

## Commentary

**October 16, 2017**

### The Markets

There's a new kid in town: narrative economics.

Last week, Richard Thaler was awarded the Nobel Prize in economics. His work in behavioral economics and finance recognizes not all economic and financial decisions are made after rational reflection. In *Nudge*, he wrote:

“The workings of the human brain are more than a bit befuddling. How can we be so ingenious at some tasks and so clueless at others?...Many psychologists and neuroscientists have been converging on a description of the brain's functioning that helps us make sense of these seeming contradictions. The approach involves a distinction between two kinds of thinking, one that is intuitive and automatic, and another that is reflective and rational.”

Yale professor Robert Shiller, another Nobel laureate in economics, is exploring a field of study related to Thaler's. It's called narrative economics. Narratives are the stories we share with each other. They are fuel for conversation and popular narratives often become viral. During a presentation at the University of Chicago, Shiller explained narrative economics is “the study of the spread and dynamics of popular narratives, the stories, particularly those of human interest and emotion, and how these change through time, to understand economic fluctuations.”

Today, a popular narrative in financial circles focuses on Professor Shiller's cyclically-adjusted price-earnings (CAPE) ratio, which suggests the market may be overvalued. *Barron's* reported, “The CAPE, which is based on average inflation-adjusted earnings over the trailing 10 years, stands at 31, versus 32.5 in 1929 and 44 in late 1999.”

If stocks are overvalued, why do investors keep buying shares? It's a question narrative economics hopes to help answer in the future.

| Data as of 10/13/17                     | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | 0.2%   | 14.0% | 19.7%  | 10.8%  | 12.1%  | 5.1%    |
| Dow Jones Global ex-U.S.                | 1.7    | 21.3  | 21.8   | 5.0    | 5.4    | -0.9    |
| 10-year Treasury Note (Yield Only)      | 2.3    | NA    | 1.7    | 2.3    | 1.7    | 4.7     |
| Gold (per ounce)                        | 3.0    | 12.1  | 3.1    | 1.9    | -5.6   | 5.5     |
| Bloomberg Commodity Index               | 2.4    | -1.8  | -0.4   | -10.3  | -10.0  | -7.1    |
| DJ Equity All REIT Total Return Index   | 1.6    | 8.4   | 8.8    | 10.4   | 10.3   | 6.1     |

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

### SELF-DRIVING CARS, LIFE-LIKE ROBOTS, ARTIFICIAL INTELLIGENCE, AND

**VIDEO PHONES.** Millennials and members of Gen Z may find the original *Blade Runner* movie a bit dated. After all, many of the tech innovations imagined have become a part of our daily lives and others, like mood organs, are in the works.

Mood organs were among the human enhancements imagined by Philip Dick in *Do Androids Dream of Electric Sheep?* (The book upon which *Blade Runner* was based.) A recent *c|net.com* article explained:

“Dick doesn't describe the design of the mood organ or how it works, only specifying that it can stimulate or sedate the user's cerebral cortex. Users simply dial up the emotion they want, such as 481 (awareness of the manifold possibilities open in the future) or 594 (pleased acknowledgement of a spouse's superior wisdom).”

Neural implants are a reality already, although they're not used to control human emotion. Thousands of people with Parkinson's have implants to manage tremors and applications to help with epilepsy and depression are being explored, according to *IEEE Spectrum*.

Medical treatments are not the only applications for neural implants. Elon Musk is developing 'neural lace,' a brain-computer interface (BCI) that may be injected into the human body, travel through the bloodstream, and settle over the cerebral cortex. While neural lace someday may be used to treat or

diagnose neurological issues, *The Economist* reports Mr. Musk has argued, “human beings need to embrace brain implants to stay relevant in a world which, he believes, will soon be dominated by artificial intelligence.”

Musk is not the only entrepreneur pursuing brain interfaces. *IEEE Spectrum* reported Mary Lou Jepsen, an MIT alumnus and tech executive, has founded a company which is working on non-invasive BCIs “for imaging and telepathy (the latter could conceivably be done by reading out thought patterns in the brain).”

It’s possible the idea of humans with superpowers may seem quaint to future generations.

### Weekly Focus – Think About It

“The real question is, when will we draft an artificial intelligence bill of rights? What will that consist of? And who will get to decide that?”

--Gray Scott, *Futurist philosopher*

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- \* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
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- \* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- \* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- \* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- \* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- \* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- \* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- \* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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