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## Being Stupid is so Over

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Americans have long associated business success with superior intelligence, but this understandable inference misses the role of risk-taking, which often is driven by inferior intelligence, otherwise known as stupidity. For the lucky, extreme risk can lead to rewards, as stupid bets pay off against the odds.

Investors and entrepreneurs in the years following World War II were extremely lucky. No clever foresight could have predicted the steady economic expansion that drove wealth creation from the 1950s to the 1970s. Those who owned or started American businesses went on a high speed ride up the economic ladder without ever needing to make a truly quality decision or a hard choice.

From those whose parents or grandparents ran modest businesses to those who embarked on new enterprises, wealth came easily, and stupidity often played a useful role by enabling big unjustifiable bets on expanding markets, eager consumers and new products and services.

Retailers of dinette furniture sets for suburban homes, builders of speculative office buildings and proprietors of humble hamburger joints all made fortunes where intelligence might have suggested a more cautionary approach. We celebrate these American risk takers as entrepreneurial heroes without recognizing that luck and, yes, often the stupidity that such luck depended upon, likely played a role.

Stupid is so over now. Stupid worked during this era of generally steady upward expansion that drove buyers, tenants, clients and consumers. That world is now history. Growth in the developed world has slowed to a point that macro economic expansion is no longer a meaningful factor in business activity. Growth in developing markets is inherently unstable. Today, stupid risks will more likely end in tears, not riches.

While intelligence does not lead to prescience, a well-informed worldview and a thoughtful approach can help drive quality investment decisions: a focus on mega-trends, an analysis of basic consumer needs and a critique of imbalances in the delivery of these goods and services. In short, basic market research and analytical thought.

What are the intelligent investment sectors? Anyone who is conscious knows that technology of one sort or another is disrupting established business models as app designers see existing industry sectors as so much white space ripe for change. Tech had its stupid cycle of fake companies leading to the dotcom bust. Post bust, smart led the way, with real businesses; but beware of an emerging crop of smart players with fake companies seeking stupid investors.

Assuming you understand the space, there are countless smart plays in the tech space from large cap—the largest—to angel investing. But you better know what you are doing because the disrupting can quickly become the disrupted, with little remaining value left for even the bankruptcy courts to slice up.

Where else? Some things will never change, like the need for potable water, modes to move people and goods across distances, electricity to power industry and urban life, means of communication. Investing in these basic services is not mindless. Population patterns shift and technology will disrupt even these cement and steel based systems, with newer water purification systems, better electric cars and battery storage breakthroughs, among others.

Yet fundamental drivers of need remain, and certain basic demographic trends are predictable, such as the aging of the baby boomers in the United States. It's not a crazy bet that there will be a need for more senior services over the coming decades, including senior housing and skilled nursing. Similarly, it's a decent bet that the megatrend of urbanization, most notable in China and Africa but also driving change in the United States and elsewhere, will continue increasing demand for urban mass transit and new airports facilities.

Urbanization appears to be also driving a global demand for higher education services, as the jobs of the urban core require more education than the jobs of the agricultural expanses and distributed manufacturing corridors. For now, US programs appear to be in particular favor. While the ed sector is itself in the scopes of the tech folks, so the exact texture of these programs are likely to become less brick and mortar, the overall trends still appear to be upward.

Investment in these basic services will not likely result in the steady upward growth that investment in almost anything in post World War II America yielded, but then almost nothing will. Economic cycles still impact the demand and for even basic infrastructure services. But while not uncorrelated, these industries are still less correlated to the overall markets, and it is absolutely possible to pick spots where investment can be made for both lasting value and meaningful, though perhaps more modest, returns.

In a classic case of stupid, post WWII investors bought stock in BarChris, a company that was serving the growing American craze for bowling alleys in the 1950s. But by 1968, stupid bit back early, and the company went bankrupt. The ensuing litigation led to the establishment of long standing precedents about securities risk disclosure. If instead of betting on an ever expanding market for bowling alleys in post-war America, those same investor had bought a portfolio of shares of boring American civil engineering firms specializing in road construction and water treatment, many of those companies would have merged into the infrastructure giants of today and the stock would have attained premium share pricing.

Not all smart investments are necessarily boring, but in a long-term slower growth economy, save a few outliers, investing itself may be boring. And that's not necessarily a bad thing.