SUITABLY SHORT-SIGHTED

BY

TIMOTHY GRAYSON

In the Monty Python sketch, "Novel Writing," an enthusiastic and critical media breathlessly follow every stroke of Thomas Hardy's pen as he writes. The commentator says:

> He's written 'The' again. He's crossed it out, and he has written 'A;' and there is a second word coming up straight away. It is, 'Sat.' 'A Sat,' doesn't make sense . . . 'A Sat:' 'A Saturday!' It is 'A Saturday,' and the crowd are loving it. They're really enjoying this novel—and it's, 'afternoon.' 'A Saturday afternoon,' is a confident beginning, and he is straight on to the next word . . . the crowd are going wild. 'A Saturday afternoon in November was,' a long word here, 'APPRO—.' Is it 'approval?' Ah no, it's 'approaching.' 'A Saturday afternoon in November was approaching' . . . He is writing fluently, easily, with flowing strokes of the pen as he comes up to the middle of this first sentence. And with this eleventh novel well underway, and the prospect of a good days writing ahead . . .

Who would have thought this *absurdum* would apply to economic affairs 30 years later? But over the past 20 years North Americans have increasingly obsessed over wealth, business, and the gyrations of equity markets. And this bit parallels the mistakes repeated in the world of the free markets: we keep getting too close to a good thing.

As in the skit, the market tends to ignore the big picture and gets caught up in the false importance of the immediate. Just as it is preposterous to gauge a Hardy novel as it unfolds word-by-word, so it is borderline ridiculous to judge corporate economic fortunes on the results of short reporting periods.

Ninety days long ago replaced 180 as the standard corporate reporting period, with monthly numbers already *de rigueur*. Government accounts are tabulated monthly. In the context of businesses and states lasting for the long term—say ten years or more, never mind hundreds—these reporting periods are unduly abbreviated. Even in the context of reduced business and selling cycles, these periods are still too short.

While there is value to having lots of information, the parsed periods are also illegitimate—at least as far as strategic or investment decision-making goes. That is, basing a long-term decision on a long series of monthly or quarterly figures is fine because of the large context. Reversing position or criticizing based on 90-day performance is hasty. Ninety days is inadequate to mark significant commercial and economic milestones, particularly given the implied demand that the markers only rise: revenues up; EBITDA up, GDP up, etc.

In the calculus of business development it is unreasonable to expect unblemished growth, especially as assessment intervals get shorter. A business may grow year over year, but intra-year it may not. As the intervals grow shorter, the likelihood of radical periodic ups and downs increases. Thus can a brief series of extraordinary periods create unrealistic expectations. Then, when the expectations are not met—because eventually they can not be met, the market hammers the business.

What's more, the short duration flouts exhortations by business theorists that long-term planning and the creation of value is best supported by stable growth. In the recent "fast business" models, we've seen "new paradigm" fast-built businesses crumble fast too. Notably, the new economy fast business chatter has yet to be tested in anything but good times anyway. We ought to reserve judgment about its accuracy and keep the faith for a while yet.

Now consider investment and return policies. For about a decade anyway, individual investors have been cautioned by their advisors to mind the long term and resist reacting to short-term volatility. It is *in the long term* that equities deliver growth and value. Professionals are allegedly trained to understand this, and their charts prove it. So how exactly does rash, volatility-inducing quarterly judgment fit into this line of thought?

We have met the enemy, and it is us. The choice to permit this to happen, by all constituencies from management to stakeholders, is short-sighted. It leads to a respondent mentality in those who should set the agenda not follow it. But, the call of easy money and fabulous wealth from speculation always overtakes us. That is human nature. So we get caught up watching and judging the words being written rather than waiting for the book or chapter to be completed. Are we really any the better for it?

Remember, the exuberance that overlifted technology-heavy equity indicies, before the inevitable crash, was not merely an expression of popular delusion. The flow and ebb has a tidal quality: this was one, admittedly large, wave in a continuing series crashing on the shore of human economic development. It pushed a little further up the beach than the last, and fell back to the sea. Overall, though, economic development has moved onward. And that's the big picture.

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