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Book Review: The Fourth Turning

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William Strauss and Neil Howe followed up their 1991 *Generations: The History of America's Future, 1584-2069*¹ with a book published in 1997, *The Fourth Turning: An American Prophecy – What the Cycles of History Tell Us About America's Next Rendezvous with Destiny*.² Mr. Strauss (he apparently had a wide range of talents, and co-founded the Capitol Steps political satire group) died in 2007 as the current era formed. Mr. Howe has become very popular since Steve Bannon, of Breitbart News and former advisor to President Trump, noted it as a book that intellectually influenced him. You can readily find recent interviews and podcasts featuring Howe when he is not working his day job researching demographics at Hedgeye Risk Management.

Saeculums and Turnings

There are only a few books that I recommend to others, or that I read a second time, but this may be one. It is very thought provoking. A book that I thought of many times as I read this one was *Guns, Germs, and Steel: The Fates of Human Societies*³ interestingly also written in 1997 (and a winner of the Pulitzer Prize). It's unfortunate that Mr. Bannon did not also find this book of interest, as it argues for inclusivity and knocks down many theories of racial superiority.

The first part of the book talks about specific generations, and defines a few new terms for me. At a high level, the authors' views are that history cycles. A saeculum covers four generations and is a term that goes back to the Greeks. A synonym would be century. Another way to describe it is as one person's lifetime, tending to be 80-100 years old. Once the generation who has survived a period or event has passed, the event returns in a new form. History rhymes, yes, but while it is wise to prepare for the uncertainty to come it will not pay to anticipate a specific scenario. A turning moves from one generation to the next. Each generation has its role to play at the current time, and evolves as it ages. The Fourth Turning in each saeculum is defined by an event that leads to (on average) 20-25 years of intensity where authoritarian leaders are followed even if they make poor decisions. Since there are four generations in each cycle, the natural tendency is to label this "winter," which sells books but makes it harder to appropriately prepare. While hard to define the precise timing of turnings as they occur, in recent interviews Howe believes the 2008 financial crisis kicked off the current fourth turning. The most recent periods

¹ https://www.amazon.com/Generations-History-Americas-Future-1584/dp/0688119123/ref=la_B000AP9K06_1_2?s=books&ie=UTF8&qid=1511816697&sr=1-2

² https://www.amazon.com/Fourth-Turning-American-Prophecy-Rendezvous/dp/0767900464/ref=la_B000AP9K06_1_1?s=books&ie=UTF8&qid=1511816697&sr=1-1

³ https://www.amazon.com/Guns-Germs-Steel-Fates-Societies/dp/0393061310/ref=mt_hardcover?_encoding=UTF8&me=

defined by a fourth turning were the great depression/World War 2, the Civil War, and the Revolutionary War. This period is expected to last as late as 2030, with changes enacted late in the era that lead to a blissful area of growth. I was originally introduced to this book by John Mauldin in his writings, and his belief seems to be that if you can hold your breath long enough everything will be okay. As I remember historical events, members of the losing side may not agree.

Cycles

The four generations appear in order, as the cycle requires. Strict parents have pampered grandchildren. A warrior generation encourages children to be peaceful, but the grandchildren think of war as romantic. Immigration also follows these cycles. Prophets decry racism, Nomads are open to immigration of new groups, and Hero generations are seen to need protection from outsiders. Each period is a time of transition. The recent rise of technology could turn a Fourth Turning into big brother.

The First Turning is a “High” that leaves the crisis behind and enters a period of prosperity as Heroes enter midlife. The Second Turning is an “Awakening” where Artists enter midlife. The Third Turning is an “Unraveling” where Prophets enter midlife. Completing the cycle, the Fourth Turning is a crisis with Nomads entering midlife. Reduced immigration may reduce long term economic growth while seeking to protect the current Hero generation.

Prophets tend to be part of a baby boom, Artists a baby bust. Unravelings frequently feature violent crime waves (e.g., the roaring 20s), and alcohol consumption peaks at the end of the Awakening. Every Crisis since the fifteenth century has included total warfare in the English/American culture. We cycle each saeculum, so just wait if you don’t like the current environment.

The Civil War era is presented as the Crisis that went bad, with each generation making poor decisions leading to a more intense crisis. The Third Turning that preceded it included the Mexican War with mass commercialism and nativist slogans against Mexicans and the Irish. There are similarities in today’s environment.

The most recent generations are the GI (born before 1925), silent (1925-42), boomers (1943-60), 13th (1961-81), millennial (1982-2002) and Generation Z (after 2002). These are not firm dates, but as a generation generalities exist. These generations have distinct roles in each Turning. In the crisis unfolding today, the GI’s (Hero) are fading along with their memories of Crisis, the silent (Artist) are now elders, boomers (Prophet) continue to screw things up as they focus on themselves, 13th (Nomad) will get things done when it matters most during the coming crisis, millennials (Hero) will be the soldiers, and Gen Z (Artist) will stay out of the way. This section, along with the historical review of the past 500 years, was hard to follow the first time and may be worth re-reading.

Other cultures have different, although likely similar length, generations. How these interact with the American culture is unknown and would be an interesting research project or book.

Since this book was written 20 years ago and contains some predictions, it is safe to say that some were right and others wrong. One they get right is that boomers would not have saved and most will be entering retirement with little hope of independent living. Another piece of advice is to not prepare for only one scenario, noting that the isolationism practiced during the 1930s allowed the US to focus on what was needed after the Pearl Harbor attack without any sunk costs acting as anchors. Perhaps the lesson to be learned is to think through a variety of scenarios and prepare for each in some way while staying open to surprises.

My Take on Today's Environment

In my prediction newsletter each January, for several years I have noted that 1937 was the year I felt like the current environment was most like. I still believe this is true, but it worries me that Americans could turn out to be the demagogue fascists that need to be defeated. This prediction seems much closer today than it was at the beginning of 2017.

Prior to WW2 during the last Crisis era, the Germans recognized the need for a bread basket, like Ukraine, to feed the masses. *Black Earth: The Holocaust as History and Warning*⁴, by Timothy Snyder, is a tough read because it is so depressing, but it is a well-researched book that should get more interest as the generation who lived in Poland during the late 1930s passes on. For those with a shorter attention span, the twitter feed WW2 Feeds from 1939 (@RealTimeWWII) provides daily updates on the war effort based on what is known today. The populism momentum around the world is confounding. Mr. Bannon's view seems to be that a war with China is coming, so we should speed it up so it starts before they are fully prepared. Even if the specifics are wrong, this type of prediction can be problematic when close to reality.

Governments around the world have attempted to subsidize their economies, with huge fiscal debt and monetary stimulus. Numerous central banks now have sizable equity positions, generally thought to be passively managed. This creates another unknown during a liquidity crisis. Much like derivatives that allow us to financially avoid small events while creating moral hazard and larger events later on, when these subsidies unwind and the markets clear, as I believe they must before the cycle begins anew (first turning), the risks growing in the dark seem to make a Minsky Moment ever nearer and more uncertain of its outcome. I am starting to think a narrative that let firms fail in 2008, returning to a balanced budget with limited monetary stimulus, would have been the most positive scenario. What we have now is a financial powder keg with climate change accelerating changes to the planet quicker than we can deal with them. When we try to

⁴ https://www.amazon.com/Black-Earth-Holocaust-History-Warning/dp/1101903473/ref=sr_1_1?ie=UTF8&qid=1511819658&sr=8-1&keywords=black+earth

manipulate the world around us, we may succeed in the short run but often fail to consider some unintended consequence that creates an even larger predicament later (described as avoiding a fender bender but enabling the 50 car pileup).

Scenario Testing

Each year in the fall I suggest a set of scenarios that could be used as part of reserve adequacy (cash flow) testing. This year I suggest the following:

- NY 7 without floors (allow negative rates, parallel shifts)
- Annual increases of 3% over 4 years (total 12% increase)
- Pandemic spike in mortality of .5% (absolute increase) **or opioid scenario**
- **Mortality decrease applied to payout annuities**
- High credit risk – double default rate for below investment grade bonds
- Equities – **down 50%**
- Indexed products – report separately including options, test derivative market failure
- Measure exposure to counterparties at a high level
- Global climate change scenario – qualitatively assess markets, suppliers
- If you are worried about a couple of specific scenarios from the past; e.g., the 1930s or 1970s – include them in this year’s stress testing – **this era looks a lot like 1937 so might be a good scenario to test**

Bold reflects update from prior year

These scenarios do not all have to be run each year. Set up a rotation and test based on the current environment. Look at stress scenarios qualitatively and graphically in addition to quantitative focus. Consider a combination of several deterministic scenarios, including one where the Wall Street tool kit (e.g., derivatives market) is not available.

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