



The Solari Report

November 17, 2016

Scenario Thinking with Eric Best



Catherine Austin Fitts



Eric Best



Scenario Thinking with Eric Best

C. Austin Fitts: Ladies and gentlemen, it is a real privilege and pleasure to welcome to The Solari Report Eric Best. I have wanted for many years to do a Solari Report on scenario planning and scenario design. It's a way – I think – of approaching the future that I use and am comfortable using. If you look at the Annual Wrap Ups, you will see scenarios and probabilities assigned to scenarios.

The reason I have not done a Solari Report on scenario planning is that it's a technique and practice that requires a master, so I didn't want to do it unless I knew someone was available who I considered being excellent.

Eric Best is, in fact, a former member of a group in California who taught me scenario planning and design, and he stood out in that group, as the person who I thought was the most gifted at the practice.

He had come to that group as a journalist. He had 20 years of experience in journalism, but not surprisingly – given his success there – Morgan Stanley scarfed him up in the mid-1990's to help them with strategic planning and strategic design.



Then in 2006 he founded Best Partners, which specializes in helping corporations and other groups with this kind of strategic planning.

He is also an author and speaker, having worked, as a journalist for many years before turning to strategic planning. He is also the author of *Into My Father's Wake*, which is the story of a 5,000-mile solo sail from San Francisco to Hawaii and back, as well as a children's book called *The Deep*.

He is a very accomplished person, and I think our focus on The Solari Report is not in predicting the future but inventing the future. This is certainly a practice that I believe can help us make that switch.

Eric Best, welcome to The Solari Report. You are a sight for sore eyes.

Eric Best: Thank you very much, Catherine. It's very kind of you to have me on your show. I appreciate the opportunity to talk about something that I've spent a lot of time doing and am very interested.

I always say to people, "You can't sell scenario thinking; it has to be bought by somebody who is curious and believes in the principle that we can't predict the future, but we have to act, so what should we do?"

I'm all yours for the next hour.

C. Austin Fitts: Before we delve in, I've recommended to The Solari Report subscribers that they watch our Let's Go to the Movies video this week, which is an excellent video that you have on your website



called *The Four Principles*. In it, you give a quote, “The sea lies in wait for the unwary, but she stalks the reckless.”

You should have seen me. I was laughing on the floor when I saw it. I think of the kind of work that you do, and really deep ‘scenario thinking’ and scenario planning is important for being well prepared in a world, particularly with the uncertainty that we have. Yet I have always struggled my entire career with getting my team to be willing and eager to spend the time that they need to do it well, and I know there are countless stories of the organizations that have done it well making extraordinary differences.

Eric Best: I think, first of all, the human anxiety about the unknown motivates us to look for answers, even if they are not necessarily answers, or to seek solace in some notion of certainty or predictability. Some people rise in organizations or groups because they appear to have the answer.

I would say that McKinsey is a consultancy based on the notion that we are very smart people with answers, so if you ask us, we’ll tell you what the answer is or what to do. If you put that on some sort of an axis, and place McKinsey or ‘knowing the answer’ on one end of the axis and put ‘scenario thinking’ and ‘trying to get to the right question’ on the other end, acknowledging that we cannot predict and we have to try to prepare. So how might we do that?

One way to do that is to be very thoughtful and inclusive about the uncertainties that surround us. The process that I learned at Global Business Network in the early 1990’s and spent 10 years refining



at Morgan Stanley around the world in many of the businesses that Morgan Stanley was involved in with its clients was to figure out how to structure uncertainty to get to the kinds of ideas that should matter the most to the people who need to know. In those organizations where people have risen by having the answer, it can be hard to get people to stop and acknowledge that they don't know, but they are willing to think carefully about the things that ought to matter most to them. Those things that ought to matter the most to them have implications for actions that they might need to take, or they might need to think about.

The principle is the prepared mind can act in time, or the prepared mind is more likely to act in time. You mentioned that great quote, "The sea lies in wait for the unwary, but she stalks the reckless." That came from an instructor of a navigation course that I took before I sailed to Hawaii on my own the first time, and it's a little bit chilling.

It's a reminder that unwary means 'not wary'. You need to be wary, and the ocean is a great metaphor for the economy. There are forces at work that can come together unexpectedly and product wave conditions or wind conditions that you had better prepare for. God help you if you're reckless, which means you just don't care about the danger; you're not thinking about it.

I found, in my life, a convergence between my love of sailing and being in the ocean, and ways of thinking about business problems that acknowledge that we don't know what is going to happen. However, there are certain things that we can think about and should think about more deeply – with a technique, which the scenario process is.



C. Austin Fitts: Right. When I was a partner at Dillon Read, in the boardroom we had something that you saw in many boardrooms in those days on Wall Street. We had an oil painting of a calm sea on one end of the room, and on the other, you had a painting of a ship almost crashing and burning in the ocean. It was a reminder that there are good times and bad times, and we need to navigate both successfully.

Eric Best: Absolutely. You mentioned the four principles. I don't know if you want to talk a little bit about those now.

C. Austin Fitts: Yes, let's talk about those, and then we'll dive into what scenario planning is.

Eric Best: Which came first, the chicken or the egg? Those four principles, I will say, came to me at a precise moment when I stepped off the curb on 5th Avenue near the New York library about two weeks after I came to Morgan Stanley in the fall of 1996.

I'd been doing scenario thinking at Global Business Networks for the six years before that, and I came to Morgan Stanley, as you know because they wanted to think about what the internet would mean to financial services, which was an excellent question to ask in 1995.

In any case, I stepped off the curb, and these four thoughts came to me which I realize had come out of the scenario work that I'd been doing for the last half-decade. They're quite simple.

The first is: Clarify the intention. What is it I'm trying to do?



The second one is: Define the sacred. What is it that means so much to me? What are the values that I hold so dear, that I'm not going to abandon those no matter what? I'm going to stick to that or fight for that or hold on to that because it's sacred.

The third one is: Understand the commitment. If I know what my intention is, and know what I hold sacred, then I should be able to figure out what it means for me do or must have, or must seek regarding resources or determination. What will it take?

The final one, which is maybe my favorite and is so often misunderstood, is simply: Act to be. People have said, "What exactly does that mean?"

I'll tell you what it's derived from. When I went to Hawaii the first time as a journalist, and happened to meet a guy who was quite a well-known developer, David Murdock, who had developed properties on the islands. He had built controversial hotels on the island of Lanai, and I managed to get an interview with him even though he was known to not want to talk to any journalist ever for any reason.

When I met him, he was a very interesting, vibrant man. He kind of jumped up and down while he was talking.

He said to me, "You understand something because you decided to sail here alone, and you did so. Now you know something that can never be taken away. You know things that you could only have come to understand that way. That's because you decided to act to be."



Then he went on to say, “People think it’s wrong to have an ego. No, it’s not wrong to have an ego. Having no ego is wrong. As we act, so we become.”

Then he went on to talk about his life in those terms. I picked that up and found myself stepping off this curb in New York seven years later with that phrase in my mind as the fourth principle. It fit with scenario thinking because scenario thinking is about clarifying your intention in light of who you are and what you think you’re doing here in the context of the world as we find it, which is full of uncertainty.

‘Define the sacred’ is a way of recognizing something we know, whether it’s human behavior or corporate behavior. Core values matter, and we know that companies and individuals who have core values and stick to them tend to do better than those who don’t.

The ‘Understand the commitment’ part is from viewing in the corporate context – in a managerial context, and you will know this too – that you can have people at the top of the company declaring, “This is what we’re going to do,” publicly to create the story on which their future stock value is supposed to be based. But under the covers or behind the curtain, they’re really not making the commitment. They’re not investing in the technology. They’re not dealing with personnel issues. They’re not deciding on a geographic strategy that makes any sense. Whatever it is, they’re not thinking about what the commitment is that is required to fulfill that intention or to fulfill those values.



The ‘Act to be’ part is, I think, so important concerning individuals who want to accomplish something and want to become something and want to establish something and want to be known a certain way and want to be trusted and believed, etc. Well, as you behave, so you will become.

Those are the four principles.

C. Austin Fitts: Do you describe it as scenario planning, scenario thinking? What is the verbiage you use?

Eric Best: I prefer ‘Scenario thinking’. The reason for that is that ‘scenario’ is a term used a lot. It’s used in the movie business to mean high concept; it’s used in the insurance business to mean one of three different possible interest rates, which I don’t view as a ‘scenario’; and it’s used sometimes by people to mean ‘my prediction’ as in, “Here is my scenario.” That may be useful, but when I say ‘scenario’ I mean it’s a qualitative rather than a quantitative version of a future.

Jay Ogilvy, who is a mentor of mine at Global Business Networks, likes to say that scenarios have to travel in packs. One scenario is a prediction, two scenarios are like up or down, three scenarios are like up or down or sideways. I’ve learned that the best answer is four scenarios built around a very studied idea of what the most critical uncertainties are. That is decided through a lot of research and discussion, etc.

Once you can get the group of people – let’s say the 20 individuals in the company who run the place in a room to do the work and to determine what they believe are the most important uncertainties and if they apply those to produce the four different scenarios that logically flow from those uncertainties, and think through each of those individually,



and through them collectively, and derive from those the implications for themselves that means: ‘Which options should we think about, which options could we think about, and what options will we actually act on?’ If they do that, they will be ahead of the competition.

C. Austin Fitts: Yes. It’s quite remarkable.

Eric Best: I say that, and somebody listening might say, “Of course you would say that.”

All I can say by way of trying to substantiate my claim is that, in years of doing this work, I’ve seen examples in rooms of people wrestling with this problem where suddenly the big ‘Aha!’ leaps into the room and everybody sees it, and everybody feels it. The person in the room responsible for the group takes ownership of it and acts on it.

I have on my website in the introduction to scenario thinking, an article I wrote about a case study in Japan in 1997 where this occurred. In trying to think through the future of Japan, a young person in the room came to the view that, “Wait a minute. There is no upside in Japan for the next three to five years in the way that we’re thinking about it.”

This caused the room to fall silent. After several moments, the oldest guy in the room – a man named Harrison Young who is now a banker in Australia – said, “Why would we buy anything then?”

That was *the* question to ask because Morgan Stanley was thinking about buying Yamaichi Securities at this time. Why?



Because western banks were thinking that if the Japanese have \$12 trillion in yen and savings, wouldn't it be great to get in the way of that as it went by as they invested? So it seemed like a good idea to buy a Japanese retail broker.

Well, based on this insight in the room, which led to a discussion of 'why'. If Japan wasn't going to turn around in the next three to five years, it made sense to behave more like a merchant bank and help them buy and sell the family silver as the economy went sideways and slightly down.

Thierry Porte, who ran Morgan Stanley Japan at the time, decided, "Okay. That's what we're going to do. We're not going to buy anything." So that's what Morgan Stanley did, and they made a lot of money in Japan for the next five years. Meanwhile, Merrill Lynch bought Yamaichi and lost \$1.2 billion as they would later report.

I was just never able to convince anybody that I should have been paid a percentage of that \$1.2 billion.

C. Austin Fitts: Right. There are a couple of things that I find happen when you do this kind of scenario thinking, as you call it. One is that I think I'm thinking big and I really see all the forces at work and I'm really on top of things. I get in the room and do this, and suddenly I realize, "Oh my God! I've really fallen down in my own little ditch here, haven't I?"

It raises you up out of small-mindedness. That's the only way that I can describe it. Would you agree with that?



Eric Best: I would, and I've seen examples of that. As you say that, what comes to mind is a case where I went and did some work on behalf of GIC, the Government Investment Corporation, in Singapore. We did scenarios around 2001-2002 for the fixed income division. We spent a long day on a framework that we helped develop for and with them. I was invited back a year later to do a reprise or get the same people back in the room to say, "Where are we now?"

I asked the guy who was the head of fixed income for GIC, "So what difference did that make a year ago?" The consultants' dilemma is, "How do I know that anything makes a difference?"

He looked at me and said, "I sat in the room and I listened to the people talk about the four different scenarios. At the end of the conversation, I realized that we weren't nearly long enough volatility – that our portfolio was really under expressed in that respect. So we changed a number of positions, and that made the portfolio for the year just by acknowledging that we miscalculated how volatile the world was.

I think that's a great example because, first of all, it shows you why talking through all of the scenarios really matters, so you don't get stuck in a prediction or you don't get stuck in your 'official future' because everybody has an official future. Then it's also about the person in the room who is a) responsible, b) open, and c) ready to act based on what they take to be the insight.

I believe that executive decisions are taken, yes, after thought and research, etc., but at some point somebody feels that the time has come to act.



“I know enough, I have enough conviction, and I’ve been moved to move.” That’s what happened. He was moved to move. I could give you other examples that are along those lines.

C. Austin Fitts: I don’t know if you remember, but I took Jay down to CalPERS in 1995 or 1996 to try to persuade them. I was working with the president of CalPERS and I was hoping that they would start to integrate scenario thinking into their planning for the portfolio at CalPERS.

Eric Best: Some time went by, and eventually Joe Dear – I don’t know if you knew him; he’s sadly no longer living – hired me to do some work there. My observation would be that CalPERS as an institution of players – the people in the room – were very resistant to thinking outside of their particular box. I herd behaviors in financial markets are so powerful that people are afraid to stick their head above the parapet or stray from the norm.

We could talk about current markets and how many people are behaving because they feel that they must act that way because the central banks are going to continue to behave a certain way, and this will go on for as long as it goes on until it doesn’t. In the meantime, I’m not going to behave other than the way my competitors and my peers do.

C. Austin Fitts: It’s a long story for another time, but one of the things that the president, Bill Chris, communicated to me was the sense that politically they were really under clear direction as to where they needed to be and where they needed to go. They didn’t have a lot of internal flexibility as a practical matter.



Eric Best: Right.

C. Austin Fitts: Let's turn to how we would use this now. As background, what every Solari subscriber knows – and what you don't know – is that I have been a very forceful, solitary voice saying, “Can we stop trying to predict the future and get into inventing the future?”

Ever since the early 2000's we've had an enormous number of people in the alternative financial media trying to predict what is going to happen very accurately, and getting stuck on scenarios – many of which are very negative.

I've constantly been saying, “Look, I'm not a prophet; no one can predict the future.” But I need to make sure – and this gets into family planning and family offices and family wealth – that families are preserving and growing their wealth, and that they are invested in a way that they're fine in all scenarios.

I'm not vested in any particular scenario; I'm vested in them being successful no matter what the future is, and doing it in a way that, if anything, they can contribute to a better tomorrow. We all have to contribute to a better future if we're all going to have one.

Eric Best: I completely agree with that. I'm thinking of a client I had, which was an old, large family fortune in Europe that is a combination of property, apparel, and private equity now, having evolved away from a foundation that was entirely apparel.



In that scenario discussion, which took place first at the corporate level and then in the family office level, what people began to realize as they talked through, “This scenario is really like our official future; this is what we think is going to happen and what we believe we’re prepared to happen. This other scenario is if things went wrong. These other two scenarios are about dimensions of uncertainty that are more cultural, geographic, and behavioral and have more of a technology flavor,” in which across that whole canvas there are certain kinds of opportunities that look to us like good opportunities no matter what happens. That’s a very, very important and greedy in this scenario discussion.

Yes, it does give you a clearer sense of what could go wrong and how it might go wrong and what if it did, but it concurrently gives you a more definite: What is the nature of opportunity that may reside in more than two scenarios? Those are the opportunities that you want.

It also gets you to think about and try to define for yourself what Pierre Wack – who was the grandfather of this in Royal Dutch Shell years ago- used to talk about as the predetermined elements. What is true in all scenarios that we need to think thru?

I would say that it’s predetermined that there is one hell of a lot of debt piling up, for example. So if you’re in financial scenarios or if you’re in sovereign wealth, you would say, “In every scenario, something is happening to the debt. In every scenario, something is happening to bank policy or central bank policy.”



Once you sit in a room and think about that, you can decide how deeply you want to get into that, and what do you think is going to happen, and so what?

It would equally apply if you were trying to think about technology in retail or robotics or artificial intelligence or pick your big theme. There is danger and there is opportunity, and you have to think about all of it.

C. Austin Fitts: Let's talk about debt piling up. One of the things that I mention often is the fact that we are at the end of a long-term bull market in bonds. It's hard to imagine interest rates going down as much as they've gone down in the last 20-30 years, or that the debt capacity would increase as much as it has over the last 20 years.

One way or another, regarding a financial model, we are at a turn. If you see what is going on globally, we're watching a huge debate about what the model is that we're going to use, not just for the economy, but also for society; whether it's the US fighting with Russia about what the model is going to be or in the campaign during this election season people fighting about what the model is. There is a real battle royal going on about what model we're going to use because when you globalize, you're going to have to change the model from what we've been doing for the last 500 years.

How could we use scenario planning to help us navigate that change?



Eric Best: Well, I think there are a lot of ways; it depends on where you want to start on behalf of whom. I'm fond of saying that there are no 'off the shelf' scenarios that are one-size-fits-all. It's not, "Here, take these. Try these on."

C. Austin Fitts: Right.

Eric Best: You have to start with a strategic question or intention and use that as the stake in the ground that allows you to discover which uncertainties are more important than others.

To take a recent client case, a very, very, very big asset manager tried to think through what we should care about. The matter of central bank policy gets into the middle of it, and currency, and money printing. How many versions of that quantitative easing and bond buy-backs, etc.? How far does that go?

When you were speaking a moment ago, I resisted the temptation to interrupt. But let me ask you something, Catherine. If I had said to you in 2006, "Rates are going to go negative in 2015," I don't think that you would have said, "Absolutely." I think you would have said, "What?"

C. Austin Fitts: Actually, I would have said, "That is possible."

Eric Best: Well, you would have been rare if you had said that. I'm not saying that it was completely unthinkable, but the inflation story was always hanging there as inflation is right around the corner.



Let's go back to the mid or early 1980's. The story at Harvard was that Japan was going to take over the world; the US needed an industrial policy. Robert Reich was saying that we need an industrial policy, and Ezra Vogel was writing, *Japan as Number One*.

Those scenarios were completely wrong. Then if you go forward to where Japan was going: I remember being invited to be on a panel in Japan around 2003 or 2004, and rates were low in Japan then. I can't remember what they were, but I recall saying – and thinking that I was being kind of funny, but I realized it wasn't really that funny – “The reason there are low interest rates in Japan is because nobody is interested in Japan.”

C. Austin Fitts: Right.

Eric Best: What is it about Japan that is really interesting? What are they doing? Are they reforming? Do they have the demographics?

But then I don't think anybody would have said, “Ten years from now Japan will be where it is.”

C. Austin Fitts: Right.

Eric Best: That's why I think scenarios are a good approach to use on the subject of, “Well, what do you think is happening in the dollar-denominated world where the hegemon (the US) is behaving with respect to its balance sheet a bit like a 3rd world country.”



People who have bought the system allowed the US to be in control – China or other countries – maybe saying, “Wait a minute. I’m not sure I like this deal.”

So how long does that go on, and in what form? I don’t know any way to think about that except for scenarically because I can’t begin to predict which actors will behave in what way. If Larry Summers is going to Japan saying, “I think the government should start buying equities,” aren’t we in kind of a new system?

C. Austin Fitts: Let me describe the point of view that I’m dealing with the most. We’ll take the concept of a family office. Think of this as a mini asset manager who is responsible for allocations across real estate, private equity, cash, and securities – whether it’s fixed income or equities – and they have to contemplate less fixed income and more equity because, at some point, you’re better off in something real.

At the same time, the purpose of the family office-yes, they want to get a good performance in their portfolio- is to help all the individual members of the family succeed as human beings.

I’m a fan of Jay Hughes who wrote a book called *Family Wealth*. It’s about preserving wealth, but doing it in a way that you preserve and support the human and intellectual capital of the family by investing in the dreams – some of which make money and some of which create great culture or other things.



Anyway, you're dealing with both the human and intellectual capital side, and a financial capital side. You want both to be successful, but deep in the economy there are some very win-lose things going on between those two sides of the collective economy. In the meantime, the models are all in flux.

In a funny kind of way, it's even much more complicated than an asset manager because of the human side of the equation. What I've been saying lately is my concern is that, I think, we're coming into an inflection point.

The growth of debt has papered over a lot of disagreements about the model. I used to work in Washington, and it was, "Just pay everybody off and shut up, and we'll go down the road another year."

Eric Best: Right. It's can-kicking.

C. Austin Fitts: Right, so we've been can kicking politically on the Federal budget in the United States for 20+ years. There's a great quote, and it's one I've used this year from the German finance minister who said in Shanghai at the G20 meeting, "The debt finance growth model is over. There are no shortcuts that aren't real reforms."



What he was saying was that now we have to deal with real optimization and the fundamental economics on the equity side, and that is going to be politically very painful. My concern is that when I look at the debate going on in the United States and around the world, the real debate is, “Are we going to be a human society or an inhuman society?” I repeat, “Are we going to be a human society or an inhumane society?”

As you would say, what is the real sacred value here? That is a deep struggle and trying to manage money on top of that is a nightmare.

Eric Best: Yes. I think you’ve put many things on the table all at the same time, but one observation that I would make is the discussion about, “Are we going to be a humane society or an inhuman society?” That is a natural scenario question implying an axis of uncertainty around, “What do you mean by humane and what do you mean by inhumane?” That might be a very fruitful conversation for certain people to have.

The second thing that I wanted to say is, as you were quoting somebody, “Look, we’re at the end of the cycle; we’re going to have to deal with the fundamentals here. We can’t keep going on like this.” That is a scenario logic. That says, “This has to come to some end sooner than later.”

That is scenario logic because I will offer you an alternative, which is, “No, it does not have to end sooner than later; it can go on much longer than you think.”



So if you're an insurance company, or a pension, or an endowment, and think, "This can't go on; this is just too painful. How am I supposed to get returns in a zero interest rate world?"

By the way, the world wasn't designed for you to succeed regardless; you have no manifest destiny to do well here. And the US has no manifest destiny to remain the currency of the world. Britain was eclipsed. I would commend people's attention to Barry Eichengreen's book *Exorbitant Privilege* about why the US occupies the role that it has, and what it means to be the trading currency. And if you are the trading currency and diminishing the value of that currency because of the way that you're behaving fiscally, what is the future?

These questions matter, and how they're going to play out is not certain, so being prepared for a few different paths or thinking about it is necessary. If I can't convince myself that it's going to end soon and I know how, or it is going to end soon and I don't know how, but I know what is going to be hurt more than something else, and I can see that it really could go on for quite some time, at whose expense and given what opportunities. This is exactly why you do the thinking.

C. Austin Fitts: Right.

Eric Best: I tell my kids that I've been incredibly lucky to have such a weird life and was a journalist and learned to believe in researching before I tried to figure out what the story was. Then I learned scenario thinking, which is a certain kind of inquiry that enabled me to be in the room again and again and again, and in one-on-one interviews



with very, very, very smart, thoughtful, highly-educated, experienced people in the world and maybe a disproportionate number of those in a broken financial system, but nonetheless, very insightful people.

I feel the one thing that I've learned is the best that you can do is to inquire as thoughtfully and as thoroughly as you can, and listen as deeply as you can, and wait for something to emerge, to hit you, as something worth acting on, and then work on it. But don't think that you necessarily got the future right or that it's over.

“Now it's fixed. I've got it. I'm done.” No. It's continuous. It doesn't go away. These rolling waves of uncertainty and change are not going to stop because you know all this stuff. Moore's law, Metcalfe's law, miniaturization, material science, biology, artificial intelligence – it's not going to go away.

You can both snap on the VR and take an opioid, or you can figure out: How do I want to be engaged? How do I want to engage other people? Who do I want to be involved with? Why, if I do that, will I feel that I have a fruitful life in which I have defined the sacred and I do understand the commitment, and I am acting to be? That's the best that I can hope for; that's a human life. That can be taken at the individual or the enterprise level.

C. Austin Fitts: Let's say I'm a family office manager or a family patriarch or matriarch or a family asset manager listening to this now, I say, “I'm interested.” How do I learn more, and what are the simple nuts and bolts of how I start to practice this?



Eric Best: Without giving away my entire consulting practice in a few minutes, I would say that if what I'm expressing makes sense to you and you're in a family office-I have a good friend who is responsible for his family office. He wants me to help, but his family wouldn't necessarily trust him to bring in his friend. It's one of those weird things. There are all of these considerations.

What I say to him is, "Look, the family has to have a conversation in and amongst themselves aided and abetted by insights from outsiders or intelligence from outsiders unless the family thinks that they have all the knowledge that they need. They need to have a conversation about their intention and what is sacred and what it takes and what they are going to do. Those are the four principles applied to the family office."

So someone in the family office has to say, "Hey, look guys. We need to have this kind of conversation. We can't manage it ourselves, and shouldn't try because it's too hard. We need somebody to help us have the conversation that is our conversation. We're not asking an expert to tell us what to do; we're going to work our way through what we intend, what we care deeply about, what it's going to take, and what we are going to do in light of the uncertainties as we see them. We're not interested in putting our head in the sand out of fear of uncertainty. No, we're actually interested in identifying the opportunities that will be wealth-creating in the future and that can withstand the conditions in the ocean as we see them."



With all the talk of global warming, I think people need to think about global economic warming. They need to realize that the history of 100-year storms has changed. We have more 100-year storms every year than we ever did. Why? Well, because there are things in the atmosphere that weren't there before, and therefore we have to prepare for peak conditions that we didn't previously have to think about.

The easiest example of this would be trading on Wall Street when panic hits the markets. Do you think these machines will handle a million trades per second or whatever the number is? In a sailboat, when the wind goes up, the force on the sail goes up exponentially. So if you think it's only going to blow 30, you have up whatever you can have up when it blows 30. But if you have that up and it blows 70, you're in trouble.

Somebody might say to you, "Did you not think about it blowing 70?"

That's what I believe we're talking about in markets now. What do you think the conditions are likely to be? You have to survive those to trade another day or invest another day. And if you're just playing defense, you're not going to grow your wealth, so how do you intend to play defense and build your wealth?

A family office has to have that conversation. How do they do it? I don't know. Fred and his relatives get in a room, and they all listen to Harry, and they do what Harry says. I guess that is one method. Or they hire experts, and do what the experts tell them to do



Or they do some combination of those, but have to start. They have to say, “No, we have to have this conversation now in 2016 because things are not what they previously were.”

C. Austin Fitts: Here is my prejudice: Having had the opportunity to work with you and other people who are masters of this craft, I really don’t think that this is a do-it-yourself thing. I’m not saying you can’t get started that way; I’m not saying you can’t spend some great time on finding the key variables or putting together stories, but we’re all in our little bell jar.

Every time I do this, I’ve done this with you or someone like you. As far as I’m concerned, you are the best I’ve ever worked with.

Eric Best: I appreciate your saying that, but I agree with you. I just didn’t want to appear to be hopelessly self-serving in saying, “What should they do? They should call me.”

But I do think that it’s best done with a guide at the side, and somebody who can help you find your way to what you need to think about and use the techniques that have been developed to do it.

What I know is that it works. It works. Over and over again, it works. If you bring a bunch of smart people together to be thoughtful in a process that has been developed over time, that process will produce a good outcome for those people because they’re smart, well-meaning, know why they’re there, they care, want to make things happen.



The by-product of going through the process is that the group of people deepens and develops their relationship with each other – intellectually and emotionally – in the process. That’s very valuable going forward for them in many different ways besides just the scenario process and the investment process.

I would say, yes, get me or get somebody who you believe can be helpful, and let them help.

C. Austin Fitts: And get out of the bell jar.

I read in a paper about six months ago. A group of academics had been commissioned to talk to top leadership in both government and business, and they did over 100 interviews. What they discovered was that everybody was struggling with thinking the unthinkable because the level of uncertainty had risen to extraordinary levels, and they had no way of doing what you’re describing. They had no way of getting in the room in key cross-sector groups to talk about this.

You thought, “Oh my God!” They’re so busy trying to get another penny on their earnings per share this quarter that they can’t get out of that bell jar and say, “Now how are we going to make sure as a society that we’re doing what needs to be done to be successful in this environment?”

It was very, very scary.



Eric Best: One of the reasons for that is you have a culture – which I saw on Wall Street – which is, “Let’s get somebody and put him in the corner office to fix it.”

They would get him and put him in the corner office, and he wouldn’t fix it. Then they would get somebody else and put them in the corner office, and he wouldn’t fix it either because it turns out that it cannot be fixed by ‘the guy in the corporate office’; it has to be fixed by the community of practitioners who are interested and working on this in many dimensions. You have to bring together the horizontal network crowd rather than think there is a vertical network with a head at the top that knows the answer.

No. There isn’t.

Where is the leader who is courageous enough to say, “I know that I don’t know, and we’re all smarter than any of us? We will mobilize the collective intelligence and the wisdom of the crowd, not to get to some mediocre neutral consensus. No. To use the collective knowledge and the collective insight to find the compelling idea that we realize we need to act on. Even if we don’t know for certain that it’s right, we are aware that it’s a lot better than many other things that we were thinking about, and have to get there together.”

You have systems – market-driven systems and share-price driven systems and corporate bureaucracy systems and government



systems and political systems – where people are afraid of being wrong, of looking bad, of being tricked, of stepping outside the crowd.

A friend asked me today – I think they knew I was going to be on this call – “You’ve been through all these scenario exercises. What would you say is thematic right now?”

I said, “What I think is thematic right now is that we have serious governance problems.”

C. Austin Fitts: Right.

Eric Best: We need a type of leadership that we don’t have. We need a type of collaboration that we don’t have. We need a kind of intellectual honesty that we don’t have. We need a kind of courage that we seem not to have. We need a kind of civil discourse that we appear to be unable to have. While all of that is failing, the system is going sideways and down a bit because we’re not dealing with the things we have to deal with.

C. Austin Fitts: Right.

Eric Best: This would be in the heart of the matter the kind of conversations that leadership is going to generate.



C. Austin Fitts: Part of it is when you have a debt finance growth model, it's one group of leaders who can slap out government money. It's another group of leaders who can optimize resources. It's a very different thing.

In one sense you're going from a debt to equity model, so rather than having a group of people who are excellent at financial fraud, you might want some engineers.

Part of it is the leadership, but it's peculiar what you said about looking for someone who can fix it because we've been centralizing the economy. If we're going to rebuild it, we need to rebuild it on a decentralized basis, which gets down to me, my family, my community, and how the cash flows work here, which is very different from how the cash flows work there. Instead, we're all running around looking at a campaign where we have two people saying, "I'm the guy who can fix it."

Eric Best: Let me ask you something. Let's say that God, who knows everything, is a much meaner God than we thought. He holds a gun to your head and says, "Okay, Catherine. I'm going to ask you a question. You get it wrong, and I'm pulling the trigger."

You say, "Really? What's the question?"

"My question is: Do you think the system that you're describing can reform without a crisis of magnitude? Yes or no?"



C. Austin Fitts: No.

Eric Best: I agree with you. It's a very unsettling thing to say because we don't know how far down is down or how bad is bad. Referring to Japan, in 1997 there was a brilliant economist for Morgan Stanley in Japan named Robert Feldman who was very highly respected. He described something called the CRIC cycle. Now I can't remember what CRIC altogether stood for, but the concept was that we have a crisis, we have some reform, and then slip back and have another crisis. You could draw a loopy line going sideways – up as we reform, sideways, a crisis we go down, and now we try to change again. But we can never get out of that loopy, sideways movement because the crisis is never enough, and the response to the crisis is never the right answer because we can't seem to come up with it.

I think that is a troubling possibility that is going to keep occurring; the monetization is going to keep happening. It's not clear what the results will be. The reform is not going to happen. The central banks don't know what they're doing. There is a very crowded trade, and US Treasuries and certain parts of the bond market are detached from fundamentals. The asset prices are increasing because of the monetization that has been going on, and there is a big bang out there somewhere. When is it? I don't know. What form does it take? I don't know. What should I do? I'm not sure.

C. Austin Fitts: Right.



Eric Best: That's why I do scenarios because that is the best that you can do.

C. Austin Fitts: Let me ask you a tough question: The challenge of doing great scenario design in this environment is getting everybody together. Is it feasible to do this online? Is it possible to do some process where it can be done through Skype or online mechanisms?

Eric Best: Maybe. I'm sure something of value can occur in that medium, and I'm sure there are people doing things in that medium, which they think, has value, but I don't believe in it. I think that human beings in the presence of one another as face-to-face provides opposed to the broadband communication, and, however, the universe works (and I don't know how it works), are we a function of the frequency of which light is transmitted into our bodies and our consciousness? I don't know. I'm not trying to get mystical here; I'm saying that what I believe is that people in a room together is the only way to do it to bring that collective intelligence and intuition and humanity and voice and sight and tone of voice and all of that together as you do in orchestras to try to produce music that is harmonious and follows a line, although it's much more that the orchestra is creating the music that it's playing.

I don't know if you had a right answer to your question, but my answer would be that you could do preparatory things online, but you've got to get into the room together.



C. Austin Fitts: Right. That has been my experience.

Eric Best, it has been a real pleasure to have you on The Solari Report.

Eric Best: Thank you very much.

C. Austin Fitts: Everyone is constantly reminded to read the book *The Evolution of Cooperation* by Robert Axelrod. I have to emphasize that you are the person who put me onto it.

Eric Best: Thank you. I appreciate that. I greatly admire and rely on that book and its ideas. I'm glad that you found it so valuable. And thank you very much. It's been great talking to you, and I hope this is helpful. I hope that at least one listener out there got something that they can use and use it.

C. Austin Fitts: Give us one minute and explain how we can connect with you. How do we find your website? If someone wants to talk with you further, how do they do so?

Eric Best: The website is www.EricBestOnline.com. You'll find things to look at and read. Some of them are older than others – probably too old. Otherwise call me at 845-225-5030. Or you can send me an email at Eric@EricBestOnline.com. I'm also on LinkedIn, but I really prefer the email or phone channel. I suppose if you wanted to send me a text, my cell phone is 516-712-7817.



If, with all of that, you can't find me, it's because you didn't want to.

C. Austin Fitts: For those of you who need your service and can afford it, I will say this: You come with my highest recommendation. We haven't worked together for many years, but there is nobody better at this. It's an invaluable process, and I think they will be very pleased.

Eric Best: I thank you for that very much, Catherine. I appreciate it.

C. Austin Fitts: You have a great day, Eric. Goodbye.

MODIFICATION

Transcripts are not always verbatim. Modifications are sometimes made to improve clarity, usefulness and readability, while staying true to the original intent.

DISCLAIMER

Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.