

Famous Bob, Unknown Norm

Norm and Bob died last year. Bob was famous, while Norm was inexplicably obscure. They were similar in that they both accomplished a lot, but dissimilar in their approaches to life. The contrast between their methods is instructive to all decision-making, including investing.

Bob was Robert McNamara, and the source of both his great accomplishments and his notorious failures was his confidence, at times overconfidence, in the power of rationality and quantification to accomplish everything. The youngest professor at Harvard Business School, McNamara then worked with General Curtis LeMay to increase the efficiency of the bombing of Japan in World War II. After the war, he had a meteoric career at the Ford Motor Company and then joined the incoming Kennedy administration as the Secretary of Defense.

In the cabinet, McNamara was the star on a team of stars. As David Halberstam put it in his classic *The Best and the Brightest*, McNamara had “...the total belief in what he was doing, the willingness to knock down anything that stood in his way, the relentless quality, so that other men, sometimes wiser, more restrained, would be pushed aside.” McNamara was the architect of the U.S. involvement in Vietnam during both the Kennedy and Johnson administrations. He later headed the World Bank during a period of skyrocketing debt in developing nations, many of which went through debt-caused financial crises in the years following McNamara’s retirement from the Bank.

The great investment lesson we can glean from McNamara’s career is the danger of overconfidence in predicting and controlling future events purely through quantification. It is easy to imagine McNamara right at home running a mean-variance optimizer software program. The premise of this prevalent investment software is the belief that for success, we need “only” to estimate future returns for various asset classes, estimate the standard deviation of those returns, estimate the cross-correlation of returns of those various assets, and plug all this into a software program that spits out the perfect investment mix.

Of course, this is nonsense ~ when you get the output, the future is just as uncertain as it was before. You might *feel* better, but false confidence is not a good thing, just as the reliance on estimated “body counts” from the battlefields in Vietnam was an unreliable indicator of success. It is hubris to imagine that we successfully can estimate future asset risks and returns to impose a purely technical solution to a huge, complex and unpredictable system such as the stock market.

*“Read no history – nothing
but biography, for that is life
without theory.”*

-- Benjamin Disraeli

While it is easy to find thought-provoking analyses of McNamara’s career, it is much harder to find *any* discussion of Norm. Norman Borlaug won a Nobel Prize and is credited with saving the lives of a billion people (yes, that is billion with a “B”), but he remains virtually unknown. In 1944, the Rockefeller Foundation sent Borlaug, a Ph.D. in plant

pathology, to Mexico to combat the stem rust fungus that was wiping out the Mexican wheat crops. Through a series of small, painstaking innovations, Borlaug bred varieties of wheat resistant to the fungus and better adapted to the climate. He built on this success by growing new strains of grains in Mexico that, when planted in Asia, helped not only to overcome the threat of famine but also to set off an economic boom.

Borlaug then began work in Africa. His “green revolution,” like most farming, uses fertilizer and pesticides, and this led to a growing chorus of critics that favored population control rather than improved agriculture. Borlaug took this in stride, noting that his critics, lobbying in Washington D.C. and Brussels, had never experienced hunger, nor had they worked, as had Borlaug, amidst the misery of a famine. Borlaug also pointed out that agricultural and economic success *reduces* population growth over time. In the 1980s, the World Bank cut funding for developing world agriculture, including Borlaug’s work, but his projects subsequently received private support.

Borlaug did not start out with an overarching worldview, invariant philosophical theory or detailed 28-point plan, nor was he overwhelmed by the enormity of his goal of combating famine. He did not set out to save a billion lives; he just worked day by day to prevent people from going hungry. McNamara’s failures resulted, in part, by his requirement of a top-down, rigidly quantified strategic plan for everything he did. Borlaug succeeded by showing up and persisting.

Many investors fail because they cannot stand the ever-present chaos in the financial markets. Much of what passes as financial planning and investment counseling preys on this human weakness by creating an illusion of quantitative certainty where none exists. Instead, we prefer an investment approach that mirrors Borlaug’s method of combating famine. Try and do the right thing and take the appropriate action each day, and after a time, you may be amazed at what you have been able to accomplish. Just about everyone of a certain age is familiar with Bob; you have to search to find anyone who knows much about his contemporary Norm, who saved more lives than any human in history. As depressing a statement as this may be about our celebrity culture, it should not prevent us from trying to follow Borlaug’s example of being humble but persistent in our endeavors, financial or otherwise.