



October 15, 2018

Banyan's equity composite was up 12.80% for the first nine months of 2018 while the S&P 500 was up 10.56%. We are pleased with our year-to-date performance, but short-term results are not our focus. We focus on the long-term, and we urge you to do the same.

Speaking of the long-term, we recently discovered an interesting data point. According to a 2015 poll, only 6% of Americans believe the world is improving and over half believe it is getting worse. That is remarkable. No matter how one slices the data, the world *is* improving.

If you disagree, we urge you to read Hans Rosling's new book, *Factfulness: Ten Reasons We're Wrong About the World – and Why Things Are Better Than You Think*. Mr. Rosling cites many examples of improvement, and a few are worth noting here. Consider the following:

1. **Poverty & Life Expectancy** | In 1800, 85% of people lived in extreme poverty, life expectancy was 30 years, and 44% of kids died before turning five. Today, less than 9% live in extreme poverty, life expectancy is 72, and 96% of kids celebrate a fifth birthday.
2. **Population Growth** | Meanwhile, the global population grew from one billion in 1800 to over 7.6 billion today. Thus, our productive capacity has increased enough to nourish 6.6 billion more people while simultaneously reducing extreme poverty by almost 90%.

This should be of no surprise. In many ways, our species is just getting started. Mankind was economically stagnant for the bulk of its existence. In fact, most of our progress has occurred in the last 270 years. To quote Mr. Andrew Haldane of the Bank of England,

Between 1 million BC and 50,000 BC, world GDP per capita was roughly unchanged. . . . Between 50,000 BC and 1000 AD, world GDP per capita rose around 50%, at an annual growth rate of 0.00072%. . . . In the subsequent millennium, world GDP per capita has risen 50-fold *Much of that growth has been since 1750 AD, since when world GDP per capita has risen almost 37-fold, at an annual growth rate of 1.4% per annum.*¹ (emphasis ours)

Let us put this in perspective. If we squeeze Mankind's existence into a single calendar year, our species' productivity remained largely unchanged until roughly 9:40 p.m. on December 31st. Then, we blossomed. Almost three-quarters of our species' productivity gains – the reason our standard of living improves – came in the last 140 minutes of our existence.

¹ Andrew G. Haldane, *Patience and Finance*, 4 (2010) (citing J. Bradford Long, *Estimates of World GDP, One Million B.C. – Present* (1998)).

And look at what we've accomplished. We invented the combustion engine, put electricity in reach of most of the global population, and visited the moon. The poorest among us live better than 18th century kings with air conditioning, indoor plumbing, and iPhones. In fact, around three-quarters of our expenditures are on goods that *did not even exist* in 1800. That is astounding progress.

But what changed? Why did we blossom at such a late hour in the proverbial day? In our opinion, the answer is clear – capitalism. In 1776, Adam Smith's free-market philosophy was introduced under the title *The Wealth of Nations*, and the United States, founded on the principle of individual liberty, declared its independence. The latter proved to be an ideal testing ground for the former.

The average man was finally free to pursue his passions and reap the fruit of his labor, and the results are irrefutable. From a standing start, the United States transformed itself from a backwater emerging economy into the most advanced economy the world has ever seen. Today, the United States' annual output surpasses 100% of the *entire world's* output a mere 50 years ago.

Simply put, capitalism works. Even Karl Marx, the father of modern communism, conceded this point. As he states in *The Communist Manifesto*,

[Capitalism] has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades. . . . The [capitalists], by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation [sic] [Capitalism] compels all nations, on pain of extinction, to adopt the [capitalist] mode of production In one word, it creates a world after its own image.²

Thank goodness! A small dose of capitalism brought China out of economic intensive care. Mao Zedong, the father of Communist China, instituted "The Great Leap Forward" after WWII, which was an attempt to modernize China under a communist utopian vision. The state abolished private property and instituted top-down coordination of economic production.

The Great Leap Forward turned out to be a great leap backward. World Bank data suggests per capita GDP (i.e. productivity) collapsed by over 26% in 1961 alone, and the quality of Chinese output eroded immeasurably. Cannibalism was not uncommon. Between 1958 and 1962, as many as 50 million people – or 7-8% of the population – died of hunger and state-sanctioned brutality.

Mao Zedong died in 1976, and shortly thereafter, in 1978, Deng Xiaoping officially took control of the Communist Party. He permitted the reemergence of quasi-private property in agriculture, which eventually spread throughout the economy. Relatively free markets also reemerged, and the country was reopened to foreign investment. China's productivity exploded as a result. According to World Bank data, China's per capita GDP increased over 20-fold between 1978 and 2018.

² Karl Marx and Frederick Engels, *The Communist Manifesto: A Modern Edition*, Introduction by Eric Hobsbawm, 38-40 (2012).

We are not claiming capitalism is perfect. It is not. Capitalism can be brutal, and security is not one of its features. The evidence is undeniable, however. Capitalism allows men and women to freely trade value for value, which permits the most productive among us, regardless of origin, to reap rewards of unfathomable scale. As a result, capitalism has unleashed Mankind's genius and productive capacity to a degree unmatched in history. We who are alive today are the beneficiaries.

More importantly, those alive tomorrow will be even better off. Given what we have accomplished in the last 140 minutes of our existence, imagine what tomorrow holds. Its promise is almost incomprehensible. There will be setbacks, of course, but the trajectory is firmly upward. We remain optimistic about the future, and we hope you do too. At its root, optimism is the foundation of long-term investing, and investing for the long-term is the key to **building permanent wealth**.

Sincerely,

Gary L. Watkins
President

Drew D. Estes
Portfolio Manager