BOOKS

Wealth, War & Wisdom
By Barton Biggs

Liz Hecht, October 2023

"The world is very good at locking the barn door after the horses have been stolen."

—From *Wealth, War & Wisdom*

When one reads a book, there often is a particular scene or story that remains fixed in memory. After first reading *Wealth, War & Wisdom*, I did not remember the "people hunts" conducted by the SS or the way the Russians used dogs as suicide bombers during World War II. For some reason, in a book filled with the horrors, chaos and vicious stupidity of war, I remembered most of all the story of Estelle Sapir, the daughter of a wealthy Polish investment banker.

During a final conversation with her father over a concentration camp fence, he assured her not to worry about money because there was plenty of money in the bank. Reaching through the barbed wire with a single finger to touch his 17-year-old daughter, Jozef Sapir made her repeat the bank information to be sure she would remember.

After the war, when Estelle went to get the funds, the bank informed her that the money could not be released until she could provide her father's death certificate. "Who do you want me to get the death certificate from?" she asked. "Adolf Hitler?" Estelle tried repeatedly over several decades to recover her father's money.

In *Wealth, War & Wisdom*, Barton Biggs explains that Jozef's Sapir's account likely was transferred after several years to the bank's reserve fund.[1] "The moral of the story," Biggs writes, "is that safe haven accounts must be crafted with the bank to provide flexibility of future identification. Read the fine print." (Maybe Estelle's dad didn't read the fine print because he was about to be sent to a Nazi death camp?)

In his foreword to *Wealth, War & Wisdom*, former Yale University Endowment CIO, David Swensen, describes the book as a blend of "war narrative and security markets history." Barton Biggs reminds readers "how close we all came to a new Dark Age" and concludes that "the rich almost always are too complacent, because they cherish the illusion that when things start to go bad, they will have time to extricate themselves and their wealth."

I was initially drawn to this book several years ago because of my own family's WWII experience. My father and his sisters escaped Nazi Germany to England via the Kindertransport. And my great grandparents died in the Czech concentration camp, Theresienstadt. I recently reread *WW&W* because of the current immediacy and proximity of war. People sheltering from German bombs in London subway stations in 1940 and people sheltering from Russian bombs in Kyiv subway stations in 2022. And then earlier this month hundreds of civilians in Israel being slaughtered or taken hostage by terrorists. *Plus ça change, plus c'est la même chose.*[2]

A magnificent work of history, two main investment themes run through this book: the prescience of stock markets and strategies for retaining wealth amid the uncertainty of war.

The Prescience of Stock Markets. Barton Biggs initially became fascinated with the wisdom of markets when he discovered by chance that the British and U.S. markets started moving up, respectively, around the Battle of Britain and the Battle of Midway while the German market peaked just as German patrols started advancing into Moscow. "Those were the three great momentum changes of World War II," he writes, "although at the time no one except the stock markets recognized them as such." He describes the equity markets as "the epitome of a wise crowd" and attributes the markets' often uncanny foresight to the cognitive diversity of many foxes versus the cognitive dissonance of a few hedgehog experts.[3]

Why were the markets so often right so early during this critical period of human history? At a nadir of despair in London, the wise market crowd nonetheless might have anticipated the strengthening alliance between Britain and the U.S. Although the Japanese press shared only good news, rumors of defeat at Midway began to circulate in the elite tea houses when naval officers and aviators failed to return to their geishas. And right before the German push into Russia, the German aristocracy already had become disenchanted with the Nazi regime while German soldiers were returning home with negative stories from the Eastern front.

Of course, Biggs observes, the markets aren't always all-knowing. "The French bourse was dead wrong in 1941 when it forecast prosperity from the German occupation."

Strategies for Retaining Wealth During War. *Wealth, War & Wisdom* explores different stores of value during wartime—cash, equities, bonds, jewels, gold, art and property—and reveals their respective flaws in different circumstances. Certain assets, while they prove to be long-term wealth generators, nonetheless are useless during dire periods of history. Being land rich but food poor, for example. In the first bitter winters of post-war Japan, warm clothes and food were more valuable than gold. And keeping one's valuables in a safety deposit box may offer no real protection. ("Conquerors demand the key and your bank will give it to them," writes Biggs.)

According to *Wealth, War & Wisdom*, surviving future wars may depend on two key factors: (1) diversifying your wealth across different countries and asset classes and (2) cultivating a healthy aversion to complacency. A remote country house where you can grow your own food also would be helpful. In the book's conclusion, Biggs poses a question that is sensible, stark and profoundly depressing: "What will be the threats to wealth of this new century? Terrorism, religious warfare, or a collapse of the financial system … Who knows? But be alert. The barbarians will come again."

No matter how sanguine our day-to-day lives, we all live in a scary, unpredictable world. Read *Wealth, War & Wisdom* if you want to become more attentive to the message of the markets, prepare for "10 standard deviation events that transform the environment" and learn how to secure the barn before the horses are stolen.

Barton Biggs (1932-2012) was Morgan Stanley's first research director and a founder of the hedge fund, Traxis Partners. He is credited with early focus on the investment potential of emerging markets and for predicting the dot-com bubble in the late 1990s. His other books include Hedgehogging, Diary of a Hedgehog *and the novel,* A Hedge Fund Tale of Reach and Grasp.

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1. According to an April 16, 1999 *New York Times* article, Ms. Sapir, by then elderly and in poor health, withdrew from a class action lawsuit against the bank for an undisclosed settlement estimated to be approximately $500,000. Her father fortunately did not rely on one bank but diversified the family assets among banks in different countries. Ms. Sapir also visited a number of other banks where her father had sought to safeguard the family fortune. She told the *Times* that these accounts were turned over to her right after the war without question.
2. *The more things change, the more they remain the same.* This pessimistic observation is credited to the political journalist and satirist, Alphonse Karr in 1849. Barton Biggs expresses the same sentiment toward the end of *WW&W*: "The history of the world demonstrates that wealth destruction, whether through wars or plagues or technology, has been endemic to mankind, and there has been no sign as yet that sophistication and progress will change this eternal verity."
3. For more on foxes versus hedgehogs, see the March 2021 issue of Excess Returns.

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