



# A TALE OF TWO ECONOMIES: THE CASE FOR ACTIVE MANAGEMENT

RESEARCH WHITEPAPER BY:

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This whitepaper seeks to contrast how the traditional economy is morphing into an emerging, new economic system whose origins stem from the disruption of the Financial Crisis. By highlighting the difference in these two economies and the current megatrends driving this renaissance, investors will be able to harness the new economy's evolving investment opportunities.

We call this the Digital Revolution.

Although our views encapsulate classical economic and market theory, the most exciting part of our work includes physics and human behavioral science, lending a fresh perspective on the enormity of changes occurring beneath our feet.

In the history of human thought, a new way of understanding often appears simultaneously in widely separate places and different disciplines. Marrying the science of seen and unseen forces with mechanist disciplines gives rise to new organizational forms, and we see the perceptions of the world anew. To quote Einstein: "No problem can be solved from the same level of consciousness that created it."

As we move into the digital age, behaviors are shifting rapidly, challenging the traditional rules of investing. Mass market disruption is creating immense opportunities for those who respond and take advantage of what is seen as a watershed event in history.

## THE NEW ECONOMY SINCE ZERO POINT

There is a giant reservoir of energy that every quantum physicist is well aware of: the Zero Point Field (ZPF). Quantum mechanics has theorized that there is no such thing as a vacuum or nothingness. What we tend to think of as a sheer void (emptying all space of matter and energy and examining the space between the stars) is, in subatomic terms, a hive of activity.

In simple terms, it is where the field of infinite possibilities resides until a trigger event causes the field of electromagnetic waves to begin to reassemble into particles and manifesting itself in our physical world.

We had a significant trigger event that ultimately lead to the Great Financial Crisis of 2008: the spectacular failure of Lehman Brothers.

In the years leading up to the financial crisis, there was an explosion of debt instruments created by Wall Street and global banks. Derivatives of debt which “derive” their value from an underlying asset, index, or party, such as, futures contracts, forward contracts, options, warrants, swaps, and collateralized debt obligations (CDOs). These instruments allowed for the exponential growth of the total amount of debt held globally. So, debt begot debt which begot more debt; exponentially. For a visual overview, [see here<sup>\[1\]</sup>](#).

An **exponential<sup>[2]</sup>** event occurs in the field of mathematics when something grows relative to its current value, such as doubling until a hyperbolic event occurs, and all factors decay and implode to zero.

Just as trees cannot grow to the sky forever without the forces of nature taking its toll, the exponential growth of a debt-based economy exposed the limitations and fragilities of excess leverage in the system.

When Lehman Brothers failed in September 2008, that catalyst triggered a monster margin call that cascaded rapidly into a massive liquidity crisis across the entire global financial system. In other words, the system reversed itself. By seizing up the plumbing that undergirds the entire system, the “financial crisis” was born. When viewed from an energetic perspective (in subatomic terms), the financial system reached its Zero Point Field (ZPF).



What followed was a massive rescue operation by the world’s Central Banks to inject liquidity back into the system. In order to accomplish this, it required them to print money – trillions of it. Overall, more than \$14 trillion.

However, money printing is not actually free. When a Central Bank prints money, it is another form of debt guaranteed by the government of the nation which prints it. In other words: print money, book it to the government’s credit card, and charge interest on it. How would global sovereign governments support trillions of freshly printed money? By lowering borrowing costs (interest rates). This led to a new experiment, zero interest rates, which then led to negative interest rates. As of this writing, there are over \$13 trillion in negative-yielding sovereign bonds.

Let us not forget that government-backed national currencies ultimately receive backing by the full taxing power of said government. In the United States, that means money is collateralized by the private property of its citizens and the government's taxing power to make that claim.

Right or wrong, governments from all over the world collectively decided to bail-out their financial institutions in order to rescue the system.

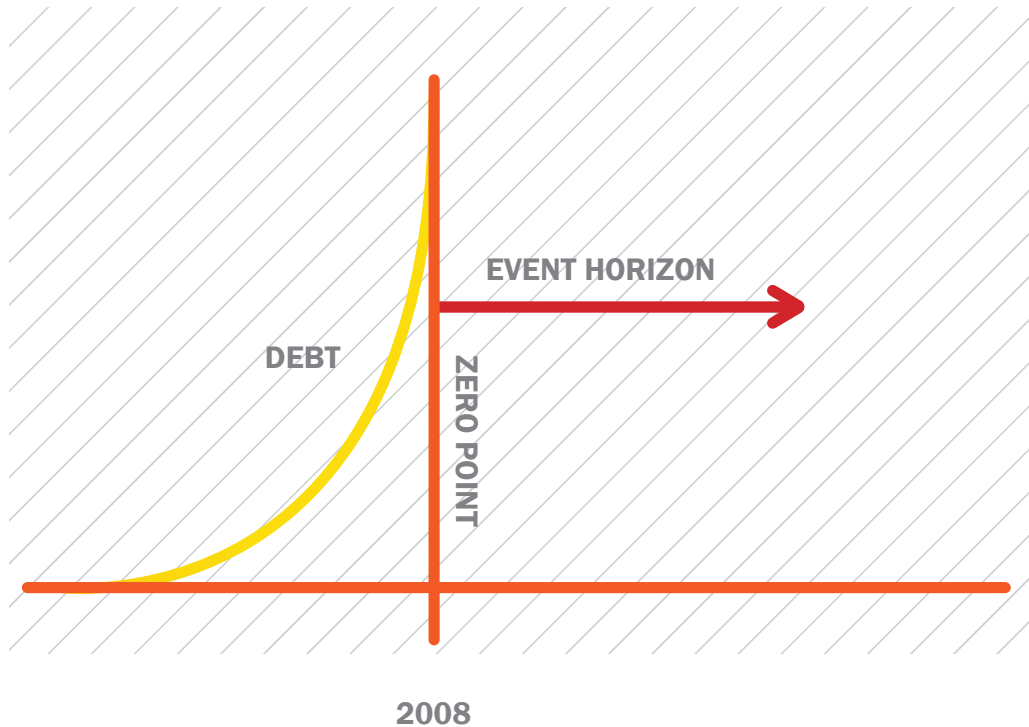
At this point, one could fill volumes surrounding the pros and cons of radical monetary experiments and its consequences. However, for this whitepaper, let us focus upon what happened after Zero Point in the quantum field.

In quantum field theory, a ground state occurred after the market crash, creating a vacuum. That Zero Point Field, however, was not empty. It merely provided "space" for the new to manifest. Subsequently, we entered into what is known as the "event horizon." Let us imagine that after the implosion of the global financial system, a kind of "event horizon" (metaphorically speaking) occurred, where infinite possibilities existed in the field.

Chaos theory is a branch of mathematics that focuses on the dynamic behavior of dynamical systems that are highly sensitive to initial conditions, often referred to as the "butterfly effect." In chaos theory, the butterfly effect is the sensitive dependence on initial conditions in which a small change in one state of a deterministic nonlinear system can result in substantial differences in a later state. For an overview, [see here<sup>\[3\]</sup>](#).

Imagine the extraordinary psychological impact of a global financial implosion across billions of people, governments, and businesses that are dependent upon its infrastructure?

## THE BIRTH OF THE DIGITAL AGE OF DISRUPTION



One common thread over 5,000 years of monetary history is the importance of trust and faith in the system for it to survive. Once fractured, chaos theory tells us that the resulting events can produce complex and confounding behaviors shifting economic and political powers. For an overview, [see here<sup>\[4\]</sup>](#).

It also serves to create the new space needed to sow the seeds for a whole new economy and financial system.

In the months and years following the Financial Crisis, new industries began to take root from ideas held in the hearts and minds of a new generation of entrepreneurs dreaming of building a better world.

Reeling from the shock and distrust of failing institutions that previous generations had come to depend upon, it was time to begin to build new constructs for the future whose infrastructure could be trusted to serve all. How would the new constructs be built? It would require new radical theories from new leadership, forming new companies with new systems of governance and armed with a dream of new technological transformation.

Perhaps one could judge them as altruistic and naïve, but these brave souls took a leap of faith with big audacious dreams in the fields of finance, energy, biotech, next-gen internet, artificial intelligence, and robotics. Innovation does not usually come from entrenched bureaucratic organizations. It comes from the hearts and minds of entrepreneurial individuals.

In the meantime, as a worldwide recession took hold, global Central Banks agreed to keep the existing system well-lubricated. One of the resulting unintended consequences was financial repression, whereas savers received paltry interest rates, whilst holders of assets such as bonds and stocks received the benefit of asset-price inflation. Central Banks placed a bid on assets, effectively placing a floor on market prices (known as the “Fed Put”), which sparked one of the longest-running bull markets in history. This monetary experiment is known as the “wealth effect.”

In the last Great Depression (circa the 1930s), we learned that when people feel deprived, they do poorly, and they spend less. This experience from over 70 years ago was at the forefront of the minds of modern Central Bankers. To make people “feel better,” so they would continue to spend, Central Banks provided the fuel to inflate asset prices (investments). It was a huge gamble, but ultimately investments and the housing market recovered, averting a depression. Sadly, however, the unintended consequence was that it exacerbated the income and wealth gap. Those who had little or no assets and stagnant incomes from the global recession were left behind. Ultimately what we have come to learn is that printing money is not wealth creation after all. It was wealth transference.

## THE INNOVATION S-CURVE & CREATIVE DESTRUCTION

In his whitepaper, Satoshi Nakamoto proposed that digital gold (bitcoin) traveling on a new global financial system built with blockchain protocols of safety, security, and trust could disintermediate the very financial institutions that caused the market crash. Elon Musk envisioned replacing the internal combustion engine with autonomous electric vehicles riding on a digital operating system to reduce carbon, sparking the Green Revolution. Young scientists set out to successfully crack the genetic code to cure chronic diseases such as cancer, heart disease, and blindness. These radical new theories have begun to take the world by storm quickly.

“  
**Move fast and  
break things**  
”

Once 5G Networks arrive, we will be granted speeds and volumes of up to 1,000 times faster than current 4G standards, revolutionizing entire industries, such as mobile pay, holographic telemedicine, 3D workspaces, and video calls.

As convergence accelerates and innovation advances, this will embolden disruptors to “move fast and break things.”

“Move fast and break things” is a common saying in the science and engineering industries. In that context, it means that making mistakes is a natural consequence of innovation in a highly competitive and complex environment.

The Hundredth Monkey Effect is a hypothetical phenomenon in which a new behavior or idea is said to spread rapidly by unexplained means from one group to all related groups once a critical number of members of one group exhibit the new behavior or acknowledge the new idea. For the story of the Hundredth Monkey Effect, [read here<sup>\[5\]</sup>](#).

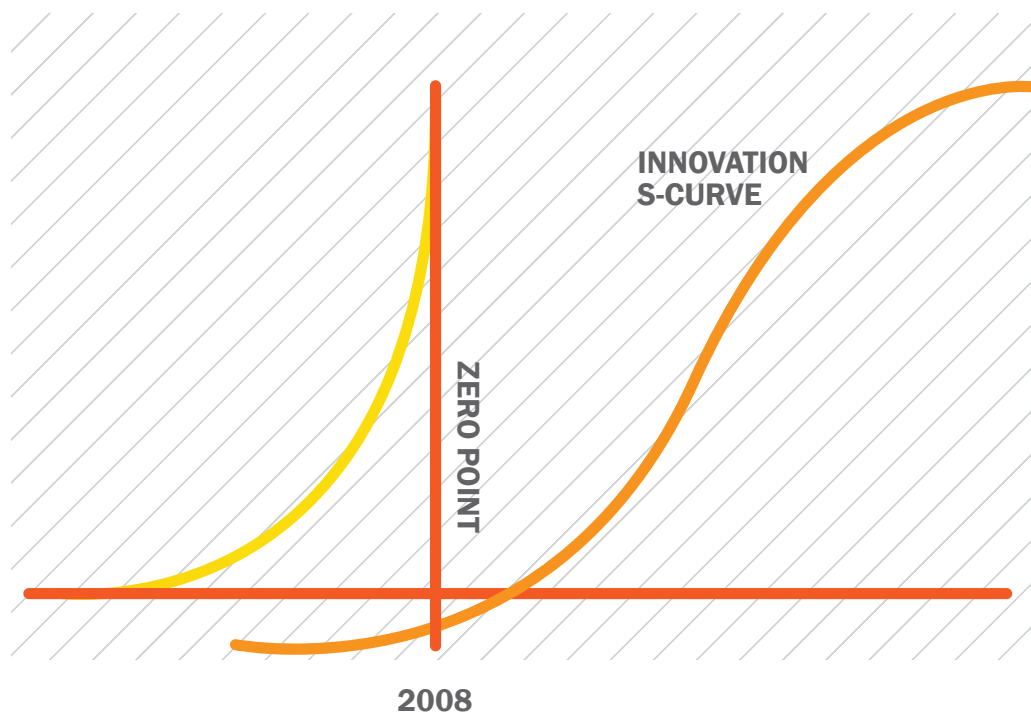


Indeed, history has proven many times that significant scientific breakthroughs occur simultaneously from unrelated scientists working on the same experiments from all over the world.

In the Cambridge University paper by Lorenza Saitta, Attilio Giorgdana, and Antoine Cornuejols, “Phase Transition in Machine Learning,” it was observed that a giant leap in machine learning occurred when all available information synthesizes at 13%. To read more, [see here](#)<sup>[6]</sup>.

Could it be that when enough protons, electrons, and neutrons at the atomic level achieve a 13% penetration that they influence the rest of the field? Is achieving a sudden leap of consciousness possible? Could accelerating the adoption rate to 13% achieve critical mass?

However one wants to view the inflection point, when a paradigm shifts it can rapidly take the entrenched market dominators off-guard. By the time the market dominator concedes to the new paradigms, they must either shift or die.



A classic end-of-cycle behavior occurs when incumbents recognize that their current culture and organization is too big and bureaucratic to disrupt themselves easily, so they begin to acquire the new innovators. However, debt is often required to finance these deals. Many times, the new debt service payments and goodwill added to their corporate balance sheets cripple the business, preventing it from growing rapidly. It is often difficult, if not impossible, in the aftermath of these “last-ditch effort” acquisitions to succeed due to the entrenched culture resisting change. It is natural for people to resist change; it introduces uncertainty. Ultimately, productivity suffers, leading to creative destruction.

Coined by Joseph Schumpeter (1942), creative destruction refers to the incessant product and process innovation mechanism by new production units replacing outdated ones. Naturally, one could easily view this from the perspective that the glass is half empty; but over time, societies that allow creative destruction to germinate grow more productive and richer while their citizens enjoy the benefits of new and improved products, better jobs and higher living standards.

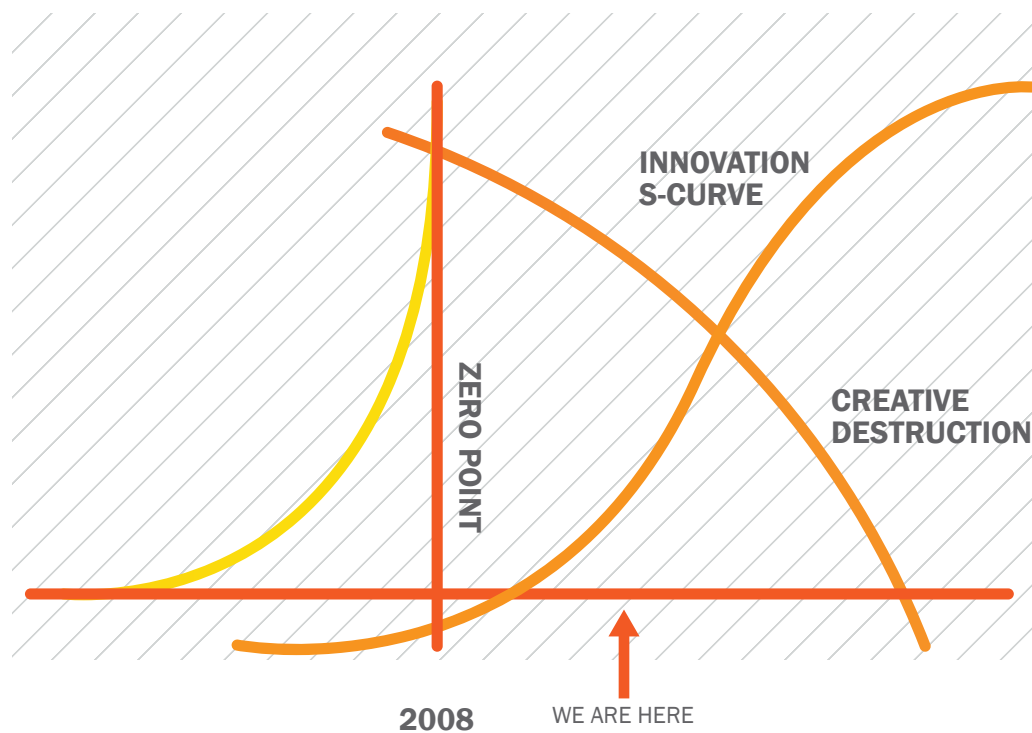
## **RECESSION IS PERFECTLY NORMAL**

As the new economy hits a massive adoption rate, it will be natural for the old economy to decline and even die. Subsequently, workers will be on the move looking for more significant opportunities that align with their values, beliefs, and behaviors. Their migration will continue to drive the adoption rate for the new economy delivering fresh new wealth creation whilst sweeping away the old, outdated models.

As companies are forced to restructure to capitalize on the new paradigms, achieving critical mass can place a drag on the entire economy. Companies most at risk will be those that took on too much debt too late in the cycle. History is replete with examples of this “innovate or die” reality.

For example, there is only one company, General Electric (GE) that has survived 100 years in the Dow Jones Industrial Average (DJIA). Due to its over-indebted balance sheet and uncompetitive units, it may not survive another five years. AT&T is the most leveraged corporation in the U.S. and was replaced by Apple in the DJIA in 2006. Amazon was born during the creative destruction of the Tech Bubble of the late 1990s and accelerated its dominance during the creative destruction era of the Financial Crisis of 2007-2009. Now, the likes of J.C. Penny and Sears will pay the price for not embracing the new paradigm.

Mounting corporate debt may be ground zero that triggers the next recession. Research from **Guggenheim**<sup>[7]</sup> has calculated this to be the case. They claim that if one wants to find where the next crisis looms, look for where the leverage is in the system.



When, not if, the next recession comes, it could be burdensome to service this debt load. Corporate debt is at multiples of previous historical records. In the last crisis of 2008, households and banks were overleveraged. Today it is corporate debt. According to Guggenheim, over half of the BB-rated bond market is BBB-rated quality at best. When the next recession hits, downgrades will overwhelm the bond market with fallen angels (downgrading bonds from investment-grade quality to junk status). Big global institutional investors could be forced to sell in a downgrade due to their own investment mandates. When selling begets more selling, a liquidity crisis could occur.

Guggenheim estimates that while the next recession will not be anything more than a garden variety version economically, the impact upon global stock markets could be as much as a 40% - 50% hit to stock prices. For more details, [read here<sup>\[8\]</sup>](#).

## **RISK MITIGATION & NEW WEALTH CREATION**

The eventual onset of recession will necessitate liquidity, flexibility, and an active portfolio strategy to protect from severe market declines. After a collapse in market prices, there will be ample opportunity to put preserved capital to work in the areas of high growth as the economy transforms itself once again to a new creative destruction phase. If one could tactically avert the severe drawdowns, the preserved capital could be re-deployed into high growth industries positioned to take market share, affording brand new wealth creation.

We see opportunities in several major disruptive areas. According to ARK Invest, the global economy is undergoing the most considerable technological transformation in history. Even more so than the twenty years from 1860 -1880 during the Industrial Revolution that gave us the internal combustion engine, the telephone, and electricity. To read more, [see here<sup>\[9\]</sup>](#).

ARK Invest has identified five major innovation platforms that encompass fourteen exciting new disruptive areas. What is especially compelling is that all of them are converging over the next few years globally. Once critical mass occurs, it is estimated that over \$50 trillion of new wealth could be created within the next ten years. For those who foresee the future trends, one could capitalize on a ten-fold profit opportunity.

Until then, we will see upheavals in almost every area of our lives, confounding conventional economic and market theories. Let us not underestimate the cultural trends that will drive how we live, work, and play. Traditional economists may miss these megatrends (they often do) and their impact on productivity due to the cyclical and secular cross-currents in macroeconomic data.

Importantly, history has shown us that politics follows economics, not the other way around. To navigate successfully, it will require more than a basic understanding of economics and financial literacy. It will require the lessons learned from over 5,000 years of monetary history that demonstrated how previous superpowers lost their dominance. Although we have come a long way technologically, we seem to make the same human mistakes, succumbing to failed policies over and over again ad nauseam. However, this time around, it seems we may all learn the lessons at the same time, globally. We all win, or we all lose. So we must be prepared for changes geopolitically, as well.

Just imagine all of this happening in our lifetime. Our future happiness may be rooted in our ability to adapt to change with a positive outlook, a commitment to lifelong learning, a willingness to continuously upskill, and trust in our fellow man. If you don't like change, the future planet earth may not be a hap-hap-happy place.

When it comes to our money, “loss aversion” in behavioral science has shown that the fear of loss is about twice as powerful as the pleasure from gain. All of the scholarly work on the value of “staying the course” and “buy and hold” investment theories are deserted quickly when real market crashes occur. The research firm, Dalbar, has calculated that the actual performance investors received has been a fraction versus the market averages due to human emotion at the worst times. Humans have an uncanny ability to buy on euphoria at the top of the market and panic and sell at the bottom. It seems that human beings are not wired for investment success due to emotion and confirmation bias.

Since early 2009 when Central Banks began amply supplying liquidity to the markets, the “buy and hold” approach has become most popular. However, every strategy works until it doesn't. When seen from a full market cycle, meaning both a bull and bear market, investors spent more than five years just recovering from their losses in each of the last two devastating market crashes, assuming one stayed fully invested. For more, [see here<sup>\[10\]</sup>](#).

Navigating future trends and discovering opportunities could be well worth the reward if one has a portfolio that can adapt to changing market conditions.



**One must be nimble, disciplined,  
and capable of adapting to a  
changing environment.**



The existing indices and benchmarks contain companies for both the old economy and the new economy, so owning them both may produce mediocre results, especially during the next recession.

Risk mitigation will become paramount! Having the flexibility of active management that can reposition portfolios as risks emerge and trading opportunities develop could be superior. Active management may offer a greater opportunity that is not permissible by the passive “buy and hold” manager. Passive investment strategies with no ability to invest beyond the index will be most vulnerable in severe market declines.

Perhaps having a plan for defensive action **and** a plan for positioning capital for the emerging new economy is better suited for the future. This will necessitate a partner that can actively monitor your portfolio daily.

Just like in the world of investing and science, one must be nimble, disciplined, and capable of adapting to a changing environment.

The new opportunities associated with tremendous transformation will challenge us with how we perceive the changes and adapt to the new world. As John Cage, the famous composer, once said: “I can’t understand why people are frightened of new ideas. I am frightened of the old ones.”

Perhaps it will not what be what you **see** that will matter most, but what you are searching for!

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