



January 2010



### Stop the Presses! (January 21, 2010)

**Jeremy Grantham**

#### The Good News ...

#### Volckerization

In a remarkable development, a Volcker plan for Glass-Steagall-lite has been proposed by the Administration. One minute Paul Volcker, the only financial administrator not called Brooksley Born who has shown any real backbone in the last 30 years, is so out in the cold that his toes must have frozen off, and the next – hey, Presto! – his ideas are put forward lock, stock, and barrel and Geithner and Summers are left scrambling to take some credit for the plan and pretend they hadn't been dissing Volcker up until eight seconds ago for what they thought were his antique and unnecessary ideas that were far too harsh on our poor banking system. Wow! Well, these new ideas are all good stuff as far as I'm concerned, and entirely justified. Everyone in Congress, and anywhere else for that matter, knows prop desk trading (banks trading their own capital like a hedge fund) is a conflict of interest. They may or may not think it important or that it caused this or that problem, but they know it's a real conflict. Congressmen, since when wasn't conflict of interest and poor ethical standards reason enough to change the law? But since we bring it up, of course prop trading was indeed the rot at the heart of our financial problems (see last quarter's Letter). Watching traders take home their \$28 million bonus sent a powerful message to lowly salesmen and packagers of asset-backed securities, for example, to get out there and really take some risk. This rot spread to the very top, and pretty soon chairmen of boards were exhorting CEOs to leverage up and look more like some much more profitable rival that resembled a hedge fund rather than an investment bank. Thus encouraged – or intimidated – some CEOs just kept on dancing right off the cliff. Let's learn from our near disaster. Viva Volcker!

#### ... and the Bad News

#### Supremely Extreme: Another "Day That Will Live in Infamy"

Five Supreme Court justices today announced that not only are corporations people and that their money is free speech – this is old hat and a very ugly hat at that – but now, there should be no limit to the money they spend to influence political outcomes. This would be one thing if corporations really were “democratic associations” of humans that the Founding Fathers may have wanted to protect. They are, instead, small oligarchies of top management. Thus, the top management of major oil and coal companies can decide what political outcomes they want to promote, say, unlimited production of carbon dioxide (none of their CEOs apparently has grandchildren!), utterly without any approval of their decisions by the millions of actual owners. The financial power of corporations was already in danger of overwhelming the democratic process in Congress and this makes the damage potentially unlimited and puts the Court's seal of approval on it. So let's do it in style and have a name change. The U.C.A. has a familiar look: The United Corporations of America!



January 2010



### What a Decade!

**Jeremy Grantham**

#### The Patagonia Insight

I just returned from a long vacation in Patagonia. I took long hikes that gave me lots of time to think about life and death and Bernanke. It was an ideal time to have an inspiration, and I had one. This is it: sometimes, whatever the situation and however hard you try, you will not have an inspiration! This is not to say that insights are not available, just that someone else is having them. There is always a great temptation to convince yourself that you have an insight, and then to push it. It can be very, very expensive.

It is easy today to be confused, for this is a remarkably complex time. I argued two years ago that we were all part of an elaborate experiment, the inputs to which were completely new. We had an unprecedentedly low risk premium on every asset class and a stew of new and badly understood financial instruments. That was bad enough, but isn't the picture even more complicated and without precedent now? We have never in our lifetime seen a financial and economic bust such as the one we just had. We have never had two great asset bubbles break in the same decade. We have never wiped out so much wealth in all asset classes as we have this time: \$20 trillion at its worst point, on our reckoning. We have never experienced such rapid deterioration in the government's budget and in the balance sheet of the Fed, nor witnessed such moral hazard, with bailouts flying around like this. What hope do we really have in making accurate predictions of how the world will recover from all of this, and in what ways it will be changed? Very little.

My view of the economy's future is boringly unchanged: "Seven Lean Years." I still believe that after the initial kick of the stimulus, we will move into a multi-year headwind as we sort out our extreme imbalances. This is likely to give us below-average GDP growth over seven years and more than our share of below-average profit margins and P/E ratios, so that it would feel more like

the bumpy (bumpy, but not so disastrous) 1970s than the economically lucky 1990s and early 2000s.

In contrast to predicting the impossibly difficult real world, predicting market outcomes is relatively straightforward. Profit margins and P/E ratios always seem to pass through fair value if, and it's a big if, you can just be patient enough. Normalcy is what we assume in our 7-year forecasts and in our old 10-year forecasts. We had one for the last decade, a 10-year forecast starting on December 31, 1999 and ending December 31, 2009, which is summarized in Exhibit 1. We forecast then that the egregiously overpriced S&P would underperform cash and everything else – what should you expect starting at 33 times earnings? – and we assumed that emerging equities would do extremely well despite a 0.7 correlation with the S&P, because they were cheap. The efficient market people, who apparently will take their faith with them to the grave, will say we were lucky, in spite of the one in several hundred thousand odds of being correct. "Preposterous. How can the risky asset underperform cash for 10 years?" you can hear them say. But we would say it was just the normal grinding of regression to the mean. It's an awfully normal world we inhabit, in the long term. It's only the short-term zigs and zags that drive us all crazy, and right now we should brace ourselves for some very odd and unpredictable short-term market effects brought on by the recent crisis and the massive governmental response. But the bigger danger is that once again the Fed is playing with fire!

#### Playing with Fire

Whenever the Fed attempts to stimulate the economy by facilitating low rates and rapid money growth, the economy responds. But it does so reluctantly, whereas asset prices respond with enthusiasm. In our studies of the Presidential Cycle we have shown that, historically, where modest Fed stimulus and some moral hazard hardly move the dial on the economy in the third year of the cycle, they

## Exhibit 1

### Performance of GMO Asset Class Forecasts for the Decade Dec. 31, 1999 to Dec. 31, 2009

Asset Class	Estimated Rank	GMO 10-Yr Forecast Dec-31-99 (% Real Return/Yr)	Actual 10-Yr Return*	Actual Rank
U.S. REITs	1	10.0	7.4	3
Emerging Market Equities	2	7.8	8.1	1
Emerging Country Debt	3	6.1	7.5	2
U.S. TIPS	4	4.3	4.9	4
Barclays Capital U.S. Gov't. Debt	5	3.8	3.5	6
International Small Cap	6	3.4	3.5	7
Foreign Bonds	7	3.0	3.9	5
U.S. Small	8	2.5	2.3	8
U.S. T-Bills	9	2.1	0.3	9
EAFE	10	0.4	-1.4	10
S&P 500	11	-1.9	-3.5	11

**Correlation of rank order: 93.6%**  
**Probability of picking same or better rank order randomly: 1 in 550,000**

\* Actual compound annual real returns are for the period 12/31/99 to 12/31/09.

The accuracy of past predictions does not guarantee that current or future predictions will be accurate either with respect to the ranking of asset classes over a 10-year period, the absolute levels of return, or results over shorter time periods. The accuracy of the forecast rankings and returns in the asset class forecasts generally varies from period to period.

Source: GMO

push stocks up almost 15% a year above normal and risky stocks even more. This effect echoes around the world as a tribute to the influence of the Fed. Yet the Fed has been reckless in facilitating rapid asset booms in the tech and housing bubbles. As we know, the official policy remains to avoid trying to contain asset bubbles, but to ameliorate the pain of any setbacks should asset prices reverse course and collapse. Indeed, the Fed claims never to have been sure that bubbles even exist. Non-financial corporations and the Treasury were lucky that they went into the tech bubble in good financial shape and into the housing bubble in reasonable shape, except for the overstretched consumer. Now, though, after our massive stimulus efforts, the Fed's balance sheet is unrecognizably bad, and the government debt literally looks as if we have had a replay of World War II. The consumer, meanwhile, is approximately as badly leveraged as ever, which is to say the worst in history. Given this, we would be well advised to avoid a third go-around in the bubble forming and breaking business. Up until the last few months, I was counting on the Fed and

the Administration to begin to get the point that low rates held too long promote asset bubbles, which are extremely dangerous to the economy and financial system. Now, however, the penny is dropping, and I realize the Fed is unwittingly willing to risk a third speculative phase, which is supremely dangerous this time because its arsenal now is almost empty.

I do not regret the bailout, although half as much to bankers and more to people with hammers insulating roofs would have been better. With ships lining up by the hundreds outside Singapore harbor, unloaded for want of letters of credit and other basic financial services, our financial leaders had better have acted fast. And they did. Not efficiently. Not fairly. And certainly not frugally. But they thawed the global real world, which was freezing rapidly.

I thought in return for the pain we had all learned some lessons. I was naïve. Congress will probably stay in the pocket of the financial world, and few useful changes will

be made. Investors, traditionally reluctant to burn their fingers badly twice in a generation, line up to buy risk and bid down spreads as if eager to suffer for a third time in a decade. Scientists believe that some wild animals that are threatened constantly by predators quickly forget the worst episodes lest they become so completely traumatized that they dare not return to nibbling grass. Normally, investors appear to have longer memories than rabbits, but not this time! And the Fed, having learned nothing, still worships at the Greenspan altar. Overstimulus was painful in the 2000 break and extremely painful in 2008, but the Fed soldiers on with its failed strategy like Field Marshal Haig in World War I ("The machine gun is a much over-rated weapon.").

So all investors should brace for the chance that speculation will continue for longer than would have seemed remotely possible six months ago. I thought last April that the market (S&P 500) would scoot up to 1000 to 1100 on a

typical relief rally. Now it seems likely to go through 1200 and possibly higher. The market, however, is worth only 850 or so; thus, any advance from here will make it once again seriously overpriced, although the high quality component is still relatively cheap. EAFE equities seem a little overpriced, emerging markets more so, and fixed income seems badly overpriced, especially cash, which is awful. Exhibit 2 shows our current 7-year forecasts.

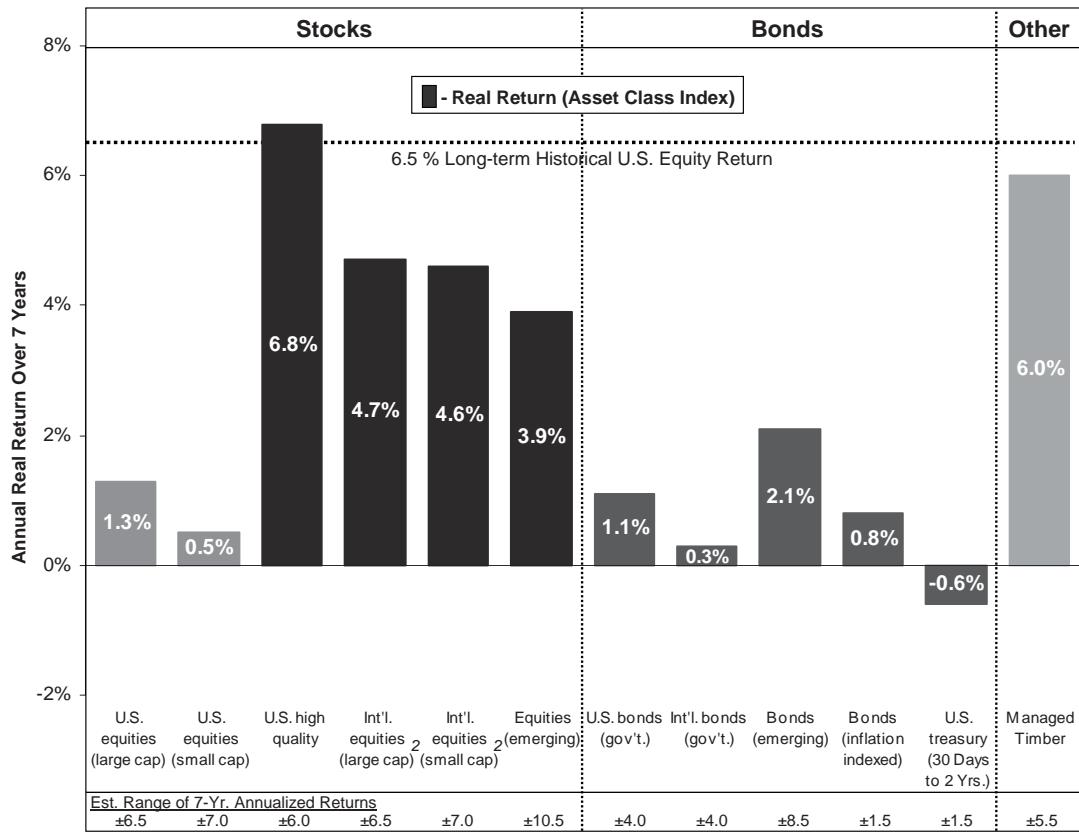
The real trap here, and a very old one at that, is to be seduced into buying equities because cash is so painful. Equity markets almost always peak when rates are low, so moving in desperation away from low rates into substantially overpriced equities always ends badly.

So this is a dilemma. In 2010, value purists will have to struggle increasingly with the Fed's continued juicing of the markets. In order to control real risk – the risk of losing money – they will be forced to take the increasing

## Exhibit 2

### GMO 7-Year Asset Class Return Forecasts\*

As of December 31, 2009



\*The chart represents real return forecasts<sup>1</sup> for several asset classes. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Actual results may differ materially from the forecasts above.

<sup>1</sup> Long-term inflation assumption: 2.5% per year.    <sup>2</sup> Return forecasts for international equities are ex-Japan.

Source: GMO

career and business risk of lagging a rising market.

Our choice – by no means a “solution” – is to only very slightly underweight global equities on the grounds that, when tilted to quality, they are still adequate in terms of return potential. We also have to swallow our distaste for parking the rest in unattractive fixed income. And if the equity markets are indeed driven higher in the next six months, which, unlike my view of last summer, now looks to be at least 50/50, we will very slowly withdraw equities: eight times bitten, once shy, so to speak, for in these situations we typically beat a much too rapid and enthusiastic retreat. If we do see a substantially higher market in the next few months, we will probably underperform, but likely not by much.

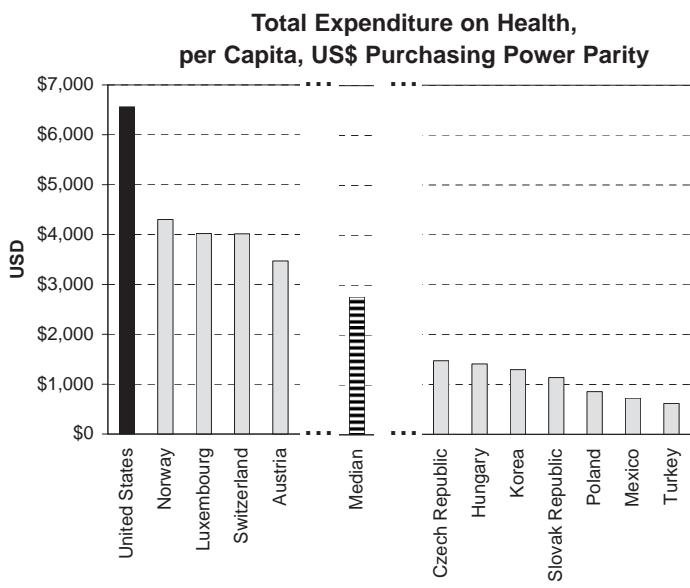
There is perhaps, though, one saving grace: the risky stocks have already been driven to extreme overpricing. Further attempts to drive the market higher (they may not be deliberate attempts, but does it matter?) will probably result in a much broader advance in which high quality stocks should hold their own or even outperform. Believe it or not, they can outperform on the upside, and these

times tend to be: later in bull markets, or when they are relatively cheaper than the rest of the market, or both. (More quantitatively, high quality stocks have outperformed in more than 40% of up months and approximately 60% of the time when they were relatively very cheap, as they are now.) For the record, they also outperformed in 1929 and 1972, at the end of the first two great bull markets of the 20th century, and held level in 1999. In a continuing rally, even level pegging for quality would be a great improvement over 2009. And, if the market surprises me and goes into an early setback in 2010, then quality stocks should outperform by a lot. What could cause an early setback would be some random bunching up of unpleasant seven-lean-years data: two or three bad news items in a week or two might do the trick. This would suit me – cheaper is always better – but given the Fed’s intractability, it seems less likely than some further gains. For the longer term, the outperformance of high quality U.S. blue chips compared with the rest of U.S. stocks is, in my opinion, “nearly certain” (which phrase we at GMO traditionally define as more than a 90% probability).

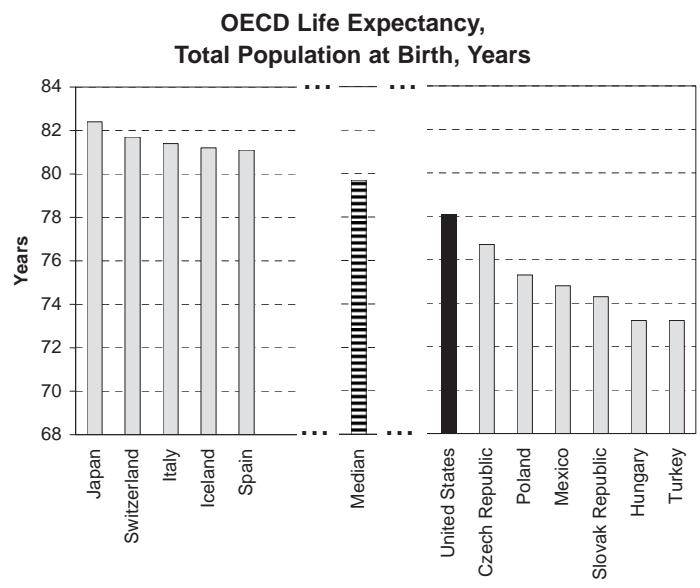
## Why Do They Keep Messing with Our Great Health Care System?

(Part of an occasional series of unappreciated statistics)

### Spend the most . . .



### . . . get the least



Watch out when the Turks, Poles, and Czechs decide to cut back on smoking and spend a bit more on health care. Enough said.

Data source: OECD Health Data 2009

## A Brief Review of the Decade

It really was the best and the worst of times. The U.S. seemed to approach dysfunctionality in Congress and other leadership, especially the Fed, and our reputation sank overseas. Japan was still missing in action for the second decade in a row, and Europe seemed toothless in most respects, but especially in political influence. The developed world showed off its middle-age spread: GDP growth rate slowed everywhere, and its financial superiority over the developing world, which was exalted for the first eight years of the decade, was revealed as hollow by the end. The developed world's lack of ability to make hard decisions on a dangerous climate situation was also stunningly revealed by the decade's end, and for the whole decade the greatest polluter, the U.S., was a drag on the process rather than the leader that was so needed.

The developing countries, in extraordinary contrast, had their greatest economic decade ever recorded, and dragged global growth up to very strong levels despite the slowing developed economies. They seemed far more stable in every respect than their previous reputation. To rub it in, they survived the banking crisis in general far better than we all did. And China for one began to move faster than we in developing alternative energy and in making a good start (bad for us) on becoming the leader in this critical area.

## Reviewing GMO's Decade

GMO's decade was also full of ups and downs. Asset allocation, helped by two bubbles breaking, had a lot to get its teeth into. Perhaps for allocators, the decade proved to be about as helpful as it ever gets. Consequently we did well, we got the big bets right (the ones that mattered), and our December 1999 forecasts came close to their marks by the end of the decade. Helped by this, all of our asset allocation strategies outperformed their benchmarks well for the decade. In our international equity strategies, we had a string of great years in the 2000 tech bust and some not-so-good years more recently as risky stuff dominated in 2006, 2007, and last year. Since the beginning of 2000, though, all of those international equity strategies with 10-year records beat their benchmarks, developed markets by a lot and emerging equities by a little. U.S. Core,

our flagship strategy, had a similar pattern, and ended the decade modestly up on the benchmark (+1.05% per year<sup>1</sup>). Our fixed income division suffered a spectacular problem in the financial crisis, but came rocketing back in the recovery, as it turned out that nearly all of those super triple-A asset-backed securities really were money good, and almost all of ours paid off or look as if they will. On a 10-year basis, our Emerging Debt Strategy was the very best, while the rest of the fixed income strategies were moderately behind. All in all, though, the decade for us held some disappointments. We had done somewhat better in the previous two decades, and we are confident that we can do better in the next one. We are better prepared now, I believe, than we were 10 years ago. Even so, the great majority of our strategies outperformed, which is not all that common in a zero sum world where on average investors underperform by costs. The past decade leaves us impressed with just how difficult this business has become. Our new decade's resolution is to move from generally good top-down decisions to better detailed implementation, and we believe we have staffed up and, we trust, wised up enough to make this objective achievable. We are certainly one of the few firms that has taken advantage of the unusual availability of good investment people to materially increase our headcount and, I hope, brain count, in the last two years. We are very aware that this is a much more competitive industry than it was in December 1999 or December 1989.

## Postscript on the Decade's Performance

Going into this next decade, we start with the U.S. overpriced, so do not be conned into believing that every bad decade is followed by a good one. It happened historically because when bull markets peak at only 21 times, a bad decade's return will always make them cheap. This does not necessarily apply to a decade that started at 35 times! A decade's poor performance can still leave you expensive (as this one has) when it starts so overpriced. We did, however, come close to having good numbers for the next decade: just 9½ months ago we had felt enough pain to make the next decade's prospects look very good indeed, almost everywhere more than 10% (annualized) plus inflation on our 7-year forecast. (A decade forecast

<sup>1</sup> Performance data quoted represents past performance and is not predictive of future performance. Returns are shown after the deduction of management fees, transaction costs, and other expenses. The returns assume the reinvestment of dividends and other income. A GIPS compliant presentation of composite performance has preceded this presentation in the past 12 months or accompanies this presentation, and is also available at [www.gmo.com](http://www.gmo.com). Actual fees are disclosed in Part II of GMO's Form ADV and are also available in each strategy's compliant presentation. The information above is supplemental to the GIPS compliant presentation that was made available on GMO's website in April of 2009.

would be only a little less impressive.) All of this was ruined by a rapid 65% rally, which took more than 7% a year off our 7-year forecast!

### **Lessons Learned in the Decade**

- The Fed wields even more financial influence than we thought.
- Low rates have a more powerful effect on driving financial assets than on driving the economy.
- The Fed is capable of being extremely out of touch with the real world – “what housing bubble?” – plus more doctrinaire – “no, the low rates had no effect on housing” – than anyone could have imagined.
- Congress is nearly dysfunctional, primarily controlled by large corporations, and hamstrung by the supermajority now routinely required in the Senate.
- Government administrations can be incompetent for long periods.
- Poor leadership can really damage a country’s hard-won reputation in a mere 10 years.
- Obama is not a miracle worker!
- The leadership of major corporations can be very lacking in insight and competence on a fairly routine basis.

- The two time-tested investment tools, value (P/E ratios and P/B ratios) and price momentum, are now much more heavily used and not so reliable as they once were, say from 1977 to 1997.
- Asset classes really are more inefficiently priced than individual stocks on average, and therefore offer greater opportunities for adding value and reducing risk.
- Developed countries, including the U.S., are past their prime compared with developing countries: it is indeed a new world order.
- Education and training are the keys to increasing wealth on a sustainable basis and the U.S. is in danger of losing its once large edge here.
- We all live on an island, which can be overexploited and turned into a barren Easter Island if we are not careful. Resources are finite and biodiversity is fragile, and both must be protected. Carbon emissions are the single greatest threat.
- Being a global policeman is expensive, and somewhere between difficult and impossible.
- The Fed learns no lessons!

Have a happy and prosperous new decade. All the best!

## Appendix

### "Beware the Financial Industrial Complex"

It is not often one gets the opportunity to debate a Nobel Prize winner, but Richard Bookstaber and I went to Wall Street to debate Myron Scholes and Robert Reynolds (Putnam's CEO) on a very topical topic: "Financial Innovation Boosts Economic Growth." There are no prizes for guessing which side opposed the proposition. Richard Bookstaber, by the way, is an experienced quant who, despite that, wrote an excellent book, *A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation* – a title so superb you might think it unnecessary to read the book, but do.

We squared off using the Oxford-style debate rules: 5-minute alternating presentations, 2 minutes each to rebut, 20-minutes of give and take with the audience, and 1 minute each to summarize. The audience voted at the beginning and again at the end of the debate. The opening poll from the 200 attendees (each of whom had forked over \$1,500 to attend a special 2-day *The Economist* Magazine conference in November graced by Summers, Geithner, and other illuminati) was, not surprisingly, in favor of innovation to the tune of 80% to 20%. Bookstaber and I were thrilled at this vote, as it gave us a good base for improvement. Modesty compels me not to divulge the final tally, even though the swing to a dazzling 20% to 80% the other way would surely justify yet more sales of Bookstaber's book (good name for a writer).

I should reveal here that no cheap trick is beneath my contempt when it comes to debating. To prove it, I am going to reproduce my argument here with some modest editing.<sup>1</sup> (This saves on the attempt at creative thought so close to year-end, always at a premium, and allows me to show, perhaps, a less discreet side.) The truth is that, although Oxford debating rules encourage polemic, I really do care about this topic: largely unregulated new instruments really did bring us to our knees!

### My Part in the Debate

I will try to make the case that our economy has a painfully overdeveloped financial sector.

<sup>1</sup> Real gluttons can still catch a video of the debate by clicking on the link below:

[http://economistevents.pb.feedroom.com/economist/economistevents/oneclipgreen/player.html?fr\\_story=2f1833380e67f2003162128192dedd493ec291d0](http://economistevents.pb.feedroom.com/economist/economistevents/oneclipgreen/player.html?fr_story=2f1833380e67f2003162128192dedd493ec291d0)

Remember, you can fast forward.

Let's start with the Investment Industry component. It is so obvious in this business that it's a zero sum game. We collectively add nothing but costs. We produce no widgets; we merely shuffle the existing value of all stocks and all bonds in a cosmic poker game. At the end of each year, the investment community is behind the markets in total by about 1% costs and individuals by 2%.

And the costs have steadily grown. As our industry's assets grew tenfold from 1989 to 2007, despite huge economies of scale, the fees per dollar also grew. There was no fee competition, contrary to theory. Why?

- a. Agency problems – we manage the other guy's money, and
- b. Asymmetric information – the agent has much more information than the client.

Clients can't easily distinguish talent from luck or risk taking. It's an unfair contest, nothing like the fair fight assumed by standard Economics. As we add new products, options, futures, CDOs, hedge funds, and private equity, aggregate fees per dollar rise. As the layers of fees and layers of agents increase, so too products become more complicated and opaque, causing clients to need us more.

As total fees in the past grew by 0.5%, we agents basically reached into the clients' balance sheets, snatched the 0.5%, and turned it into income and GDP. Magic! But in doing so, we lowered the savings and investment rate by 0.5%. So, we got a short-term GDP kick at the expense of lower long-term growth.

This is true with the whole financial system. Let us say that by 1965 – the middle of one of the best decades in U.S. history – we had perfectly adequate financial services. Of course, adequate tools are vital. That is not the issue here. We're debating the razzmatazz of the last 10 to 15 years. Finance was 3% of GDP in 1965; now it is 7.5%. This is an extra 4.5% load that the real economy carries. The financial system is overfeeding on and slowing down the real economy. It is like running with a large, heavy, and growing bloodsucker on your back. It slows you down.

For 100 years the GDP Battleship grew at 3.5%. (Even the Great Depression did not change that trend.) But after 1965 the GDP growth rate ex-finance fell to 3.2% a year. After 1982 it fell to 3.1%, and after 2000 to 2.5%, with all of these measurements to the end of 2007 before the current crisis.

From society's point of view, this additional 4.5% burden works like looting or an earthquake. Both increase short-term GDP through replacement effect, but chew up capital. All of the extra financial workers might as well be retirees or children, in that they are supported by the rest of the workforce, but they are much, much more expensive.

Economists have not studied the optimal size for finance. Indeed, a leading finance journal recently rejected a paper on this topic, saying "Finance cannot comment on social utility." That is perhaps why it has so little!

The underlying problem in the recent crisis was a touching faith in capitalism. This faith was based on 50 years of a dominant economic theory that was shockingly not based on facts but rather on unproven assumptions: rational expectations and the Efficient Market Hypothesis (EMH). Believe them and you don't have to regulate new instruments or, indeed, anything. Capitalism will look after itself. So Greenspan, Rubin, Summers, and Levitt of the SEC could beat back Brooksley Born when she dared to suggest regulating the new instruments.

But as Keynes knew by 1934, markets are behavioral jungles wracked by changing animal spirits that can mock the best laid plans. It is a world of agency problems and the "beauty contest." The EMH has proven to be the most wildly mis-specified theory in the history of finance, and the most expensive. Without it, we would have recognized market dysfunctionality and instituted more controls to help limit the wild expansion of the financial business. We might easily have steered clear of the three-sigma (100-year) bubbles in tech and U.S. housing that led to our present crisis. We might not even be debating this topic.

With perfect timing, my friend and former partner, Paul Woolley, started a center for the study of "Capital Market Dysfunctionality" at the London School of Economics. They have recently concluded in academese, with lots of math, that the growth of the financial world has become

a rogue element, and that the overmatched clients have allowed the agents to move toward accruing all the rents or benefits of new financial instruments.

### One-minute Summary

I will try to make the case that our economy has a painfully overdeveloped financial sector.

- 1) Beware the financial-industrial complex: they are eating your lunch. (And to be honest, I've eaten more than my fair share. It was a good lunch.)
- 2) Do not underestimate the scale of the disaster caused by the fancy new instruments combined with the belief in market efficiency. It was cosmic and may indeed not be over yet. There was such loss of confidence that, left to our own devices – real capitalism – more than Citi and Bank of America would have failed. This was a real run on the banks; Morgan Stanley and dozens of other banks would almost certainly have gone quickly, perhaps even Goldman Sachs (leaving us at the mercy of a truly giant J.P. Morgan?).
- 3) The client world pays up precisely in proportion to how bamboozled it is by unnecessary complexity and this, among other negatives, is what the fancy new instruments were offering: confusion, doubt, and bamboozlement.
- 4) As for our opponents: academics so badly want their theories to be right that they assume them to be so, and with no proof. They assume not only that market participants are efficient and well-informed, but also that they are good and worthy citizens. But they're all self-serving, and many are slightly wicked. As for mutual funds: they need complexity coupled with a client's lack of confidence, or more clients would invest on their own. So, for them, the status quo is just fine. Finally, I urge you to vote the spirit of this issue and not the letter of the rather badly worded proposition.

PS: I would have mentioned Paul Volcker's opinion that the only financial innovation useful to the country in the last 20 years is the ATM, but at the time of this debate he hadn't made that compelling point.

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