



Stumble

Finland is a small country of around 5 ½ million people, about the population of the state of Minnesota. The country has produced one notable musician, Jean Sibelius,¹ and one global company in Nokia.² But in the first half of the 20th century, Finland was best known for producing world-class distance runners. Between 1912 and 1940, five Finns held world records and won multiple Olympic gold medals. Hannes Kolehmainen took three gold medals at the 1912 Olympics in Stockholm, Ville Ritola won four gold medals in the 1924 Games in Paris, Volmari Iso-Hollo won gold medals in both the 1932 Los Angeles Olympics and the 1936 Berlin Games, Taisto Mäki held two world records when the 1940 Olympics in Helsinki were canceled due to war. Most famous of all was Paavo Nurmi, winner of three gold medals at the 1920 Olympics in Belgium and another five gold medals at the 1924 Paris Olympiad. The “Flying Finns” dominated the running world between the wars.

Myrskylä is a rural village about 50 miles north of Helsinki. Finland’s top runner in the 1950s, Rolf Haikkola, was from that village, and after retiring from world-class racing, he coached the children in his hometown. One boy, in particular, showed promise, setting national records for under-18 in 3,000- and 5,000-meters. But he didn’t train seriously: for every race he’d win he would finish in the rear in the next one. Following a year of military

¹ Let’s say two, and include Esa-Pekka Salonen.

² Although the company is currently only one-tenth of its peak value in 2000.

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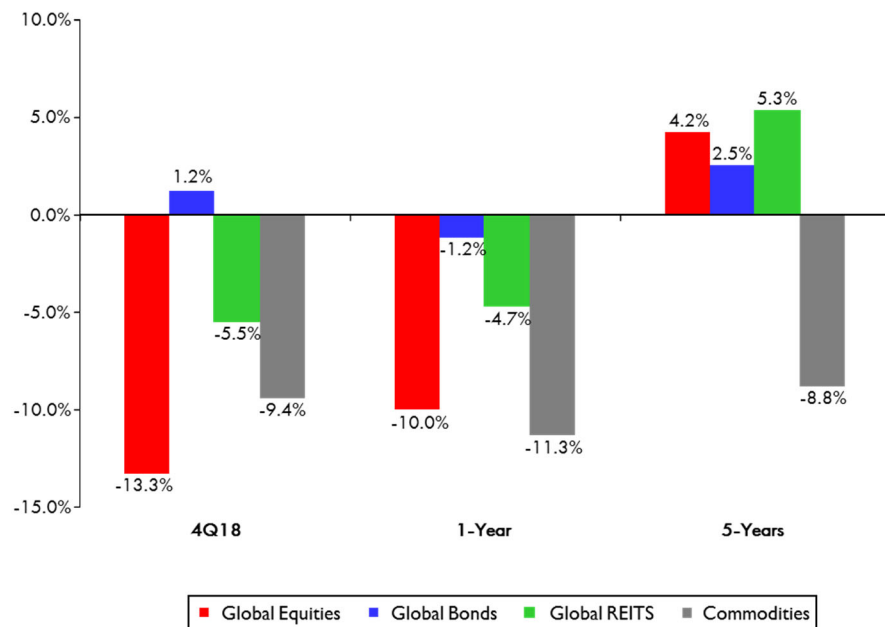
429 SANTA MONICA BLVD, SUITE 650
SANTA MONICA, CA, 90401

PHONE: 310.393.6300

FAX: 310.393.6200

WWW.ANGELESADVISORS.COM

Chart 1 Capital Market Performance



service, he entered the police academy while continuing to train sporadically. At the 1971 European games he finished a disappointing 17th in the 10,000-meter race. His hopes for the 1972 Olympics had faded, and no one expected him even to qualify.

There are times when each one of us is challenged. We face some adversity and our character is tested. Can we remain calm, collect our nerves, and retain our focus amidst the turmoil? Or do we panic, retreat, concede defeat, against seemingly insurmountable odds? The 1972 Olympics tested the world's character, and in some ways we fell short, but there was one event in those Games that inspired us then, and now, to overcome whatever obstacle may be in our way.

It was an ugly year for virtually all assets. Every global equity market is off more than 10% from its highs,³ and more than half of world equity markets are down more than 20%. Almost all asset classes saw negative returns in 2018, one of the broadest declines in the past century (Chart 2). For investors, there was nowhere to run, nowhere to hide.⁴

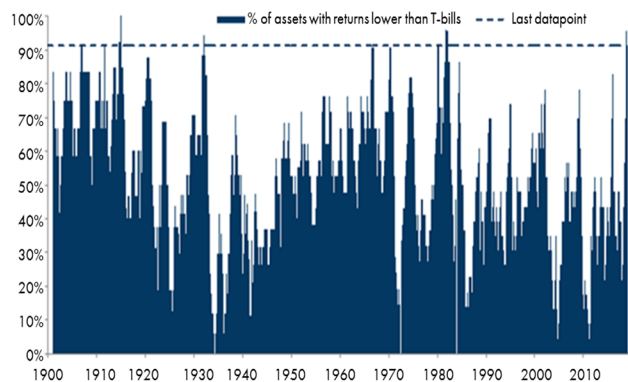
Investors responded by panicking. The end of December saw the biggest outflows from equity mutual funds since the 2008 crisis, and investor sentiment turned massively bearish: in fact, the fourth quarter saw the largest increase in bearish sentiment since at least 1990 (Chart 3, page 3). By some measures, investor confidence is even below 2008 levels (Chart 4, page 3).

Investors were right to re-rate risks, as the global macro environment deteriorated throughout the year. There was a noticeable decline in economic growth, as seen in the manufacturing diffusion indices around the world (Chart 5, page 3). Although it should be noted that all these major indices, with the exception of China, are signaling growth, just at a slower pace. There are some signs of weaker growth in the US which, until recently, had appeared to defy the slowdown in the rest of the world. Residential housing has weakened, the ISM Manufacturing PMI saw its largest

³ With one exception: Brazil's Ibovespa.

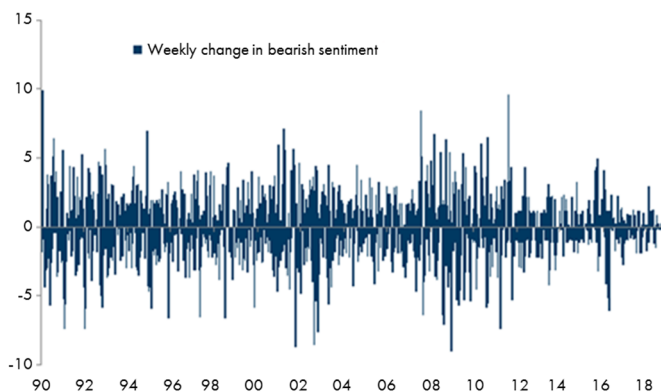
⁴ As the great Martha Reeves and the Vandellas sang. Recall the next line in that song: *It's not love I'm running from, it's the heartache I know will come*. You can watch their performance here: <https://www.youtube.com/watch?v=fhcfDSUMvc>.

Chart 2 Proportion of assets with a 12-month return below US T-Bills (24 assets included)



Source: GFD, Datastream, Goldman Sachs Global Investment Research

Chart 3 1-week changes in Investors Intelligence bearish sentiment survey



Source: Investors Intelligence, Goldman Sachs Global Investment Research

Chart 4 State Street Investor Confidence Index, 1998-2018

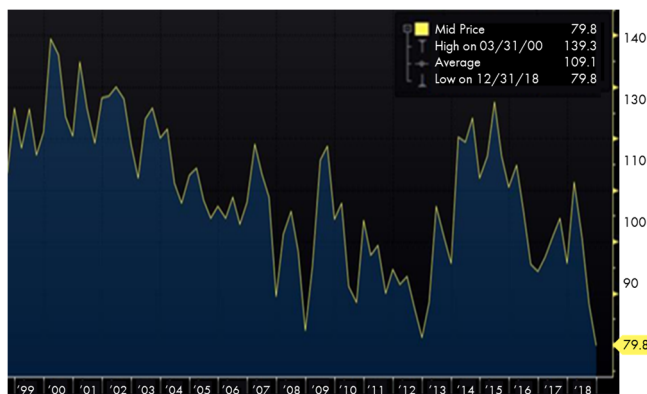
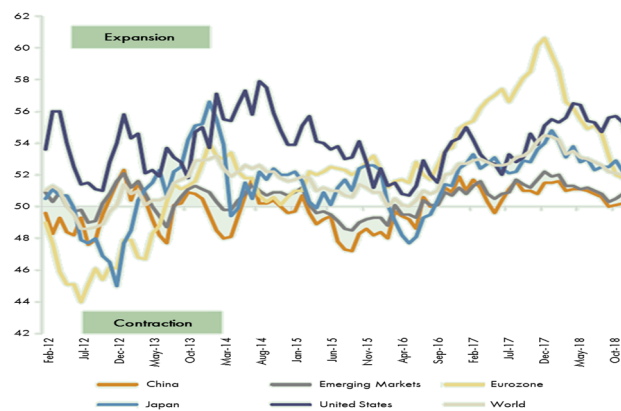


Chart 5 Markit—Manufacturing PMI



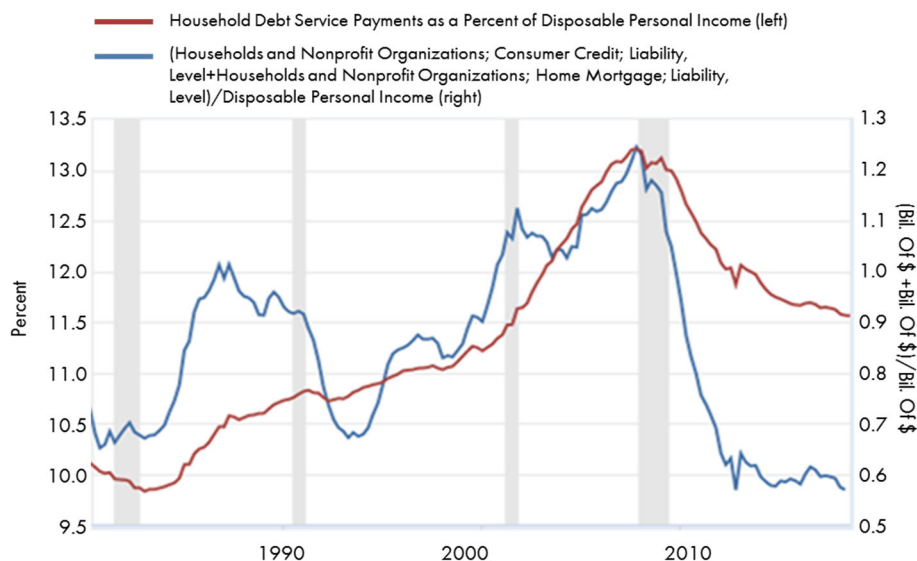
monthly drop in December since 2008 and, importantly, financial conditions have tightened.

Political risks abound, although that is almost always true. It is difficult to assess whether political risks are rising, but currently they include a possible expansion of the tariff war between the US and the world (China, especially), an imminent break of the UK from the European Union without a plan to govern relations in the future (a "hard Brexit"), a newly divided US Congress, government shut-down, etc.

All is not bleak in the US economy, however. Consumers exhibit rising confidence, and retail sales grew more than 4% last year. December same-store sales were up the most in 20 years. Household debt has fallen to 2001 levels, and debt service (as a percentage of disposable income) is the lowest on record (Chart 6). Most importantly, the labor market remains very strong. The US added more than 2.6 million net new jobs last year, and the unemployment rate fell to 3.9% (from 4.1% at the start of the year). There are 6.3 million unemployed, and 6.9 million job openings. Wages rose 3.2% in 2018, a full percentage point ahead of inflation. There are signs of an economy slowing, but also sufficient strength to keep the expansion going.

The market's decline in the fourth quarter re-rated valuations to below long-term averages (Chart 7). Since 1946, P/E multiples have contracted by +20% fifteen times. In all but two cases (May 1973 and November 2000), the equity market

Chart 6 Household Debt—Debt Services, 1981-2018



Source: BEA, Board of Governors

was higher over the subsequent year, on average by 12%. An absolute quarterly decline greater than 15% (the S&P 500 Index fell nearly 14% in Q4) has occurred seven times since 1946. Equities were higher in the subsequent quarter in six of those seven periods,⁵ and higher in the following two, four and eight quarters in all cases.

Despite a growing economy, rising incomes and wealth and modest inflation, tightening financial conditions, pockets of weaker economic data, chaotic and dysfunctional politics all combined to bring investors to their knees in the fourth quarter of 2018. The question is, will they get back up?

⁵ The exception was in 1Q 2009, when the S&P 500 Index fell more than 11%, following its 22% drop in 4Q 2008.

Lasse Virén entered the 1972 Olympics with few expectations. He had never competed at this level before, and would be facing a formidable field. He was lucky to be there at all. Virén had spent the previous year completing police academy training, and helping out in his family's trucking business on weekends. He squeezed in training runs whenever he could. He took the last spot in the qualifying heats, and was now about to be in his first Olympics finals.

The 10,000-meter race is one of the most grueling in all track and field. Sprints require a short burst of speed, marathons demand a steady pace for over two hours, but to win at 10,000-meters means running nearly four-minute miles for more than six miles: a near-sprint for almost 30 minutes.

As expected, Britain's Dave Bedford set the fast opening pace. America's Frank Shorter, who would go on to win the marathon in those Games, thereby setting off

the running craze that swept the country in the 1970s, was right with him. Virén was in the middle of the pack when, at about the halfway point, he got tangled with Mohamed Gammoudi of Tunisia, and both men went down.⁶ Gammoudi, who won the gold medal in 5,000-meters in 1968, tried to get up, but after a few hesitant steps, collapsed again. He was quickly removed from the track and out of the race. Virén also managed to get up, but had fallen behind the pack by more than 20 meters.

Incredibly, Virén managed to catch up to the group in just 150 meters and, at the 6,000-meter mark, took the lead as Bedford faltered. The lead then changed multiple times, with Mariano Haro of Spain, Merus Yifter of Ethiopia, and Emiel Puttemans of Belgium each briefly

Chart 7

Price/Earnings Ratio, S&P 500 Index 1989-2018



Source: Bloomberg, L.P.



⁶ You can watch most of the race here: <https://www.youtube.com/watch?v=qwW09xs--D0>. The stumble occurs at 12:27 into the race.

in front. With just 600 meters to go, Virén pulled ahead of Shorter and Haro, and on the last turn was on the heels of Yifter and Puttemans. In the final stretch, Virén somehow found another gear, sprinting past Yifter, and then Puttemans, breaking the seven-year old world record by a full second to capture the gold. It was, and remains, one of the greatest turnabouts in sports history.

Two days after Virén's remarkable run, the world watched in horror as eight Palestinian terrorists seized and then killed eleven Israeli athletes. Five terrorists were killed by West German police, and three were captured.⁷ The International Olympic Committee chose not to cancel the Games, a controversial decision then and now, and a few days later, the 5,000-meter race was held.

The competition was arguably tougher in this event. Bedford had turned in the second fastest

time in history earlier in the year, Gammoudi was the defending gold medalist, and the American, Steve Prefontaine, was favored to win. The race began with a relatively slow pace, and Virén was content to hang in the back. With four laps to go, Prefontaine kicked into high gear and left everyone behind. On the last turn, with Prefontaine in the lead and Gammoudi behind him, Virén made his move on the inside. Prefontaine could not keep pace, faded, and did not medal. Virén passed Gammoudi to win the gold by over a full second.

Lasse Virén repeated his double gold medal performance in the 1976 Montréal Olympics, becoming the only person to win back-to-back double gold medals in these events.⁸

The 1972 Munich Olympic Games will always be remembered for the shocking kidnapping and murder of eleven Israeli athletes. It was the most consequential act of terror since 1914, and ushered in an era of hijackings and bombings across the globe.



But just days before this tragedy, there was the inspiring example of Lasse Virén. To everyone who stumbles or falls, he showed us how to get back up and into the race. Lying on the ground, shaken and bruised, and seeing the fastest men in the world a full twenty meters ahead of him, Virén would not be blamed for pulling out. Somehow, he summoned his competitive spirit, and with extraordinary determination, focus and effort, overcame the greatest runners in the world on the biggest stage in the world. Lasse Virén's message to us all: stumble, fall, get back up.

⁷ Those three were released the following month in a hostage exchange between the West German government and Palestinian terrorists, who had hijacked Lufthansa Flight 615.

⁸ Till Mo Farah of Great Britain matched him in 2012 and 2016.



Michael A. Rosen
Principal & Chief Investment Officer

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