Larry Siegel: 'The Humblest Thing an Investor Can Do Is Buy Index Funds'

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Jeff Ptak: Hi, and welcome to

The Long View. I'm Jeff Ptak, chief ratings officer for Morningstar Research Services.

Christine Benz: And I'm Christine Benz, director of personal finance and retirement planning for Morningstar.

Ptak: Our guest this week is Larry Siegel. Larry is the Gary P. Brinson director of research at the CFA Institute Research Foundation. Prior to that, he was director of research at the Ford Foundation's investment division for 15 years. Larry began his career at Ibbotson Associates in 1979. He specializes in asset management and investment consulting and has served on various boards as both an advisor and a director. He has also served on the editorial board of the *Financial Analysts Journal* and currently serves on the editorial board of T*he Journal of Portfolio Management* and *The Journal of Investing*. Larry is a prolific writer and has authored several critically acclaimed books in recent years, including *Unknown Knowns: On Economics, Investing, Progress, and Folly* as well as *Fewer, Richer, Greener: Prospects for Humanity in an Age of Abundance*. Larry earned his Bachelor of Arts from the

University of Chicago and his MBA in finance at the University of Chicago, Booth School of Business.

Larry, welcome to *The Long View*.

Laurence Siegel: Thank you.

Ptak: Thank you so much for joining us. We're really excited to chat with you. I wanted to start with your early career. You worked for Roger Ibbotson early in your career. In fact, you were Ibbotson's first employee if I'm not mistaken. Talk about Roger's influence on you and more broadly, the impact he has had on our understanding of markets and investing.

Siegel: Roger was not only my first boss, he was my first finance professor at the University of Chicago. So, I got fed the Ibbotson—and to give credit where it's due, to Sinquefield—view of the markets early. I was 21 years old. And I would describe that view as that asset classes are what's important; that security, individual securities, are best viewed as components of asset classes, although when you get involved in the business, you realize that you have to understand the market at the security level, too; and that long-term performance is very strongly in favor of equities. So, at the time, pension funds, who were the main customers for Ibbotson Associates' work, had relatively little in equities, and one of our missions was to improve the returns of those funds and thus for the sponsors and the employees by holding more equities. This was in the early ‘80s. I was hired in 1979. So, you can see that was a good strategy.

Benz: So, sticking with your background in your early career, you think young professionals should have a grounding in the humanities and liberal arts. Why is that?

Siegel: Well, not every single one needs to, but the ones who are going to rise to the top in the business need a grounding in the common cultural heritage of the human race, and that's given by humanities and social sciences that the liberal arts broadly construed. Investors invest in businesses or governments, but mostly businesses, and businesses exist to serve the needs and wants of people, an ever-changing group of people around the world. So, without a deep understanding of human affairs—in other words, of the why of business—young investment professionals are likely to fall into some intellectual traps: short-termism, geographically narrow thinking, where you only think about your own country, and a bunch of other well-documented behavioral biases—you shouldn't do that.

Ptak: Maybe a dumb question to follow up on that: Why doesn't the market do a better job of creating incentives to ensure that younger professionals—let's talk about those who are heading into finance and in investing in particular—that they have a liberal arts background and they're able to better avoid some of those traps? Why haven't those incentives really taken shape and why is it still so typical to see this procession of MBAs and people with the traditional finance background dominating finance and investing?

Siegel: Well, if you're as old as me, I'm 68, you have observed that it used to. The market, when I was getting out of school, was in a very different position. There weren't many MBAs. It was an unpopular decision to go to business school. And most of the people who were accepted in business school had an Ivy Plus background where a liberal arts education is required in order to graduate. By Ivy Plus I mean the University of Chicago, Stanford, Northwestern, places like that, plus the Ivy League. So, this staffed the investment business with a fairly broadly educated group of people. What happened in the next 40 years is that business got too big. And the MBA programs mushroomed from a little specialty of a dozen or two dozen schools to something that everybody felt they had to get in order to get a job. So, it just became more of a trade school degree rather than an academic degree. And I'm sorry if I'm offending anybody here, but that's the way I see it. And the investment business became more of a trade. So, the market became less efficient, I think, because it just got so big that it had to pull in a lot of different people, including people who had specialized early because they wanted to be in finance because they were seeing people in finance made a lot of money.

Benz: Speaking of specialization, do you think that the only way to truly specialize is to have had a generalist humanistic education first? In other words, are the most successful specialists people who trained as generalists first and is there any evidence for this?

Siegel: I think there is among CEOs and maybe CIOs, chief investment officers. The greatest businesspeople in the world have generally had a pretty broad background and a lot of them started, the legend is in the mail room, but they may have started in engineering, accounting. They may have started in sales. Whatever they did, they found their way to the investment business through a kind of evolution over time. An organization needs foxes and hedgehogs. Isaiah Berlin, drawing on an ancient Greek story, said that there are two kinds of people of foxes who know a little about everything and hedgehogs who no one big thing. Einstein, for example, was a hedgehog. He really only cared about physics, and he was very productive. We would have a very different world without him. I am suggesting that you're better off looking for foxes, but you also want to have a few

Einsteins in there, and an organization that consists entirely of foxes would be very unfocused and would be more like a college dorm than a business.

Ptak: Wanted to shift and talk about something that seems like it's been an awfully short supply lately, which is optimism. You wrote a book called *Fewer, Richer, Greener*, evincing optimism about the global economy and humanity in general. Have you always been an optimistic person? Or has it gone back and forth or been situation dependent?

Siegel: I've always been an optimistic person in terms of my intrinsic biases. I do know enough economic history and regular history to know that living conditions have improved so much in the last 250 years, and actually in the last 50, that you'd be kind of crazy to deny that things have improved. This is a bad year and a bad decade. And it's very easy to become pessimistic when you read the news or check the stock market or look at the world situation with wars and so forth. But underneath the surface of all this chaos and negativity, technology is continuing to advance at an amazing rate of speed. And what we really rely on for economic growth is improvements in technology, where I use the word technology to mean it very broadly. Technology is not just the gadgets or computing power. It's biology. It's social technology—my ability to gather together a bunch of people in a Zoom meeting from all over the world and have a board meeting. And as this technology has grown in the broad sense, we have made our lives much easier; work has gotten easier. We do less of it. The 80-hour work week has now become a specialty of doctors, lawyers, and CEOs. Coal miners—my father-in-law was a coal miner and he worked 80 hours a week in a coal mine when they let him. He would have preferred to work 40, but he needed the money. So, we have an economy in which we produce an awful lot without doing all that much, frankly. We have probably the easiest lives of any population that's ever existed.

Benz: Optimism seems like one of those secret weapons in investing, in finance in that if you're optimistic, you're more likely to stick with it, stick with your plan, and markets have tended to reward people who have stuck with it over the longer term. But it's hard to be optimistic about the long term given how unknowable things are. So, is the equity-risk premium compensation for subjecting ourselves to that unknowability?

Siegel: Yes. There are two kinds of risks. One is fluctuations in asset prices. We all know what that is. The market just went down 20% or 25%, and we're feeling it. And we might forget this, but it went down 34% in a month in the spring of 2020, which is a profound dislocation in the markets. And a few months later, we forgot it. The other kind of risk is actually more profound, and it's the possibility that our general expectations for assets are wrong. And if you look back, equities have returned about real 7%, 7% plus inflation. Going forward, it's pretty unlikely that they're going to do that over the next 20 or 30 years just because of the high prices. Even if economic growth were as rapid in the future as it was in the past, you want to pay less rather than more for the stocks. So, right now, they're selling at a premium to their historical average. That conventional asset-allocation input of equities generate 6.7% or 7% real is almost certainly too optimistic, and we've got to do what Jack Bogle said, which is budget for it. We can't all earn alpha and earn a higher return, because the net alpha in the market is 0, so we would all be trying to take it away from somebody else. We have to budget for lower returns.

When you look at the bond market, it's even worse. Bonds seem to be priced to yield about real 0% to real 1%. That's much lower than the historical average, about half the historical average.

Ptak: You got that right. It looks like real yields across the yield curve 49 to 99 basis points as of yesterday, which would be July 11, so a pretty paltry real yield. I did want to, if I may, stick with the general topic of optimism and its nexus with investing, talk about that in the context of value investing. I sometimes wonder if value investing pays off because it's so repulsive over long stretches that it's almost impossible to be optimistic. That does, though, raise questions about the implications for its practical usability. For instance, if investors are likely to give up on it because they do find it so repulsive when it underperforms growth as it had done until relatively recently, they might miss out on some of that payoff, which can come in bunches. Or do you think that's off base? Do you think that value investing really is usable, you just have to stick with it long enough?

Siegel: I think that value investing is usable. But you shouldn't concentrate your whole portfolio in it. What we've seen is that the pendulum has swung between value and growth in very long cycles and large cycles where value does much better or much worse for the entire time that data are available. Fama and French did this back to 1927 and you get these five- to 15-year swings, which is so long that people give up on either value or growth at exactly the wrong time. So, in 2007, value had outperformed massively, and it was a great time to buy growth stocks because we were just about to enter not a tech bubble but a period of tech innovation that produced huge returns for a decade and a half. Anybody who went against the grain, anybody who went against the tide and overweighted growth stocks did much better than the market from 2007 until a year or two ago. Now people are saying, only growth works, so value is disgusting. And the more disgusted you are, the more likely it is to work. I would overweight value right now, but not all the time.

Benz: I wanted to ask about intuition. It's something that tends to be greatly valued in everyday life, but it can lead us astray when it comes to investing. For example, in March 2020, which you referenced earlier, few of us expected the great snap back in the markets because intuitively we knew the pandemic would be bad for humanity. Do you think intuition was a better model for investing before markets became so efficient or has it never really worked?

Siegel: Well, informed intuition, if you've spent a lifetime in, let's say, engineering and you know something about the way that computers are put together or the internet is put together or something, you might have had the intuition that this was going to be a profound change in the way everybody did everything and you bought those stocks. But the problem is that most people who bought the stocks in the first tech wave, in the 1990s, bought them without knowing anything about the individual companies. They were right about the technology; they were wrong about the companies. So, you would now have a portfolio of AltaVista and Netscape and AOL and a bunch of other companies that had promised but they were just outcompeted by somebody else. So, I would rather hang my hat on analysis than intuition unless you just happen to be one of those people with special inside knowledge but that is obtained legally. But most people who think they have inside knowledge don't. So, I would try to avoid relying on intuition too much.

Ptak: Wanted to shift and talk about your role at the CFA Institute. You have a lot of experience assessing research proposals in that role. What are the best pieces of research have in common based on your experience?

Siegel: Well, they draw heavily on theory to make practical recommendations that can be implemented in the short to medium term. And going back to Roger Ibbotson, we published a piece in 2007 on lifetime financial advice that came from Roger with several colleagues. We are about to publish, but have not yet received the manuscript, the second installment of that from Paul Kaplan, Tom Idzorek, and a third author whose name I forget, and that will come out later this year or early next year. So, even though they're 15 years apart, the Ibbotson people have an integrated theory of investing insurance, annuities—all these different tools in order to provide people with a lifetime income that's secure and yet has the room for adding value through either asset allocation or security selection alpha. So, that's the kind of research I like most. We sometimes have also done pieces that step outside of the box of the *Financial Analysts Journal* or the *Journal of Portfolio Management* -type of research and look at a broader set of issues—for example, geopolitics, demography. There was a beautiful piece by David DeRosa on bubbles. He's against them. I don't know how he can be for or against bubbles. Either bubbles are or bubbles are not. But he takes the position that what we think are bubbles are mostly rational responses to circumstances and then when the circumstances change, the bubble bursts. But it wasn't a bubble; it was rational at the time. I don't know that I buy that 100%, but it sure was interesting reading his logic because he expresses it so well. So, these are the kinds of research I enjoy the most.

I've also done some of my own research here. I am compiling for the CFA Institute Research Foundation a book on the equity risk premium, which was a symposium of 11 fairly famous people—Marty Leibowitz, Rob Arnott, Cliff Asness and so forth—which I led. I'm not one of the famous people, but I know them all socially, so I was able to get them to come. And I edited it with a co-editor, Paul McCaffrey, who is producing a book on that as we speak. It could come out in the next month.

Ptak: I did want to ask you about what's become the new rage in investing research and portfolio management, which is combining quantitative and human-driven decisions. If you had to draw up a CFA curricula for a bot, how would it differ for the current human-based curricula? And on the flip side, how do you think the current human curricula ought to be reshaped to account for the rise of things like machine learning? Is that something you've given any consideration?

Siegel: A little bit. I'm writing a book review right now for *Advisor Perspectives*, which is an industry newsletter, a very good one. And the review is of a book by Erik Larson that's called *The Myth of Artificial Intelligence*. I'm giving it a good review, so you can see where I'm going to come out. I believe that machine learning is a real thing. Machines can be programmed to learn, and that's a valuable tool in investment management. But when you step beyond that to the idea of artificial general intelligence, I think it's an illusion caused by very fast computers, very big data and very clever programmers who want to create that illusion. So, we have had 300 million years of evolution—not as human beings obviously but as animals—to develop a set of connections in our brains that actually are intelligent. Yet intelligence in the sense that we are talking about now didn't really emerge until the last 200,000 years. So, it is rare. It is fragile. And we don't know what it is. It's like Justice

Potter Stewart said about pornography: We don't know what it is, but we know it when we see it. And to imagine that we're, as human beings, of one level of intelligence, whatever we are, can build a machine in a few decades of those 200,000 years that's more intelligent than we are with all that evolutionary heritage is frankly ridiculous. These machines are going to do what we tell them to do. But if we tell them using instructions that are crafted well enough, it will give the illusion of being intelligent. When I don't know how something works, like everybody else, I tend to think it's magic. I'm driving and there are two or three cars lined up at a red light, it immediately turns green and makes the other traffic stop because it's a smart red light, and all it's doing is counting the number of cars that are waiting for it to turn and changes the cycle, changes the frequency, according to the traffic instead of operating on a fixed time cycle. But it looks like a pretty smart red light when you haven't encountered it before and you say “Gee, that's really amazing.” Well, I think that AI as we're experiencing it now is kind of the same as that. It's just a technology that other people understand because they developed it, but we don't because we don't have the knowledge and so we feel like it's magic or intelligence, whichever you want to call it.

Benz: There's been a lot written about the glut of skilled, highly trained professionals in the investing field. Can you talk about the level of competition you see now versus what you saw earlier in your career?

Siegel: The industry has become way too big. Every stockbroker has become a financial advisor. Ninety-six percent of them ought to tell people buy, hold, diversify, and rebalance and minimize taxes, and then they have to fill in that outline through implementation. In other words, somebody has to do it; their clients aren't qualified to do it. But they should mostly be telling people to buy index funds and to use premixed asset-allocation decisions that conform to what somebody at the headquarters has decided is optimal. To add value for an individual, what you really need to do is be more like a psychologist and a life counselor who says, “You have too much debt, you're not saving enough; you have too many houses; at some point your assets become a liability." Or you don't have a house at all, you are a renter—you might want to consider a house as a hedge against inflation. But telling them which securities to buy or micromanaging the list of mutual funds, to me, is a fool's errand for most people.

Inside the business, that's the public-facing side. Inside the business there are too many security analysts, too many asset allocators, too many broker/dealers. And I think that competition has become more and more people fighting over fewer and fewer real alpha opportunities, and that's why the competition feels so fierce. It used to be an easy business. And it's not easy anymore because the market is more efficient, I guess.

Ptak: Wanted to shift gears and talk about asset allocation, specifically the 60/40 portfolio. And my question for you, which is a question I think many are asking, is the 60/40 debt. It's having one of its worst years ever. But the paradox is that yields are now, albeit they're still paltry, they're now a little bit higher and valuations are a tad lower, which you'd think would boost the 60/40's future prospects. What's your take on the 60/40, Larry?

Siegel: I think that it's a pretty good consensus outcome of people buying what's available in the market. If you look at the supply of securities, it has to be somewhere around 60/40 because everybody holds it, and the supply and demand have to equilibrate in the long run. But why do issuers produce that ratio? I think that the underlying reason is that for a very long period of history, bonds were a very good investment. If you didn't have 40% in bonds, you wanted to, because they were producing high real returns. And that period is roughly 1981 to 2007. It's a long time. From 1940 to 1981, bonds did terribly because interest rates were going up and up and up, and we didn't have a lot of 60/40 portfolios, but what we had was mostly 0 or 100. Institutions bought fixed income to fund their pension plans. They bought fixed income to fund if there were insurance companies. The big money was in fixed income and equities were this gravy—you sold some stocks to some rich people. And over time as the stock market went up and the bond market didn't go up, you had greater interest in equities, and the consultants who emerged from this world of pension funds settled on 60/40 as a consensus. And so, you've got what I call the standard model. The allocators picked from a list of active managers in each asset class, usually buy way too many of them, didn't have access to index funds or didn't want to buy them. And so, they compared the performance of their active managers to benchmarks, fired the underperforming ones, gave more money to the outperforming ones, and since these things tend to run in cycles, generally underperform the market. They also had to have an overall asset-allocation policy where 50/50 was the tradition that they'd been coming from, but they moved it up to 60/40 because the stock market was beating the bond market and it just stayed there. Stocks are risky. So, 70/30 or 80/20 seemed like it was too volumed. We're all human, and we do what we see the person next to us doing. I think it’s really just consensus-building, although there is a supply aspect to it. You have to buy what's out there. And if we all decided to increase our allocation to equities, we couldn't. But we would just be buying them from each other. This is a point Cliff Asness made. He can usually be counted on for very good thinking.

Benz: Our research has found that fund investors tend to do a really poor job of utilizing so-called liquid alternative funds. If you take the illiquidity and gates away from alternatives, do you think they can still work for individual investors in the form of liquid alternatives?

Siegel: Well, the term liquid alternatives has changed over time. When I started hearing about liquid alternatives in the early to mid-90s, it meant hedge funds and to some extent managed-futures funds because the stuff they were buying was liquid, and then the illiquid alternatives were venture capital and private equity. Over time, liquid alternatives have come to mean liquid to the investor. And when you securitize an alternative investment, you've removed—so that you can trade it like a stock—you've removed the one thing that has tended to give alternative investments better returns, which is the lockup. If you can lock up somebody's money for a long time, you can take risks that don't necessarily pay off in the short run, but that may pay off in the long run. If you take that away, I would rather just invest in liquid nonalternatives, stocks, bonds, and some real estate. Although some people call real estate an alternative. It's the oldest asset class, so I'm reluctant to put it in the alternatives bucket.

Ptak: Wanted to shift and talk about endowments. You spent a good chunk of your career in the endowment world. And as you know, a lot of ink has been spilled concerning debates over the endowment model. Some decried it as costly and complex, others defend it as path-breaking. What are the lessons an advisor or an individual investor should take away from the success of the endowment approach? And conversely, what are the lessons they need to unlearn, so to speak?

Siegel: I'll start with the last one because it's so easy. The lesson they need to unlearn is that if David Swensen can do it, so can I. He and the people at other big endowments and foundations have access to the best funds because they come to you, you don't have to go ferret them out. The best people they can afford to hire, outstanding analysts and other chief investment officers who can make millions. And if they do lose money, they have this capability of withstanding some pain. A foundation, in particular, which doesn't have professors to pay, or buildings to maintain, or students to give scholarships to, has to pay out 5% of whatever it has at the time, so if it loses some of the assets, their liabilities go down too in a one-to-one correspondence and so, at some level, they don't care. Of course, they do care because it's always better to have more money to give away than less. But the foundation isn't going to be destroyed by a 20% decline in the market.

Endowments are a little trickier because the liabilities are not so flexible. If you start paying your professors less, they will just go to another place that doesn't pay less. Students will do the same thing. But these institutions also have a lot of reserve in their fundraising ability. An ordinary individual investor doesn't have any of this backstop. If I want to raise funds, I have to work harder. I'm already working as hard as I can. And I don't have the option to reduce my liabilities by saying I'm just not going to pay them. So, individuals have to be inherently more conservative. You get older, life becomes a race against diminishing capabilities and your risk level has to go down as you get older. So, there's a lifecycle effect that institutions don't experience. So, I would say that's the main lesson is, endowments and foundations have generally done well, but they have some structural advantages over individuals. Unless you have a rich uncle—a university has a rich uncle—which is the alumni and yet that's not an unlimited resource any more than your rich uncle is. But it is a backstop for bad performance.

Benz: One investing paradox is that success demands humility, but humility is a tough sell. What's the humblest thing an investor can do to boost their odds of success while also attracting clients? Is it to have a long time horizon?

Siegel: Well, the humblest thing an investor can do is buy index funds. It says to the client, I don't know what stocks are going to do best, but other people collectively as a market make pretty good decisions, so I'm just going to trust them to say the prices are roughly right. And when you buy an index fund, you're making a bet that the prices are roughly right. They're obviously not exactly right. In terms of having a long time horizon, it can be humility, or it could be hubris. I can claim to have a long time horizon, but I don't know what liabilities I'm going to face tomorrow, so I better have a short time horizon with some of my investments and I could also live 30 more years, so I need to have a long time horizon with other parts of my portfolio. But the time horizon issue I don't see so much as humility versus hubris, but it's a planning tool that a lot of people don't use effectively.

Ptak: One of your more popular pieces of writing in recent years was an article you wrote on investing myths. If I'm not mistaken, I think you've updated it a few times to this point, the most recent being in 2020. Why'd you write it, and how would you change it if you were to update the piece yet again today?

Siegel: I wrote it because

somebody in Brazil paid me to come down there and give a talk on Siegel's Nine Myths of Investing. So, when that gave me an outline I had to fill in. Most of the myths have changed over time. I've updated it every two to five years. And what would I change now? Well, first of all, you'd have to go back and look at what the myths are. I don't really think I have time to go over all of them. But the one that I would change today is that stocks and bonds are always negatively correlated, so each is a good hedge against the other. It's not true. It runs in cycles. There was a period where they were positively correlated in the ‘90s and then before that at some other time, and all of a sudden, it's back. So, with stock market down, the bond market is also down, and people say, "Diversification doesn't work." Well, first of all, nobody told you to go out and buy the longest bond. Diversification within the bond market works in the sense of holding some less-volatile, shorter-term securities. They sacrifice some yield in order to get that safety. Secondly, stocks and bonds will again be uncorrelated or negatively correlated someday. But this is not that day. And there are other assets. The one that comes to mind is the original alternative investment: cash. Right now, you’re losing money in cash in real terms, because inflation is so high. But, on average, over time cash has paid a percent or so over the inflation rate. And then the other one is real estate. I keep coming back to real estate because it has become the unloved stepchild in the investment world. And other than their house, nobody has any. The last time I heard somebody talking about real estate as an investment was probably in the decade of the 2000s, and probably it was going up a lot. Then there was a crash. And the crash stuck in people's minds while real estate itself turned around and went up again. And there may yet be another crash, but it's just another asset class that should probably be in your toolkit.

Other myths—I kind of went out on a limb in the last version of that article and started talking more about social and political issues. One is that we can transition to entirely green energy without disrupting the entire world economy. We can't. We either have to transition slowly, which may not be good enough, but I actually happen to think it is, because energy transitions have taken a half century or so—wood, coal, coal to oil, oil to natural gas, and so forth—and the next transition is not going to be all solar and wind. Nuclear power is going to be a vital and probably the most important part of it. So, if the myth that you're subscribing to is the, let's call it the European version, although that's not quite fair because they have plenty of nuclear power in Europe. It's not going to happen, but we're going to need all the energy we've got, because the world is getting richer fast. Growth rates in China are down to 5%. That's still huge. Indonesia is higher than that, and it's a country of 300 million people that most Americans couldn't find on a map. The energy demands are going to be huge from all these different parts of the world that are growing and becoming middle class. And so that myth is something I spent a little time on in the article and I would write more about it next time.

Benz: You more or less predicted the spate of inflation we would have before it happened. In fact, one of the myths you wrote about in 2020 was that the government could borrow all it wanted without sparking inflation. What did you see then and what do you think people should be monitoring to assess how long high inflation will persist into the future?

Siegel: My forecast at the time was based on basic economic history from the 1700 and 1800s, which is that when the government borrows more money than it can pay back, it's going to pay it back anyway but in cheaper dollars. And the way that you get cheaper dollars is to have inflation. Inflation is a transfer of resources, of real resources, from savers who are bondholders and cash holders, to borrowers, which in this case is the government itself. So, it's tax. So, when you have a budget —that's how government budgets, it's out of balance by a lot for a long time— you're going to have a lot of inflation, because it's the only way the government is going to be able to make those payments on the bonds. I didn't see anything in the economy other than the budget deficits. And it was so early that you could say, I was wrong. There's not much difference between being a decade and a half early and being outright wrong. So, I'll say I was wrong.

What I didn't see was the supply catastrophe that came with COVID and our response to COVID. So, when you get a supply shock like the one we've just been through, prices are going to rise, and you don't even need an unbalanced government budget, you don't need budget deficits for prices to rise when there are shortages of things because by ships not being able to dock and workers not coming to work, we just have never seen anything like this. And so, I think the inflation rate will come down from these astronomical rates to something more normal, 2%, 3%, 4%, 5%, but we're not going to go back to zero to 2, because governments have over-leveraged, and deleveraging is always inflationary.

Ptak: What role do you think top-down macro should play in an allocation and investing process? Obviously, it's hard to correctly make a macro bet, though we've just talked about one you did correctly make, but it's even harder to translate that into a successful investment. So, should most people just avoid macro and diversify and call it a day?

Siegel: If you mean macro bets to guide your general asset-allocation philosophy, I think you should. In other words, if you believe, as I do, that global economic growth, while slowing, is going to be very large in absolute terms for a very long time. In other words, the absolute terms meaning the number of overall dollars, or whatever your currency is, generated by the world economy that you want to hold equities because bonds don't give you a claim to that growth. And they give you a very indistinct claim I wouldn't bank on it. But international investors say that when a country is growing rapidly, the currency goes up, so you get a little bit of diversification that way. But equities are much more powerful, and international equities are frankly cheap relative to the United States. So, that's a macro bet, and I'm recommending it. But again, I recommended it for a long time. I thought the U.S. was expensive. It hasn't been cheap since the 2007-08-09 period. So, you should make an evaluation of those conditions and implement it through your portfolio.

In general, most Americans suffer from home country bias because the U.S. is so big that you can get a pretty diversified portfolio with just the S&P 500 actually, because that's a lot of stocks, and those are all the big caps. If you lived in Belgium, you would not be under the illusion that Belgium was the whole world. It's just you can reach the border in an hour from anywhere in the country. So, you've known since you were a little kid that there's a big world out there. We Americans just don't have that intuition. So, that's why I'm saying that international is a macro bet that is reasonable to make. Now, if by macro bets you think that you act like a hedge fund and you think that the pound is going to crash, and that oil is going to go to $70 and then back to $110. No, individual investors should not do that.

Benz: People aren't very good at respectfully disagreeing these days. You're someone who seems unafraid of having a fulsome debate. Besides stepping away from social media and the internet, what are some things we can do to exchange differing views without becoming polarized?

Siegel: Well, if I knew I would

run for President. People have become dug in—I don't like it at all. Spend a quarter of your reading time reading points of view that you know in advance you're going to disagree with, see how that person expresses themselves and what arguments they make and trying to take their side mentally while you're reading it. Consider maybe I'm wrong, maybe they're right. If I name some names, that would be too obvious where my biases are. But I would read the moderates on the other side, because the extremists are extremists, and they overstate everything. That's about all I can think of other than be nice. If the people you care about and generally respect have different views from you, ask yourself why. It's not because they're crazy or stupid or evil. It's because they've looked at the same data in the broad sense. They've looked at the same world and come up with different conclusions. Try to think about why that might happen, and then picture them doing that to you. That's about all I have to say about that.

Ptak: Well, that's great advice and I think a great way to close this conversation, which we very much enjoyed, Larry. Thanks so much for your time and insights. We very much enjoyed having you on *The Long View*.

Siegel: Well, thank you very much.

Benz: Thanks so much, Larry.

Ptak: Thanks for joining us on *The Long View*. If you could, please take a minute to subscribe to and rate the podcast on Apple, Spotify, or wherever you get your podcasts.

You can follow us on Twitter @Syouth1, which is, S-Y-O-U-T-H and the number 1.

Benz: And @Christine_Benz.

Ptak: George Castady is our engineer for the podcast and Kari Greczek produces the show notes each week.

Finally, we'd love to get your feedback. If you have a comment or a guest idea, please email us at TheLongView@Morningstar.com. Until next time, thanks for joining us.

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