

Cyclic History

Purpose

The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement within them. Essentially, it reflects what I'm actually doing with my clients.

These letters are not sent "cold." Either I know you or someone you know gave me your name. Yes, this letter *is* a sales tool. It communicates how I apply my investment strategies, so that you can decide, without any sales pressure, if my thinking is compatible with how you want your money invested. If you're not already a client, I would like to discuss your *becoming* a client. Please call me for more information.

However, that's not its only purpose. Even if you never become a client, if you want this information, I want you to have it – for a while, anyway. My hope is that providing this information and teaching you what I think is important when investing may help you. Please contact me if you have any questions or comments. I'd love to hear your reaction to my letter.

The *CJ* Growth Strategy (back page) has been an ongoing aggressive growth model portfolio since 1/98. Its results continue to be tracked herein.

Quick Look

Market



Next

Expected Move



- This month's *CJ* Newsletter promises to be different. I think it important in many senses, including investing, economics and the underlying politics affecting both. But, so much more, also...

Introduction

Some months ago, I heard of an unusual book from reading one of John Mauldin's weekly "Thoughts from the Frontline" newsletters. A couple of months ago (after I'd forgotten about the book), a savvy friend of mine asked me if I'd read that same book and suggested I might REALLY want to know what it had to say. I finally did read it, and it's the topic of this month's newsletter. I think The Fourth Turning (see specifics on p2) is one of those "special books" that you not only read, but keep a highlighted copy around for when you need to refer to it for understanding of events and to perhaps get at least some picture of what is happening and could happen.

I'm going to ask your indulgence here; I am NOT saying that this book is "true" or "real." I can't decide that; each of us has to make that determination for him or herself. I can say that, in my opinion, the ideas are
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logical, consistent, reasonable and add up to a whole greater than the sum of the parts. Additionally, it is very well supported by historical facts. This is not surprising, since both authors are historians by profession, in addition to being well versed in some other disciplines. I suggest you read the book. At its best, it could help you deal with an uncertain future in ways you never thought possible. At its worst, you may waste a number of hours on some very interesting reading loaded with history you may not have learned any other way. From this point forward, The Fourth Turning will be referred to as “TFT” for brevity’s sake.

Types of History

TFT begins by discussing three concepts of time: chaotic, cyclic and linear. *Chaotic time* essentially has no effects which follow causes. Very primitive cultures tend to view time this way.

Cyclic time was probably the “world standard” prior to the widespread adoption of monotheism. The basic idea is that, while there is cause and effect, time tends to be somewhat circular in that noticeable cycles manifest themselves over both short and very long periods. When a cycle was completed, many things looked similar (but not identical) to the same portion of the previous cycles. Most advanced non-middle-eastern ancient cultures viewed time in this way, notably the Etruscans, Romans, Greeks, among others. Cycles generally had four phases, although two phases were also common.

Cyclic time would “progress,” but along a cyclic path, much like wave propagation in physics. While history would “repeat,” it would not repeat *exactly*. Sometimes, significant “progress” would be made; at other times (if enough destruction was involved) setbacks or “net losses” would occur. Perhaps it would be more useful to view cyclic time as a *spiral* instead of a circle.

Linear time was first “adopted” by the Persian, Judaic, Christian and Islamic religions and cultures. In this way of thinking, man would *progress* in a linear fashion from the fall of man through some future in which God would again “claim” his people and time would end. While this idea is eons old, it was not commonly known and accepted as such until the 16th century. Since then, this has been the “standard” view of time for the “civilized” world.

We accept linear time as “right” simply because that’s what we’ve been taught. After reading this book, I’m



Recommended Reading

This month’s reading recommendation should be obvious – the book laying out the concepts and support for this month’s ideas.

Strauss, William and Howe, Neil, The Fourth Turning: An American Prophecy, Broadway Books, (1997). All page references in the text herein are to the 1998 paperback edition.

The Fourth Turning is not the only book about these concepts by historians Strauss and Howe. They have also written Generations: The History of America’s Future (1991), 13th-GEN (1993) and Millenials Rising (2000).

William Strauss died of pancreatic cancer in 2007.

more convinced than ever that much of what we’ve been taught has more to do with the historical ruling elite’s *agendas* than the “truth.” Even thinking people critique ideas they are taught less than they would like to admit to themselves, especially when young.

From p 11: “...the great weakness of linear time is that it obliterates time’s recurrence and thus cuts people off from the eternal – whether in nature, in each other, or in ourselves. When we deem our social destiny entirely self-directed and our personal lives self-made, we lose any sense of participating in a collective myth larger than ourselves.”

From p 13: “We need to realize that without some notion of historical recurrence, no one can meaningfully discuss the past at all...”

“We need to recall that time, in its physical essence, is nothing but the measurement of cyclicity itself. Whether the swing of a pendulum, the orbit of a planet, or the frequency of a laser beam, the assumed regularity of a cyclical event is literally all we have to define what time is.”

The Basics

I will do my best to explain Strauss’s and Howe’s concepts briefly.

A *saeculum*, a word created by the Romans, corresponds to a long human life – say, 80 to 100 years. *Siècle* (century) is the modern version. Within

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a saeculum (cycle) are four phases: childhood, young adulthood, midlife and elderhood. Each is between 20-25 years long, corresponding to the concept of a generation.

From p 16: “A *generation*, in turn, is the aggregate of all people born over roughly the span of a phase of life who share a common location in history and, hence, a common collective persona.” In Strauss’s and Howe’s model, there are four archetypal generational personas, connected to the phase (above) of the saeculum in which each generation was born:

- A *Prophet* generation is born during a High (first turning).
- A *Nomad* generation is born during an Awakening (second turning).
- A *Hero* generation is born during an Unraveling (third turning).
- An *Artist* generation is born during a Crisis (fourth turning).

From p 19: “Each archetype is an expression of one of the enduring temperaments – and life-cycle myths – of mankind. When history overlays these archetypes atop the four turnings, the result is four very different generational constellations. This explains why a new turning occurs every twenty years or so and why history roils to so many related pendular rhythms.”

The authors then proceed to describe the four turnings, the generational archetypes and their interplay. They then lay out modern English and American history using this methodology, saeculum by saeculum, generation by generation, including phases since the Hero generation of Arthurian England corresponding to 1433 – 1460. Along the way, each saeculum and generation are also given a unique name. While I recognize this need, I also found it confusing and I had to constantly refer back to each generation in order to remember its period and archetype.

Beginning about 1700, their historical focus changed from England to America. As you might have guessed, the American saeculums were the Revolutionary (1701 – 1791), Civil War (1792 – 1859), Great Power (1860 – 1942) and Millennial (1943 - ??). Please note that for the only time in their model, there was no Hero archetype generation in the Civil War saeculum. Please also note that the final Crisis phase of each saeculum were some of the most trying parts of America history: the Revolutionary War, the Civil War, and the Depression and WWII. We are now entering the Millennial saeculum’s Crisis phase – thus the title: The Fourth Turning.

TFT becomes (somewhat) prophetic regarding the (then) ending Unraveling and upcoming Crisis periods. Near the end of the book, they describe five plausible post-2005 (Crisis) scenarios. Four of the five were plausible, especially for a book written in 1997, but turned out not to happen. The fifth, however, was eerily accurate. From p 273:

“An impasse over the federal budget reaches a stalemate. The president and Congress both refuse to back down, triggering a near-total government shutdown. The president declares emergency powers. Congress rescinds his authority. Dollar and bond prices plummet. The president threatens to stop Social Security checks. Congress refuses to raise the debt ceiling. Default looms. Wall Street panics.”

Wow.

TFT then discusses what America should do as a country to weather the coming Crisis to try to insure as positive an outcome as possible. It also offers advice on what individuals should do to prepare themselves and their families to weather the storm. The authors also make it clear that there are many outcomes to the (upcoming) Crisis, not all of which we would consider positive. You’ll just have to read the book yourself if you wish to find out more. I only ask one favor if you do: please contact me and give me your take on TFT, whether or not you agree with its premises and conclusions, and why.

The Wrap-Up

I read TFT for the same reason I read most of the non-fiction books I read: in order to understand, as best I can, current and future investing, economic and political environs. Obviously, the more I know and understand, the better I might exploit opportunities and limit risks, within the limits of my abilities. Conceptual understanding is key for me; I surely don’t have an eidetic memory.

As I said earlier, I’m not a Kool-Aid drinker here. I don’t really know if Strauss’s and Howe’s concepts are “accurate” or “valid;” nor am I qualified to know. “Only time will tell” seems to be an appropriate standard to apply to their concepts. Still, being exposed to these ideas, especially if they are at least partially correct, could just jog my mind in the right direction towards a sound strategy or tactic at an appropriate time. After all, you usually have to open a lot of oysters in order to find a pearl. It’s the nature of basic research; not all paths lead somewhere. But, you have to take them to find out if they do.