of Freedom in Christianity,” *The History of Freedom and Other Essays*, Jefferson Publications, 2015, p.57.

² Hayek, F.A. *The Road to Serfdom*, University of Chicago Press, 2007, p.134.

³ Op. cit., p. 134.

⁴ Op. cit., p. 134.

⁵ Murray, Charles, *Coming Apart, the State of White America – 1960 – 2010*, Cox & Murray, Random House, 2012; and, Zingales, Luigi, *Capitalism for the People, Recapturing the Lost Genius of American Prosperity*, Basic Books, New York, 2012.

⁶ See also, “Capitalism as a Social Concept”, Commentary, www.AnalyticsLLC.net, 9/10/2012.

- *Unseemliness* of individuals of authority and unmitigated government influence peddling. Murray argues that unseemliness is “a symptom of the collapse of codes of behavior that depend not on laws and regulations, but shared understanding.”
- *Ecumenical niceness*, or the loss of self confidence in the suitability and efficacy of customs of the new upper class and the tendency to preach non-judgmentalism.

How?

- The national election on November 3rd is a seminal choice between two very distinct philosophical social concepts; namely, central planning versus free market capitalism, the attendant characteristics of which are summarized above.
- If the achievements of the current administration are recognized and appreciated stemming from free enterprise innovation prior to Covid-19; such as, GDP growth, increased productivity, low inflation, declining unemployment, VA health care availability, and national security, the prior and recently observed economic expansion will continue, allowing clarity of purpose and execution of robust investment strategies.^{7 8}
- The opposite outcome is almost too cataclysmic and depressing to contemplate, both from an investment and social perspective. However, it could very well be that the “great civic awakening” predicted by Charles Murray eight years ago is becoming manifest as Americans are: 1) watching the European welfare state self-destruct as more people rely on government transfer payments with fewer people in the private sector supporting those benefits; and, 2) recognizing that wealthy nations like America can accomplish core goals of an advanced welfare state – providing basic needs to the population – without profligate spending, and that this objective is inherent in a system that leaves people responsible for the consequences of their own actions,

“I was forced to leave everything behind, including many family members, to live in a nonsocialist country.”⁹

“Growing up under the privations of a communist regime I learned to admire the United State of America, and dreamed about one day having the God-given rights of freedom of speech, freedom of assembly and the right to elect my own leaders, enshrined in and guaranteed by the U. S. Constitution.”¹⁰

“As a relatively new U.S. Citizen committed to our Constitution, I am determined to build the more perfect union we have promised one another, and as such, feel it is my duty to warn my fellow Americans about the ideologies I see at play in our country.”¹¹

⁷ One example of which is investment modelling practiced by Analytics Investment Advisors, LLC which makes exclusive use of Exchange Traded Funds and Relative Strength to achieve investment objectives over a range of tactical allocations, the historical performance for which are summarized on the following Performance Summary, p. 3.

⁸ It has been demonstrated in four published research papers and an independent regression analysis by AIA, LLC that between 1930 and 2018 that for every 10% increase in RS there has been on average a corresponding 3% increase in yearly returns. (see www.AnalyticsLLC.net, Commentary, “Momentum Investing with Exchange Traded Fund, Recap and Update, October 8, 2018).

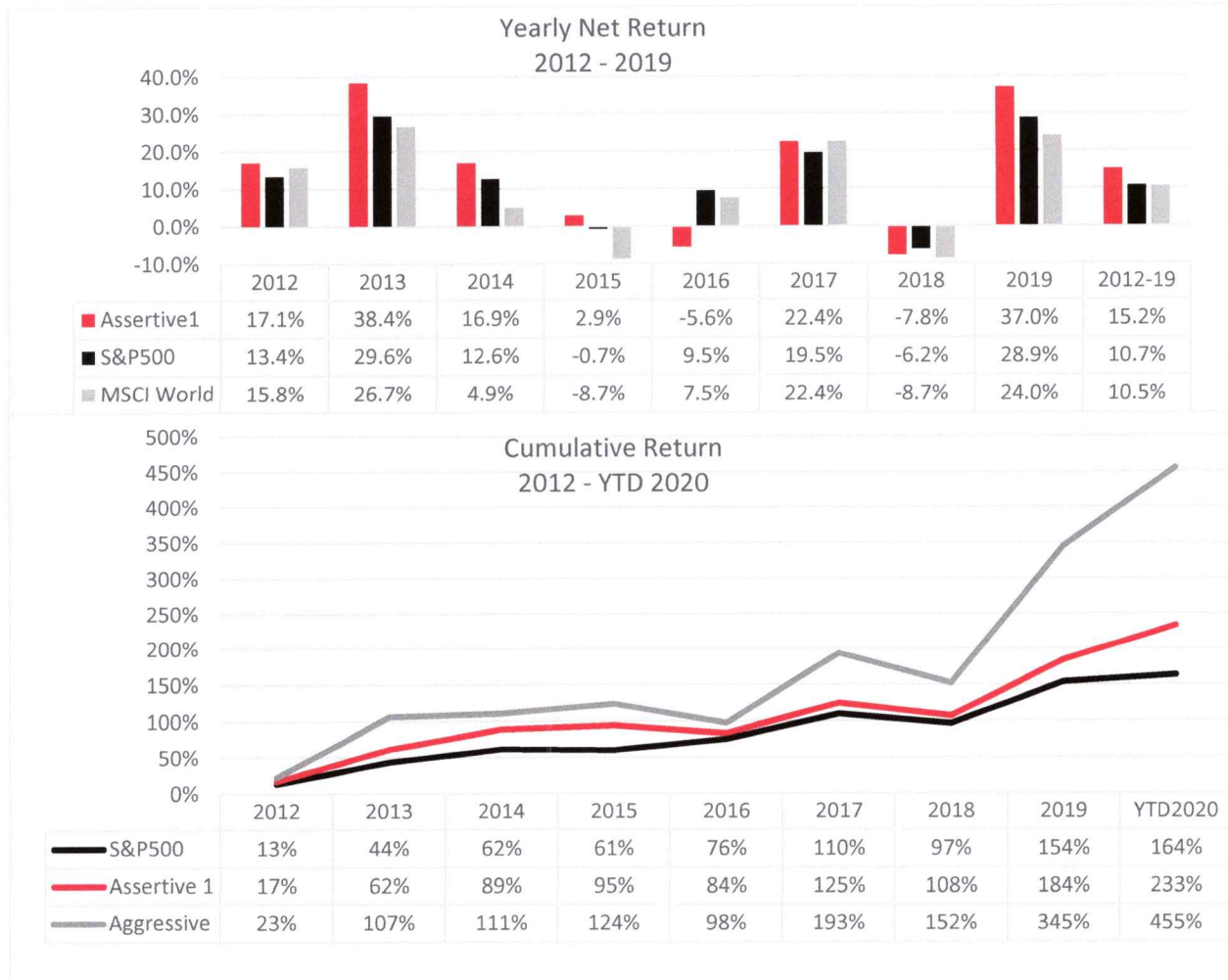
⁹ Uri Perez, *Think, Opinion, Analysis*, September 28, 2020. Mr. Perez is a political refugee from Cuba who was granted asylum in 2009 and currently lives in Washington D. C.

¹⁰ *Op. cit.*, *Think, Opinion, Analysis*.

¹¹ *Op. cit.*, *Think, Opinion, Analysis*.

Performance Summary¹²

	2012-19 Avg.	YTD ¹³ 9/30//2020	AUM	Beta	R ²	SD	Sharpe Ratio
S&P500 (\$SPX)	10.70%	3.74%					
Barclay US TR	2.16%	6.79%					
Cautious	n.a.	n.a.	0%				
Moderate	13.26%	15.54%	16%	1.13	96	20.53	.92
Assertive 1	15.16%	17.23%	37%	1.25	97	22.45	.96
Assertive 2	20.35%	31.64%	23%	1.51	99	27.00	.99
Aggressive	24.84%	24.71%	24%	2.22	91	41.25	1.02



¹² **Cautious:** Investors seeking better than nominal returns, but with low risk and emphasis on wealth preservation. **Moderate:** Prudent investors desiring portfolios designed to accomplish medium long term return. Calculated risk is acceptable to achieve good returns. **Assertive 1 & 2:** Investors with sufficient income to invest mostly in capital growth. Higher volatility and more aggressive investments are acceptable to accumulate wealth in the long run. **Aggressive:** Investors intending to compromise portfolio balance in pursuit of higher long-term returns. Security of capital is secondary to potential wealth accumulation.

¹³ Net Average Return, Portfolio Center, Schwab Portfolio Technologies. Fees are negotiable and range between .5% to 1.0% per year for assets under management. Risk Statistics, Morningstar Advisor Workstation; most recent 3 years, computed quarterly.

Beta Expected change in portfolio return per 1% change in market index return.

R² Percent of variation in regression equation explained by the independent variable (S&P500).

SD Standard deviation of the dependent variable (Net Return).

Sharpe Reward-to-Variability Ratio; i.e., portfolio return above risk free rate of return divided by standard deviation (RVAR).