Investment beliefs and economics

There are only a few things to really know about economics……..

Think about the economy as a frontloading washing machine

* It is just a continuous circle going around and around; speeds up, slows down, sometimes goes in reverse direction
* All income is someone’s expenses
* Production vs consumption
* Supply vs demand

No causal insights there; just a mathematical equality

* If you are Keynesian you mostly seek cause from the demand side and how to keep it in motion, usually government spending.
* If you are an Austrian you think about the supply side; nothing gets done without productivity and the government should get out of the way.
* If you are neoclassical you think it can all be reduced to mathematical equations about an equilibrium state which the economy is always heading towards; but its never there and often its heading away (think stock market booms).
* If you're a Marxist you think capitalism (markets) works by keeping workers at a subsistence level which will ultimately fall apart when workers unite, in a depression which Ray talks about in the link below.

So, whenever you listen to some economist spruiking just understand which perspective they are coming from.

And another thing, remember the difference between stocks and flows. Probably the most important thing in economics, and stocks are mostly forgotten about, less so by the Austrians. Debt is a very important stock.

In investments, flows are merely the trades and stocks are about wealth. Most of the flows arise because someone is trying to do something about wealth, either protecting it or trying to build it.

If you really want to be modern, maybe you should look for a new breed, the behavioural economist. But if you can find one with any predictive power he/she is probably a successful fund manager, not someone in an academic institution. Someone like Ray Dalio whose must watch 30 minute video can be found from the Queen Street Partners site <http://queenstpartners.com/wordpress/how-the-economic-machine-works-by-ray-dalio/>

You can listen to Ray explain to ex US Treasury Secretary Larry Summers how the economy works! <https://soundcloud.com/economicprinciples/larry-summers-and-ray-dalio-how-the-economic-machine-works/sets>