Global Matters Weekly

5 September 2022

The Law of Lindy

– **Tom Delic**

In 1964, American author and academic Albert Goldman wrote an article in US magazine *The New Republic*, titled 'Lindy's Law'[1]. While dining at Lindy's, a New York delicatessen, Goldman became interested in the discussions that took place between entertainment industry veterans who frequented the restaurant and would analyse the latest televised comedy shows. The unwritten rule amongst the gossipers was that "the life expectancy of a television comedian is [inversely] proportional to the total amount of his exposure on the medium", in other words, the more frequent the comedian was on the television, the shorter the comedian's time in the spotlight…due to running out of material!

Almost twenty years later Lindy's Law reappeared in mathematician Benoit Mandelbrot's book *The Fractal Geometry of Nature*. Mandelbrot however came to the opposite conclusion and expressed mathematically that the expected survival of an artist's work was, on average, lengthened as the work continued to survive. He called this the 'Lindy effect'.

Mandelbrot's expression of the Lindy effect was popularised and expanded by Nassim Taleb, particularly in his book *Antifragile*, where he stated that non-perishable items such as technologies, ideas and non-biological objects follow a relationship close to that of a power law, whereby the average remaining life expectancy increases with age. Taleb links the Lindy effect to his theory of fragility, in that time is the ultimate judge, given it exposes everything to shock and disorder. The non-perishable that can survive the passage of time is therefore robust or even anti-fragile, the latter meaning it gains from disorder.

An example of the Lindy effect can be seen in literature. William Shakespeare's Macbeth has been read or performed for over 400 years. We can therefore expect it will be read for another 400 years. If Macbeth features in the curriculum for schoolchildren a century from now, we will then expect the play to survive a further 500 years. Asymmetrically, mortality decreases as age increases. The world is full of non-perishables that have stood the test of time: democracy, fermentation, teapots, double-entry bookkeeping, and so on.

Often the most successful new businesses are centred around ideas that satisfy age-old basic human wants and needs.

While the Lindy effect is a useful heuristic to apply across many aspects of our lives, we can also use it as a filter in the portfolios we manage for clients. First, we can focus on time-tested investment styles that have been stressed across multiple investment cycles, such as value and momentum. Secondly, we can invest in assets that have centuries of evidence of retaining or increasing an investor's real net worth. Examples may include gold as a reliable alternative to fiat money or an equity investment in a business that has survived war, technological disruption, and everything in between.

This is not to say we cannot invest in new business models but often the most successful new businesses are centred around ideas that satisfy age-old basic human wants and needs. Take Jeff Bezos' answer when he is questioned on what is going to change over the next decade: "I almost never get the question: 'What's not going to change in the next 10 years?' And I submit to you that that second question is actually the more important of the two - because you can build a business strategy around the things that are stable in time… In our retail business, we know that customers want low prices, and I know that's going to be true 10 years from now."[2]

Thirdly, we should diversify, a concept that has endured for many years. Taking a quote from Lindy-filtered book Don Quixote, "It is the part of a wise man to keep himself today for tomorrow, and not venture all his eggs in one basket"[3]. Lastly, we should focus on the long-term, embracing compound interest which is itself a power law that benefits from the passage of time.

Sources: [1]https://www.gwern.net/docs/statistics/probability/1964-goldman.pdf, [2]What's Going to CHANGE in the Next 10 Years? | Jeff Bezos - YouTube, [3]Don Quixote (Part I, Book III, Chapter 9) by Miguel de Cervantes Saavedra [1547-1616]. Translated by Peter Anthony Motteux [1660-1718]. Unless stated, all other figures sourced from Bloomberg Finance, L.P.

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The Marketplace

- Global equities fell by 3.3% last week
- Commission President Von der Leyner is considering various measures to deal with the current cost of living turmoil
- Brent crude fell by 7.9% over the week to $93.0 a barrel
- Gold fell by 1.5% to $1712.2 per ounce

Market Focus

US

- US equities returned -3.2% last week
- The headline nonfarm payrolls number was broadly in line with expectations at 315k vs 298k expected. The unemployment rate also ticked up to 3.7% vs 3.5% expected, driven by a rise in labour force participation to 62.4% vs 62.2% expected as more people came back into the workforce
- Initial jobless claims for the week ending 27 August fell back to 232k vs 248k expected, marking the third consecutive week that jobless claims have declined
- The Automatic Data Processing (ADP)'s National Employment Report of private payrolls came in at +132k vs +300k expected
- The Job Openings and Labour Turnover Survey (JOLTS) data showed that job openings rose to 11.239m in July (vs 10.375m expected)
- The Institute of Supply Management (ISM) manufacturing data surpassed expectations, remaining at 52.8 vs 51.9 expected, with the employment component at a five month high of 54.2 vs 49.5 expected
- The Conference Board's consumer confidence data for August came in at a three month high of 103.2 vs 98.0 expected, with rises for both the expectations and the present situation indicators
- The manufacturing Purchasing Managers' Index (PMI) came in at 51.5 vs its flash reading of 51.3

UK

- UK equities returned -1.9% last week
- The Office for National Statistics said that the government's £400 discount for energy customers this winter would not affect the CPI. If it had been counted as part of inflation, then the October Retail Price Index (RPI) projections would have been affected by around 2.7%
- The manufacturing PMI reading came in stronger than its flash reading at 47.3 (vs 46.0) but still in contractionary territory and at its lowest level since May 2020

Europe

- European equities returned -1.9% last week
- The Euro Area unemployment fell to a new low of 6.6% in July, the lowest level since the formation of the single currency
- The flash Consumer Price Index (CPI) reading for the Euro Area rose to a record 9.1%, also to levels not seen since the formation of the single currency
- In Germany, the EU-harmonised CPI reading rose to a fresh high of 8.8%, and it was a similar story in Spain where the harmonised reading fell back to 10.3%, both in line with expectations
- German retail sales grew by 1.9% vs -0.1% expected
- The Euro Area manufacturing Purchasing Managers Index (PMI) came in at 49.6 vs its flash reading of 49.7

Asia/Rest of The World

- Global emerging market equities fell 3.4% over the week
- Japanese equities fell by 2.5% over the week
- Shenzhen locked down its city centre with Chengdu also extending lockdown restrictions for most parts of the city as the nation faces a steady rise in Covid-19 infections
- In China, the Caixin manufacturing PMI fell into contractionary territory for the first time in three months with a 49.5 reading (vs 50.0 expected). In South Korea, the reading fell to 47.6 vs 49.8 previously, its lowest level since July 2020. In Japan, the 51.5 reading was the lowest since September 2021.
- Korea's inflation dropped to 5.7% year-on-year in August from 6.3% in July as energy prices eased
- Japan's latest services PMI data for August came in at 49.5, lower than the prior reading of 50.3 in July.
- China's manufacturing PMI came in at 49.4 vs 49.2 expected and the non-manufacturing PMI came in at 52.6 vs 52.3 expected.
- Japan's industrial production readings were stronger than expected at +1.0% month-on-month vs -0.5% expected. Retail sales also beat expectations at 0.8% vs 0.3% expected

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Asset Class/Region	Currency	Currency returns			
		Week ending 2 Sep. 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-3.2%	-0.8%	-17.0%	-12.6%
United Kingdom	GBP	-1.9%	0.0%	3.9%	8.4%
Continental Europe	EUR	-1.9%	0.4%	-15.1%	-12.8%
Japan	JPY	-2.5%	-1.7%	-1.7%	-0.3%
Asia Pacific (ex Japan)	USD	-3.4%	-2.5%	-17.9%	-22.2%
Australia	AUD	-3.1%	-1.6%	-5.1%	-4.8%
Global	USD	-3.3%	-0.8%	-18.4%	-16.3%
Emerging markets equities					
Emerging Europe	USD	-3.6%	-0.9%	-77.7%	-79.3%
Emerging Asia	USD	-3.3%	-2.8%	-20.3%	-24.7%
Emerging Latin America	USD	-2.9%	1.7%	8.3%	-3.6%
BRICs	USD	-2.3%	-1.9%	-20.0%	-27.8%
China	USD	-3.2%	-2.5%	-21.5%	-31.2%
MENA countries	USD	-3.3%	-1.3%	3.5%	6.1%
South Africa	USD	-6.5%	0.0%	-10.9%	-14.7%
India	USD	0.2%	-1.3%	-4.4%	-5.4%
Global emerging markets	USD	-3.4%	-2.2%	-19.3%	-23.7%
Bonds					
US Treasuries	USD	-0.8%	-0.1%	-9.8%	-10.7%
US Treasuries (inflation protected)	USD	-1.8%	-0.3%	-8.4%	-6.9%
US Corporate (investment grade)	USD	-1.6%	-0.5%	-14.6%	-15.5%
US High Yield	USD	-1.8%	-0.2%	-11.4%	-10.9%
UK Gilts	GBP	-3.6%	-1.4%	-20.3%	-21.8%
UK Corporate (investment grade)	GBP	-2.8%	-1.0%	-17.9%	-19.7%
Euro Government Bonds	EUR	-0.9%	0.2%	-13.2%	-14.8%
Euro Corporate (investment grade)	EUR	-1.0%	0.2%	-11.4%	-12.6%
Euro High Yield	EUR	-1.6%	-0.5%	-11.6%	-12.0%
Japanese Government	JPY	-0.5%	-0.4%	-3.0%	-3.5%
Australian Government	AUD	-0.3%	-0.3%	-9.8%	-12.5%
Global Government Bonds	USD	-1.4%	-0.4%	-16.6%	-19.3%
Global Bonds	USD	-1.2%	-0.3%	-16.4%	-18.9%
Global Convertible Bonds	USD	-1.8%	-0.9%	-19.7%	-24.0%
Emerging Market Bonds	USD	-2.3%	-0.7%	-26.1%	-28.8%

Source: Bloomberg. Past performance is not indicative of future returns

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Asset Class/Region	Currency	Currency returns			
		Week ending 2 Sep. 2022	Month to date	YTD 2022	12 months
Property					
US Property Securities	USD	-3.9%	-1.1%	-19.7%	-13.9%
Australian Property Securities	AUD	-3.2%	-1.9%	-21.2%	-16.4%
Asia Property Securities	USD	-2.7%	-1.4%	-10.1%	-16.0%
Global Property Securities	USD	-3.4%	-1.2%	-19.6%	-18.1%
Currencies					
Euro	USD	-0.1%	-0.8%	-12.4%	-16.0%
UK Pound Sterling	USD	-2.0%	-0.9%	-14.9%	-16.7%
Japanese Yen	USD	-2.1%	-1.1%	-18.0%	-21.6%
Australian Dollar	USD	-1.4%	-0.7%	-6.5%	-8.0%
South African Rand	USD	-2.7%	-1.1%	-7.9%	-16.5%
Swiss Franc	USD	-1.7%	-0.7%	-7.2%	-6.8%
Chinese Yuan	USD	-0.4%	-0.1%	-7.9%	-6.4%
Commodities & Alternatives					
Commodities	USD	-4.9%	-2.4%	19.3%	28.9%
Agricultural Commodities	USD	-2.4%	-2.1%	7.5%	19.5%
Oil	USD	-7.9%	-3.6%	19.6%	27.4%
Gold	USD	-1.5%	-0.2%	-6.4%	-5.4%
Hedge funds	USD	-0.5%	-0.1%	-3.8%	-4.4%

Source: Bloomberg. Past performance is not indicative of future returns

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