

Hello Everyone,

Sometimes things don't go the way you think.

Darren was substituting for Bob this morning. Darren and I have known each other for decades. So, by the time we "caught up" on air, my time was running short...and everyone knows you don't cut into Candy Cruise with, "traffic and weather on the sevens."

After all, we all know, Candy is a tough cookie. (Do you like how I did that?) :>)

Therefore, the last third of today's missive is what I would have said had I not been so gabby at the beginning.

There will be no missive on Friday, because of the holiday. So, we'll start a new topic next Monday.

Signed, Your-wishes-Thanksgiving-weren't-About-Retail-Sales-Numbers Financial Advisor,

Greg

KKOB 11.25.2019 Part 4 Politics, Governments, Economies & Investments---Information and Knowledge

Darren: So, Greg, we are still on the government vs. markets theme and-with respect to how they see the world---it seems they are like oil and vinegar.

Greg: I believe you find a lot of analysts who would back you up on that thesis. So, today let's examine how differently governments and markets view knowledge and information. And, this may help your listeners understand why the public and private sectors are in constant tension.

Darren: And I know information and knowledge are not the same. Plus, I'd say knowledge *and wisdom* are different as well.

Greg: I agree. And wisdom is usually the one in the shortest supply. Anyway, let's start with information. Or better said, the concept of *asymmetric information*. Let me explain.

For most of us, we know when we are getting our car fixed the mechanic knows more than we do. We would say the information is asymmetric...not even. The mechanic is smarter.

So, the best defense for consumers is to shop around. After all, there are lots of mechanics-- and with some due diligence on our part, we can reduce the information gap.

Government is different. It's not their money they're spending. Thus, they don't take much time dealing with information asymmetries. They just want the car (that is the political problem) fixed...irrespective of cost.

Oh, and if their buddy is a special interest group that will help the politician get reelected, all the better. In short, the political system rewards those who are most relevant to the power game---- and not those who best reduce the information gap.

Darren: Sure...with reelection always the motivator. So, yes, I can see how government gets things done, but it doesn't happen in a very productive manner.

still-----isn't that the nature of all monopolies? I mean, no competition means no need for efficiency ---and government is the biggest monopoly of all.

Greg: Sure. By its very structure, information asymmetries thrive in government in ways that are not possible in a free market.

Anyway, let's now bridge from information to knowledge.

I've come to believe governments tend to operate on the *pretext of knowledge*---- but not knowledge itself. Again, let me clarify.

As you said, government is an inefficient monopoly. So, let's say government wants to "fix a problem" in banking, or the Internet, or health care.

Darren, each of those sectors is massive in scope and complexity. There is no way government can ever amass (and process) enough information to become sufficiently knowledgeable to pass meaningful legislation. But they pretend they can. So, it's a pretext of knowledge masquerading as expertise.

And, this is how we end up with thousands of pages of undecipherable legislation that fixes nothing.

Darren: In many cases, it makes things even worse...like Obamacare.

Greg: Right! Obamacare proponents may have had the best of intentions, but all America

got was a boat load of unintended consequences. But in fairness, both sides do this.

Darren: And yet, regardless of party, politicians will never admit their mistakes. Because admitting a mistake means they might not win the next election. So, they double-down---- and bad policies live on for decades.

Greg: Right. So, now let's compare this to a decentralized, market-based system. In a free market, no one tries to accumulate all information and implement a plan. Everyone knows it's impossible.

Thus, in business, you start from a position of uncertainty. Sure, businesses do their best to survey the landscape---but then there's a lot of trial and error. You expand on your successes. You recognize mistakes. You adjust. This approach is totally different from government.

Darren: Plus, business always has competition breathing down its neck. Government doesn't have any competition.

Greg: Right. And it's by that competitive process you go from information to knowledge. Unfortunately, government, by virtue of its very structure, rarely gets there.

So, as an investor, the goal is to find businesses and management teams that are accountable and flexible--the ones that don't behave like government. Then invest there.

Darren: I totally get that. I don't want government running my investments...or business. So, how do people reach you?

Greg: My number is 508-5550. Or go to my website at zanettifinancial.com.

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