

## "Pressure and Time"



**Red:** [*narrating*] In 1966, Andy Dufresne escaped from Shawshank prison. All they found of him was a muddy set of prison clothes, a bar of soap, and an old rock hammer, damn near worn down to the nub. I remember thinking it would take a man six hundred years to tunnel through the wall with it. Old Andy did it in less than twenty. Oh, Andy loved geology. I imagine it appealed to his meticulous nature. An ice age here, million years of mountain building there. Geology is the study of pressure and time. That's all it takes really, pressure, and time.

**Red:** I played a mean harmonica as a younger man. Lost interest in it though. Didn't make much sense in here.

**Andy Dufresne:** Here's where it makes the most sense. You need it so you don't forget.

**Red:** Forget?

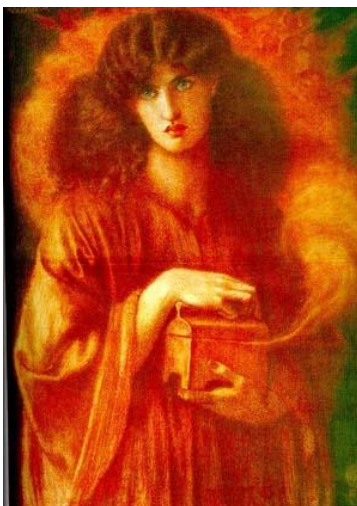
**Andy Dufresne:** Forget that... there are places in this world that aren't made out of stone. That there's something inside... that they can't get to, that they can't touch. That's yours.

**Red:** What're you talking about?

**Andy Dufresne:** Hope.

**Red:** Let me tell you something my friend. Hope is a dangerous thing. Hope can drive a man insane.

– *"The Shawshank Redemption" (1994)*



Dante Gabriel Rossetti, "Pandora" (1869)

Hope is a good breakfast, but it is a bad supper.

– **Francis Bacon (1561 - 1626)**

Where there is no hope, it is incumbent on us to invent it.

– **Albert Camus (1913 - 1960)**

Hope is the only good god remaining among mankind; the others have left and gone to Olympus.

Trust, a mighty god has gone, Restraint has gone from men, and the Graces, my friend, have abandoned the earth.

– *Theognis of Megara (c. 550 BC), writing more than 2,500 years before the Trump v. Clinton election.*

A policy-controlled market, whether it's today's investment environment or the 1930s or the 1870s, places enormous pressure on investors ... for yield and consistent return, to be sure, but even more so for a resurrection of the investment beliefs that held sway in "normal times", for an escape from the [prison of extraordinary monetary policy](#) and its [grip on market behavior](#). Pressure and time. That's all it took for the *Shawshank Redemption* and that's all it takes for our modern market redemption. Or it least that's all it takes for the hope and the escape attempt. Let's see if we're as successful as Andy Dufresne.

When suitably crystallized, an investment hope takes on a different form. It becomes an investment theme. **Today the investment hope that has crystalized into an investment theme is the notion that soon, just around the corner now, perhaps as a result of the next mystery-shrouded meeting of the world's central bankers, perhaps as a result of the U.S. election this November, we will enjoy a coordinated global infrastructure spending boom.** Of course, this isn't deficit spending or another trillion dollar layer of debt, but is "investment in our crumbling infrastructure." This isn't a mirror image of China's massive over-build in empty cities or of Obama's shovel-ready infrastructure projects from 2009-2010, but is "[really a free lunch](#)", to quote Larry Summers, where there's never a [Bridge-to-Nowhere](#) or an [Airport-of-One](#). Or so the Narrative goes.

A Narrative theme is a theme of hope, pure and simple. And because hope can and will emerge without any evidence or support from the real world, a Narrative theme can work from an investment perspective even if it's a non-event in the real world or, stranger yet, an abject failure in the real world. In exactly the same way that you can invest alongside central bank efforts to prop up markets and drive asset prices higher without believing in your heart-of-hearts that anything these bankers say is even remotely true, so can you invest alongside a Narrative theme without believing a single word of the Narrative itself.

And to be clear, my personal belief is that Larry Summers and the rest of the "public infrastructure projects are great investments!" crowd are sniffing glue. You're pulling forward future economic activity, that's all. Read [the latest from Howard Marks](#) if you don't believe me. I'm not saying that government spending is bad — on the contrary, government spending is absolutely necessary to preserve life, liberty, and the pursuit of happiness, and there's certainly a *societal* "return on investment" from government spending — but don't tell me that there's this huge productivity-enhancing, non-quotation-marked *economic* return on investment generated by the government building stuff that the private sector doesn't want to build. Don't tell me that what China is doing with their infrastructure is "mal-investment", but that if we do it ... well, that's different, because, you know, our infrastructure is "crumbling" instead of "gleaming" the way it is in ... umm ... China. Yes, LaGuardia is a miserable airport. So stipulated. But there are infinitely greater

productivity gains to be had from changing our *insane* TSA regulations and reducing security lines than by building a new Terminal B. If you want a massive Keynesian deficit spending program on top of our massive current debt ... fine, make the argument. There's an argument to be made. But don't put a specious "investment" wrapper around it.

But it's exactly that specious wrapper — the Narrative — that makes all of this work as an investment theme. If a massive public works program were couched in its traditional Keynesian or neo-socialist form (you don't see Bernie Sanders talking about the economic ROI of his infrastructure proposals), it wouldn't have a chance with the *Wall Street Journal* crowd. But, hey, if a public works program is "a smart investment" ... never mind that this is about as smart an investment as Moonbase Alpha (yes, I had the *Space: 1999* lunchbox) or perhaps a gigantic hole in the ground ... well, then, let's muster up the usual suspects at CNBC and the *Wall Street Journal* op-ed staff to get behind this, and let's convince ourselves that Donald Trump wouldn't be a nut job president, even though every shred of evidence and plain common sense screams the contrary, because he's, you know, a "builder."



It's all based on hope for real economic growth and an escape from policy-controlled markets, a hope that springs in every investor's heart given enough pressure and enough time. **It's a hope that, as Sir Francis Bacon said, makes for a good breakfast but a bad supper.** We're in the breakfast phase of this Narrative theme still, as Missionaries (to use the game theory term) like Larry Kudlow beat the drum louder and louder for a big infrastructure spend, and it's a drumbeat that will continue to grow until there's a reality check or a powerful Missionary creating Common Knowledge to knock it back. That will be the dinner portion of this Narrative theme, and it will be an unpleasant meal. But I don't see dinner being served until well after the U.S. election, no matter who takes the White House or how the balance of power shifts in Congress, and it might be a year or two later before the thin gruel of dashed hopes is served up to markets.

So even though I think this U.S. public infrastructure build has barely a whiff of merit from an economic policy perspective, even though I think its net effect once implemented will be to make the ultimate debt reset that much more horrific, I also think it's a highly investable idea. **Because that's the way you play [the Common Knowledge Game](#).**

Common Knowledge is information that everyone believes everyone has heard. It's why executions were once held in public, not so a big crowd can see the guy getting hanged, but so the crowd can see the crowd watching the guy getting hanged. It's why political debates are filmed in front of a live audience. It's why sitcoms have laugh tracks. It's how a relatively small but highly televised protest in Cairo's Tahrir Square toppled Mubarak. It's why the Chinese government still cracks down on media pictures of the Tiananmen Square protests, now more than 25 years old. **Common Knowledge is the game theoretic concept behind the irresistible power of the crowd watching the crowd, and as a result Common Knowledge construction by governments, corporations, and yes, central bankers is one of the most potent instruments of social control on Earth.**

The Common Knowledge Game is the [game of markets](#), and it's been internalized by good traders for as long as markets have existed. What you think about the market doesn't matter. What everyone thinks about the market (the consensus) doesn't matter. What matters is what everyone thinks that everyone thinks about the market, and the way you get ahead of this game is to track the "Missionary statements" of politicians, pundits, and bankers made through the four media microphones where the Common Knowledge of markets is created: *The Wall Street Journal*, *The Financial Times*, Bloomberg, and CNBC. It's what Keynes called The Newspaper Beauty Contest, and it drove the policy-controlled markets of the 1930s exactly as it drives markets today. Is it an easy game to play? Nope. But you don't have to be a professional poker player to avoid being the sucker at your local game. You don't have to be a wizard trader to be aware that the Common Knowledge Game is being played, and that it's driving market outcomes.

Red and Andy survived more than 20 years in Shawshank prison because they never lost hope. But they were smart about the *concept* of hope. They didn't let hope consume them to take stupid chances. In Red's words, they never let hope drive them insane. That's the same balancing act we all need to adopt here in Central Bank prison. Hope is a good thing. Hope is a human thing. **But hope is also a social construct that is used intentionally by others to shape our behaviors, in markets as in life.** That's the awareness we need to be hopeful survivors here in the [Silver Age of the Central Banker](#), and that's the awareness I'm trying to create with Epsilon Theory.

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