



**HEYÓKHA  
BROTHERS**



### **Don't Be Panda**

Knowledge is learning something every day. Wisdom is letting go of something every day.

-Zen Proverb-

**3Q 2019**

## Heyokha's Chess Pieces

<b>Don't Be Panda.....</b>	<b>1</b>
<b>Becoming the chess player instead of the chess piece .....</b>	<b>1</b>
<b>Investors are overwhelmed by various issues that reach a tipping point .....</b>	<b>3</b>
Central Banks rendered toothless .....	3
Rising inequality in wealth and income feeds a sentiment to reverse the trend .....	4
Technological advances have driven record-speed disruption of incumbent market leaders .....	5
Geopolitical rivalry has put an end to globalisation, shaking up existing supply chains .....	6
Demographic change will have profound impacts in the years to come .....	7
Calls for environmental action to conflict with vested interests .....	8
<b>See, anticipate, adapt - keys to regain control and thrive in a fast-changing world.....</b>	<b>11</b>
Change in attitude: from knowing to learning.....	11
Change in focus: go beyond your expertise.....	13
Change in allocation: don't just bet on horses.....	14
<b>Appendix I: Portrait of a Super Forecaster .....</b>	<b>17</b>
<b>Appendix II: On the ground: co-working and co-living spaces in Indonesia.....</b>	<b>18</b>

## Don't Be Panda

### Becoming the chess player instead of the chess piece

We are at a critical juncture, where economic and political systems can be overturned. This report is about what is at play and how investors can position themselves to let change be a source of opportunity, instead of a threat.

In our pursuit of personal growth, Heyokha team recently attended Tony Robbins' Business Mastery class and Unleash The Power Within. The program teaches how to elevate your business to the next level. We now understand why so many entrepreneurs are willing to invest their time and money to attend the program. It is simply life changing.

One straightforward and important concept emphasised during the program is this: anticipation is power. Being able to assess where your business is, where it is going, and being able to spot trends that could get you into trouble are paramount to any business.

To quote Mr Robbins: "Leaders anticipate change while the losers are left reacting to it."

Mastering the ability to anticipate crisis and change would be crucial for entrepreneurs to run a business these days. Such ability could give you a necessary edge. As for investment managers and investors in general, it is even more important - as they are in the business of forecasting. The fact is the various socio-economic issues are reaching a tipping point and could potentially have a profound impact on investment outcomes.



*Heyokha team attended Tony Robbins' Unleash The Power Within*

In this report, we are highlighting some of the extreme forces that are currently at work in the world and cannot be ignored by investors. We then continue and suggest three changes investors could make and benefit from in order to regain control and become the chess player, instead of the chess piece. These involve change in attitude, focus, and allocation.

The issues we highlight are: Modern Monetary Theory, tech disruption, calls for closing the gaps between the have's and the have not's, deglobalisation, demographic change, and environmental action.

It seems to us that many governing institutions can no longer kick the can down the road, and they will be forced to act. These actions will hurt some people in their wallets. A fight about who will foot the bill is likely to follow, making investor outcomes highly dependent on political outcomes. In this political Game of Thrones, one thing is certain: change is coming.

Whether this change represents an opportunity or a threat to you will depend on both your ability to anticipate and your flexibility to adapt.

Of course, understanding the goal is one thing and reaching it is a completely different thing. To have a better grasp of the art of anticipation, we have been reading a lot on the subject. It turns out that foresight is real, and it has been scientifically proven to be more a matter of attitude than an inborn aptitude. It is about being flexible to change your beliefs, a commitment to continuous learning and aggregating various perspectives. An attitude and approach which intelligent mortals with grit should be perfectly able to embrace. And that must be a comforting thought.

Yet, when it comes to execution, flexibility goes beyond your mindset alone. It also concerns how you have set up your business or investment strategy. In these times, aiming for diversification is a safer bet than specialisation.

In this report, after discussing the key challenges for business and investment world, we continue with a note on the advantage of being a versatile generalist over being a specialist.

We hope that following the path of generalising specialist will allow us to acquire a sense of perspective on the extreme backdrop, and eventually to navigate it.

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**“It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change.”**

-Charles Darwin-

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## Investors are overwhelmed by the various issues that are reaching a tipping point and will impact their investment outcomes

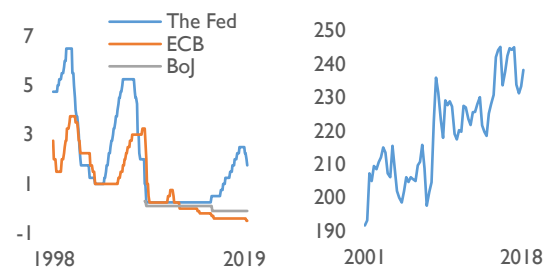
- I. With Central Banks rendered toothless, there is a call for even more unconventional measures and fiscal spending.

### Record-level debts in combination with ultra-low interest rates leave central banks with little ammo to counter the next recession

- The extreme level of interest rates and global debts implies a limited room for further easing through monetary policies.
- In the next economic downturn, central banks may have to call for unconventional measures, such as another round of quantitative easing or some economists even warm up the idea of MMT and People's quantitative easing (QE).

#### Extreme level for both interest rate and debt

Central banks' policy rate, % (left) and Global non-financial debt to GDP ratio, as a percentage (right)



Source: Bloomberg, Bank for International Settlement

### It means that fiscal policies are likely to have a bigger role in efforts to stimulate the economy, with some pundits and policymaker advocating Modern Monetary Policy (MMT)

- European Central Bank (ECB) President Mario Draghi stated that the Governing Council should be open to ideas such as MMT.
- Ray Dalio, Chairman of Bridgewater Associates, one of the world largest hedge fund mentioned that MMT is inevitable in a way that the US government may use zero interest rates to finance big government spending for more widespread growth.

#### Economics

#### Dalio Says Something Like MMT Is Coming, Whether We Like It Or Not

By Ben Holland  
September 23, 2019, 9:35 PM

#### Economics

#### Draghi Says ECB Should Examine New Ideas Like MMT

By Fergal O'Brien  
September 23, 2019, 9:35 PM GMT +7

Source: Bloomberg

### How the fiscal policies will take shape is largely dependent on upcoming elections and political choices made

- With about 30% of global bonds has negative rates, it is an open invitation for some politicians to expand the bureaucracy and their spending.
- The US Democratic presidential candidates gained tractions by proposing sweeping policies such as Medicare for All and free public college tuition, in which both lack a clear funding plan.

#### Vox.com

#### Elizabeth Warren has the biggest free college plan yet

 **Bernie Sanders**   
@BernieSanders

Ready to fight for Medicare for All.

 **Ariana Grande**   
@ArianaGrande  
baby how u feelin

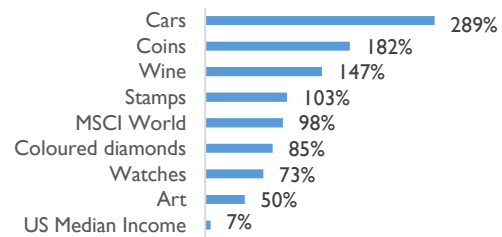
## 2. Rising inequality in wealth and income feeds a sentiment to reverse the trend

**Inequality in wealth has widened since the financial crisis and is widely attributed to low interest rates and balance sheet expansion by central banks**

- Quantitative easing and low interest have led to a surge in the assets owned by the top 1% of the population such as classic rare cars, world's top wine, arts, etc.
- According to Knight Frank Luxury Investment Index, luxury assets price performance significantly outperformed increase in median income, further amplifying the inequality.

**Luxury goods and stocks saw significant increase relative to median income**

10-year return Knight Frank Luxury Investment Index by asset class, MSCI world index, and US median income



Source: Knight Frank, Bloomberg

**The question is how severe the backlash would be as some call for an era of wealth distribution**

- The US Democratic presidential candidates also take the stance to close the inequality gap by imposing wealth tax.
- UK labour party has committed to abolish all private schools if they win the next general election. They believe this will make the education system fairer through the "integration" of private schools.
- An article in The Economist<sup>1</sup> provided a more balanced picture regarding the "Billionaire issue". Based on their research, the vast majority of the US billionaires' wealth is earned fair and square, meanwhile only about a third of them earned by taking advantage of unfair competition - which the newspaper suggested the U.S. government to expose.



**Bernie Sanders** ✓  
@BernieSanders

Follow

There should be no billionaires. We are going to tax their extreme wealth and invest in working people.

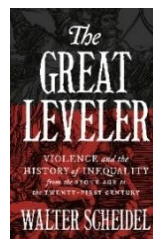
FINANCIAL TIMES

Labour Party UK

**Labour pledges to abolish private school after vote at conference**

**Historic precedents show that human violence has been the single most important means of levelling wealth and income inequality**

- According to Walter Scheidel, author of "The Great Leveler", the red line throughout history seems to be that the rich are not willingly handing over their privileges; hence, a shift in power balance (whether caused by conflict, organisation or pandemic) is required to enforce equality.



*"The only way high inequality has been flattened has been through catastrophe: disease, famine, world war, societal collapse or communist revolution".*

**-Walter Scheidel, The Great Leveler-**

<sup>1</sup> "The lives of the 0.0001%" The Economist. 9 November 2019. Retrieved from: <https://www.economist.com/finance-and-economics/2019/11/07/have-billionaires-accumulated-their-wealth-illegitimately>

## The recent riots emerging across the world could be a precursor to the conflict of inequality

- Major protests have recently occurred in Lebanon, Hong Kong, Chile, and Paris, where social inequality is considered to be one of the triggers.
- The question is: if such protests could arise in prosperous places like Chile or Hong Kong, could it arise in any place in the world where inequality is high?



Massive protests in Lebanon, Hong Kong, Paris, and Chile recently.

Source: WSJ, VoA, Aljazeera, Vox.com

## 3. Technological advances have driven record-speed disruption of incumbent market leaders

### Rapid pace of change in technological advances is unprecedented

- The speed at which firms can reach a large number of users is unprecedented, especially if the content is “very engaging” like in the case of Pornhub – which managed to acquire 50 million users in just 19 days.
- The rapid pace of change also applies to conventional business such as coffee shop. Luckin Coffee, launched in late 2017, now has out-numbered Starbucks outlets in China which opened their first one since 1999.

50 million users from 68 years to 19 days; adoption of new “technology” is substantially faster

Time taken for each product to gain 50 million users



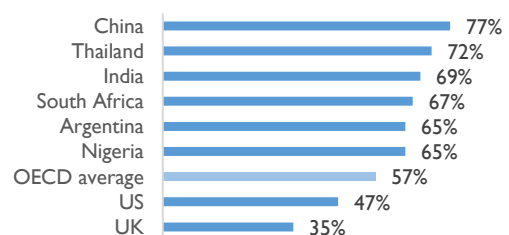
Source: Capitalogix

### 5G technology will accelerate the adoption of Industry 4.0 which could lead to loss of jobs

- Many pundits foresee 5G network to be the “game changer” of transitioning to fourth industrial revolution (Industry 4.0).
- Industry 4.0 employs machines whereby the entire production lines are connected to one system enabling automated decision making.
- This could lead to significant loss of jobs as less human capital is needed in manufacturing.

Automation poses a significant risk of job losses in both developed and developing countries

Percentage of jobs risk being replaced by automation varies by country



## Big tech firms have a monopolistic nature contributing to inequality, but this may be reversed potentially

- Almost 70% of global digital ad spending going to Google, Facebook, Amazon according to eMarketer
- The winners take all effect has consolidated markets, causing small business to suffer as the tech firms tilt the playing field against everyone else. This has funneled more money into fewer hands, further widening wealth inequality.
- The US Democratic presidential candidates plan to break up big tech firm monopoly to restore the balance of power.



Elizabeth Warren's Break Up Big Tech billboard sign in the US tech heartland, San Francisco

Source: Vox.com

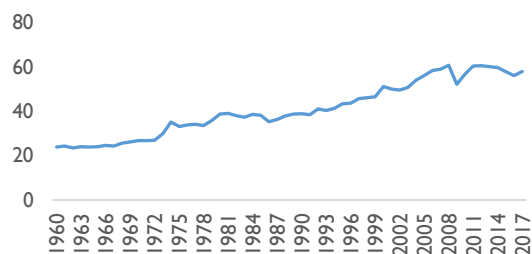
## 4. Geopolitical rivalry has put an end to globalisation, shaking up existing supply chains

### Deglobalisation could lead to disruption of the global supply chain.

- Post US-China trade war, the companies will have to break up its manufacturing base. Li & Fung CEO, Spencer Fung, stated that there is "no safe haven out there", so the diversification (of manufacturing base) is the only way to manage the risk.
- The consequence of fragmentation of production is higher initial costs and loss of scale efficiencies. On the other hand, Southeast Asia and other emerging market countries stand to benefit from manufacturing relocation from China.

### Has Global trade peaked?

Global Trade as % of Global GDP, in percentage



Source: World Bank

### Geopolitical rivalry is likely to stay regardless of the US 2020 election

- According to the recent poll, Trump is very likely to win the Republican nomination. In the democratic camp, the top candidates for the 2020 nomination are all trade hawks.
- Referring to our previous report, we expect the tension between US-China to be a structural issue.

### Statement from 2020 US Democratic Presidential candidate:

- Joe Biden: "We are in a competition with China. We need to get tough with China. They are a serious challenge to us, and in some areas a real threat."
- Bernie Sanders: "It's wrong to pretend that China isn't one of our major economic competitors."
- Elizabeth Warren: "China weaponized its economy without ever loosening its domestic political constraints"



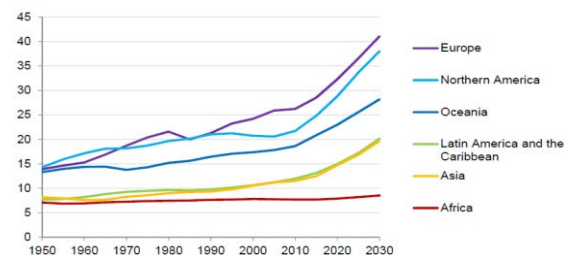
## 5. Demographic change will have profound impacts in the years to come

**Many countries show an aging population, causing problems related to pensions, healthcare and shortage of workers. The challenge is: who is going to foot the bill?**

- In the next fifteen years, the contribution to pension funds by the working-age population in Europe and North America may reach such proportions that two working people need to financially sustain a single retiree – enough reason to stir intergenerational conflict;
- In addition to negative interest rates and continuous rising healthcare cost, aging population may raise serious concerns about the sustainability of pension system.
- Case in point is the Netherlands where about 8 million Dutch (more than half of the population) may see cuts to their pensions next year. This trend may provide an early indication of a wider global pensions funding shortfall, as the Netherlands is widely considered to have one of the best funded pension systems in the world.

### Working age population to support more and more retirees

Old-age dependency ratio by region (1950-2030).



*Old age dependency ratio is calculated from population age 65+ dividend with population age 20-64.*

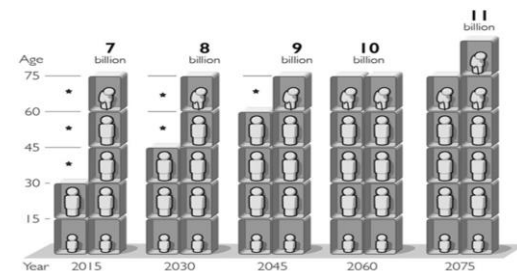
Source: United Nations

### World population growth not driven by more children, but by today's children growing old

- The implication to global economy will be profound since more than 80% of global GDP is generated by countries with rapidly ageing populations such as US, China, Japan, and major European countries.
- An ageing population may also lead to shortage of labour. The companies will need to rely more on robotics and shift production to Africa and some part of Asia.

### 2 out of 4 billion population increase by 2075, will be in the 60+ age group

Each figure is 1 billion people

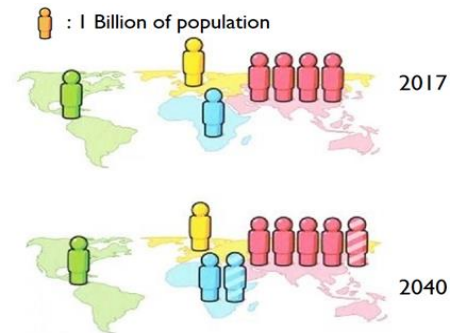


Source: Factfulness, based on data from United Nations

## International shifts in population may require businesses to revise their growth strategies accordingly

- Businesses and investors need to operate according fact-based data, need to understand that the world market of the future will be growing primarily in Asia and Africa.

### Most significant population growth to occur in Asia and Africa in the next few decades



Source: Factfulness based on data from United Nation

## 6. Calls for environmental action to conflict with vested interests

### Recent climate crisis protests in otherwise peaceful Netherlands exemplary of conflicts about who is to pay the price of environmental action

- A Dutch civil environmental action group called Urgenda took the Dutch government to court for failing to protect its citizens against the existential threat of climate change.
- As result of a court ruling earlier this year, the Netherlands became the first country to have a government legally obligated to act against climate change.
- This moved the government to formulate measures against the leading causes of nitrogen pollution, such as shelving some of the 18,000 building projects around the country and halving the nation's livestock.
- Construction workers and farmers, feeling they are being unfairly blamed for a problem caused by the whole Dutch society have been organising protests ever since. The finger- pointing has begun...



*Angry Dutch farmers stage tractor protest against anti climate change measures.*

Source: NPR.org



*Dutch construction workers gather for a demonstration against new environmental rules.*

Source: Phys.org



### Environmental activist Greta Thunberg turned into a celebrity in less than a year, inspiring many to take action

- First known in August 2018 when she did school strike for climate in front of Sweden's Parliament. Since then, Greta has already given speeches in many upscale forums, won several awards, appeared on the 2019 Time's 100 most influential people, and has been nominated to 2019 Nobel Peace Prize.
- Whether we like it or not, Greta Thunberg gained rapid popularity with her blunt speech to the political leaders addressing people's dissatisfaction towards lack of climate action in general.



*Sixteen years old environmental activist, Greta Thunberg, gave a speech at Davos*

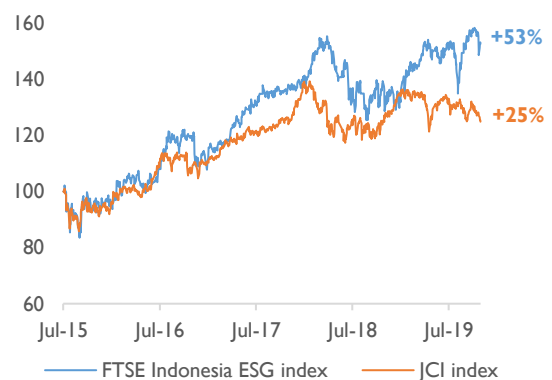
Source: CNN

### Calls for environmental action are also represented in the trend of sustainable investing

- Demand for shares in companies upholding Environmental, Society and Governance (ESG) or B-Corp standards has gained strong traction. This has led to more and more companies prioritising these standards over shareholder returns.
- In Europe, funds that adopts sustainable investing approach accounts for around 48% of total managed assets in 2018. Sustainable investing is investing approach that looks at a company's environmental, social, and corporate governance (ESG) practice.
- The return of the ESG index outperforms the main stock index. The gap is more obvious in countries like Indonesia given only few companies implement ESG.

#### The Indonesia ESG index has outperformed the nation's main stock index significantly

FTSE Indonesia ESG Index vs. Jakarta Composite index, base 100



Source: Bloomberg



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**Central banks and IMF consider integrating climate risks into their surveillance work, so investors may consider doing the same**

- The newly appointed Managing Director of the IMF, Kristalina Georgieva, has called on central bankers to act on climate change and announced that the IMF “is gearing up very rapidly to integrate climate risks into our surveillance work”.
- While the debate is still ongoing and central bankers are unsure about how climate change related policies fit their mandate, central banks agree that climate change need to be considered in their policies, and that the private sector should be prepared for climate change shocks.
- The indirect climate change shocks could result from climate policies that can create “stranded” or worthless assets on investor balance sheets – with Ms Georgieva mentioning “there are at least \$12tn of high carbon-emitting assets that could be stranded assets”.







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## See, anticipate, adapt - keys to regain control and thrive in a fast-changing world

The previous section of this report stresses that we are at a critical juncture where economic and political systems can be overturned. How things play out in the coming years will be heavily dependent on political outcomes.

We also established that anticipation is key in realising successful outcomes in business and investing. In this section we argue that for investors to maximise their ability to anticipate and position themselves for investment success, three changes should be considered:

1. Change in attitude – from knowing to learning;
2. Change in focus – reach beyond your area of expertise;
3. Change in allocation – bet on more than only horses.

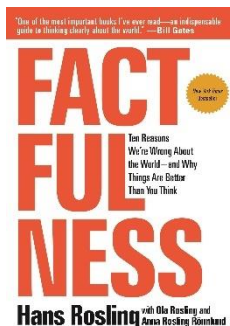
We explain in more detail below.

### 1. Change in attitude: from knowing to learning

#### Most of us are surprisingly wrong about the world

In order to anticipate, we must first be able to “see”. We must have a correct world view in order to make a judgment about where the world is headed. Unfortunately, this is where most of us already go wrong.

**We are wrong!** This, we found out while reading the eye-opening book *Factfulness*, in which author Hans Rosling exposes that when we are asked simple questions about global trends e.g., “where does the majority of the world population live?”, we systematically get the answers wrong.

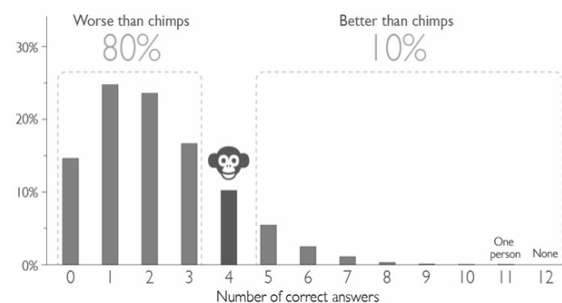


So wrong that chimps choosing answers at random would consistently outguess teachers, journalists, Nobel laureates, and investment bankers.

In particular: 12 multiple-choice questions with three options were asked to around 12,000 people in 14 countries. The results? About 80% scored worse than chimps would have. Only 10% scored better.

#### Only 10% answered better than the chimps

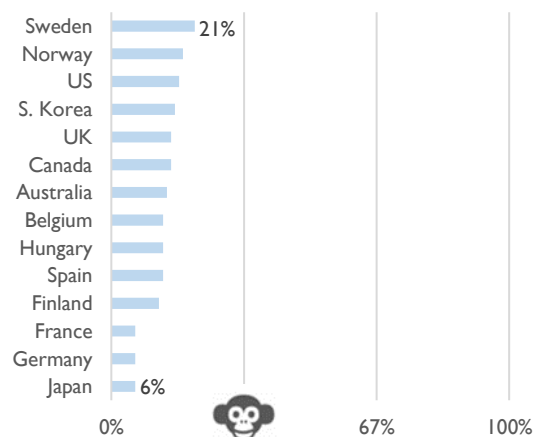
Share of people by number of correct answers on the twelve questions (12,000 people in 14 countries)



Source: Factfulness

#### People beaten by chimps in questions like this:

% correct answers by country (3-answer multiple choice)



*Question asked: how many of the world's one-year old children today have been vaccinated against some disease? (correct answer: 80%).*

Source: Factfulness

Rosling writes that most people think they are getting it kind of right - until they get tested (click [here](#) to test yourself). However, the contrary is true. In respect of some matters, it even seems that



*the more educated you are, the more ignorant you are.*

**Why?** Rosling points to 10 human instincts (like fear and generalisation) that impact our “information filter” and judgement to explain why we are so ignorant.

At the same time, the media is exacerbating matters by painting a distorted and dramatised picture as their coverage is dominated by the negative and the exceptional. As such, positive changes don’t find you. You need to find them (in statistics or by traveling, for example).

**To see the world as it is, we need to refresh our knowledge more regularly and change our attitude**

Rosling closes his book with some suggestions to obtain a more fact-based world view which have much to do with our attitude:

- be **humble** enough to recognise that (1) knowledge does not have an unlimited shelf-life and needs to be updated regularly, (2) our instincts impact our information filter and judgement, (3) we should be prepared to change our opinion, and
- be **curious** enough to (1) be open to new information and actively seek it out, (2) embrace facts that do not fit our world view and (3) let our mistakes trigger curiosity instead of embarrassment.

These attitude requirements turn out to be very similar to what it takes to be awesome at anticipation. We will show this below.

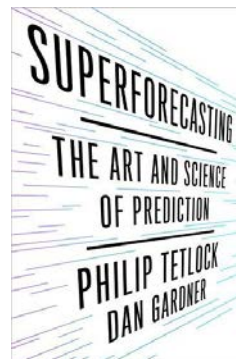
**Investors can improve their forecasting skills by being *actively* openminded and committed to self-improvement**

What makes a better forecaster of future events? Well, if somebody can answer that question, it is Professor Philip Tetlock of the University of Pennsylvania.

Tetlock co-created The Good Judgement Project (GJP) which participated in a forecasting tourna-

ment held by IARPA, a U.S. government organisation.

IARPA supports research that has the potential to revolutionise intelligence analysis. The GJP won the tournament and its forecasters were 30% better than intelligence officers with access to classified info.



In his book “*Superforecasting: the art and science of prediction*”, he describes the portrait and methods of those top forecasters.

Besides concluding that foresight is real, Tetlock found that the key to forecasting is not *what* we think, but *how* we think:

- Foresight demands thinking that is open-minded, careful, curious, and—above all—self-critical;
- Good forecasters show a high degree of *active open-mindedness*, meaning that they are not merely open to reasons why a favoured possibility might be wrong but also actively look for them;
- The strongest predictor of rising into the ranks of forecasters is the degree to which one is committed to belief updating and self-improvement<sup>2</sup>.

Factors most associated with foresight
1. Belief updating
2. Intelligence
3. Knowledge
4. Deliberation time
5. Actively open minded
6. Teams
7. Training

Interestingly, Tetlock also noted in an earlier study that “*subject matter expertise does not give a big boost to performance*” and that “*we reach the point of diminishing marginal predictive returns for knowledge disconcertingly quickly*”.

<sup>2</sup> See appendix for a complete portrait of a Superforecaster, as described by Tetlock in his book Superforecasting.



Tetlock also found that generalists beat specialists in predictions<sup>3</sup>. That is because generalists more willing to update their beliefs and because they aggregate many perspectives. Which brings us to the topic of breadth.

## 2. Go beyond your expertise: breadth support insights that cannot be attributed to domain-specific expertise alone

We recently came across the fascinating book “Range: Why Generalists Triumph in a Specialised World”, in which author David Epstein challenges the prevalent idea that narrow specialisation is the key to success.

Instead, he argues that generalists are more adaptable and more likely to notice productive connections. In the fast-changing and complex world we face today, these are key advantages. We list some examples highlighted in the book below:

- Andy Ouderkirk, an inventor at the multinational company 3M, found out that the inventors most likely to succeed within the company were polymaths - people with one area of depth, but a great deal of expertise in other areas as well.
- Other research found that Nobel laureates are 22 times more likely to be an amateur actor, magician, dancer, or another performer – as compared to other scientists. In general, those who did not make a creative contribution to their field lacked aesthetic interests outside their narrow area.
- In 2009, NASA posted a research challenge to predict solar storms through a platform called InnoCentive. NASA had been working on the problem for the past 30 years, without satisfying results. Yet, within six months, Bruce Cragin, an engineer retired from Sprint Nextel, who lived in rural New Hampshire, solved the challenge.

- As psychologist and prominent creativity researcher Dean Keith Simonton observed, “*rather than obsessively focus[ing] on a narrow topic,*” creative achievers tend to have broad interests. “*This breadth often supports insights that cannot be attributed to domain-specific expertise alone.*”
- And of course, Steve Jobs recounted the importance of calligraphy class to his design aesthetics in his famous Stanford speech, saying that if he “never dropped in on that single course in college, the Mac would have never had multiple typefaces or proportionally spaced fonts.” Steve Jobs’ success story is the triumph of the generalist.



*The only thing worse than being blind is having sight but no vision.*

CartoonStock.com

### What does this mean for investors?

Our interpretation of the above is that investors can benefit from shifting their focus from narrow to broad so that they can obtain more insights and keep track of the bigger picture.

This seems to be contrary to the typical life of a financial analyst, which typically follows a business school-CFA-CPA route, followed by specific sector or geographical dedication. We wonder if this narrow specialisation would be enough for investors to rely on in the current environment.

For example, in our experience here in Indonesia, many financial analysts failed to see or acknowledge the impact that online retailers would have on

<sup>3</sup> Tetlock distinguishes two groups by their cognitive style, which are “foxes” (thinkers who take into account many ideas) and “hedgehogs” (pundits who have one Big Idea they believe solves everything, e.g., “lower taxes!”). We referred to the foxes as generalists and the hedgehogs as specialists. Ironically, the latter are more likely to be given their own TV shows—and also to be flat-out wrong.



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traditional retailers. Yet, when looking at trends abroad – even in the same sector – they should have been able to see some of the ongoing shifts.

Of course, with hindsight everything is clear, and it is easy to bash inaccurate predictions. Nonetheless, what we mean to say is that seeing the bigger trend was probably more important than knowing all the specific details of each Indonesian retailer.

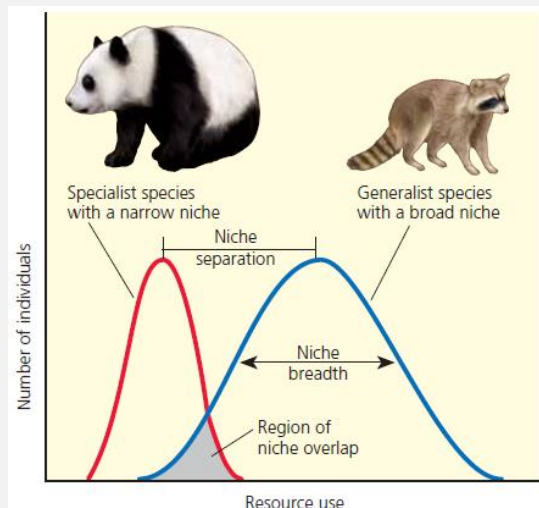
In short: given the proven importance of (1) aggregating perspectives, (2) insights from breadth of expertise and experience, and (3) marginal diminishing returns of subject matter expertise; we are convinced that investors can benefit from broadening their knowledge beyond their expertise.

In other words, investors can benefit from becoming a generalising specialist.

### Kung Fu Panda vs Rocket Raccoon: in a changing environment generalist species thrive better than specialist species

From: Essentials of Ecology, 5e, G. Tyler Millers and Scott E. Spoolman. (Brooks/Cole)

Scientists use the niches (pattern of living) of species to classify them broadly as generalists or specialists.

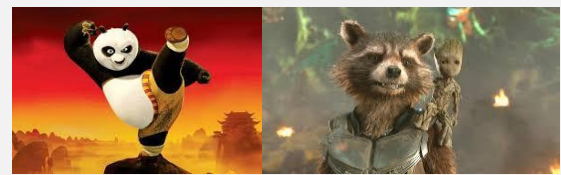


Generalist species have broad niches. They can live in many different places, eat a variety of foods, and often tolerate a wide range of environmental conditions. For example, mice, rats, and raccoons are generalist species. In contrast, specialist species occupy narrow niches. They may be able to live in

only one type of habitat, use one or a few types of food, or tolerate a narrow range of climatic and other environmental conditions. This makes specialists more prone to extinction when environmental conditions change.

For example, tiger salamanders breed only in fishless ponds where their larvae will not be eaten. China's giant panda is highly endangered because of a combination of habitat loss, low birth rate, and its specialised diet consisting mostly of bamboo.

Is it better to be a generalist or a specialist? It depends. When environmental conditions are fairly constant, as in a tropical rain forest, specialists have an advantage because they have fewer competitors. However, **under rapidly changing environmental conditions, the generalist usually is better off than the specialist.**



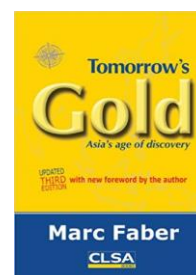
*Double trouble: not only does Kung Fu panda Po belong to a specialist species at the brink of extinction, he is also a fanatic follower of a closed-minded martial art doctrine. Rocket Raccoon on the other hand is a fine example of a generalist survivor. The message? Don't be like Po...*

Source: Kapanlagi.com, Greenscene.co.id

### 3. Change in allocation – don't just bet on horses

**First of all, shall we stay invested? The answer: Yes!**

That would be a natural question after reading about the trends highlighted in this report. Should we run for the hills or stay invested?



One investment book that we think investors should read is "Tomorrow's Gold" by Marc Faber. First published in 2002, the book correctly predicted the arrival of the major bull market in commodity in the decade that followed.

Indeed, with a lot of ups and downs, including the major correction during Lehman crisis and big leg up in the subsequent years.





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In one chapter of the book, Faber mentioned the huge pool of money sloshing around the world looking for investment destinations. Thanks to balance sheet expansion by central banks globally, this pool of money has only grown much bigger.

This pool of money will flow somewhere and lead to a bull market in some asset classes. To understand this process better, Faber used the following analogy:

*“Visualise a gigantic flat bowl, perched on a very large bamboo tower on top of the earth. At its base, the tower is surrounded by investors. A continuous supply of fresh water (=money) flows into the bowl from a huge tap controlled by the world’s central bankers. [...] The cash would overflow the bowl evenly unto the earth – economies around the world would expand and all asset classes would appreciate at about the same rate.*

*However, the bowl – being so large and perched on such a flexible tower – is unstable and will lean according pressure exerted on the tower by the investors below. [...] The direction of the overflow will depend on the bias of the investors. “*

His point is this: as long as the bowl is supplied from the central bankers’ tap, and as long as the tower is buffeted, there will always be assets that appreciate while others lose momentum.

Under the present monetary system, including the arrival of MMT that keeps the money flowing, **there will always be major investment themes.**

**“I know what markets are going to do over a long period of time: They’re going to go up. But in terms of what’s going to happen in a day or a week or a month or a year even, I’ve never felt that I knew it and I’ve never felt that was important”**

-Warren Buffet-

The challenge is to find these themes. Therefore, investors need to look beyond their trenches.

### How to invest? Diversify while maintaining flexibility

Just as generalist species are better able to adapt to sudden changes in their environment due to their diversified diet, we figure that generalist investors with a diversified investment diet should also be better positioned to adapt and thrive in the current socio-economic climate - as compared to their specialised counterparts.

For us, this means that diversification is now more important than ever. Second key success factor – in our opinion – is flexibility. The flexibility to move “habitats”, i.e., update your investment strategy if it is no longer working.

For example, when looking at the returns of various major stock markets, it turns out that – in the aggregate -only investors in US and Japanese stocks made any decent returns. Investors who limited themselves to investing in their domestic markets may have been at a significant disadvantage.

#### Almost flat return across the world except in the US and Japan

Return of MSCI indices across the world since the peak of the market in year 2007 and 2014, %

Total return since	2007		2014	
	-25%	110%	-10%	60%
MSCI US		107%		55%
MSCI Japan		10%		20%
MSCI Asean		7%		
MSCI Asia ex Japan		4%		7%
MSCI World ex US	(14%)			0%
MSCI Emerging Market	(16%)		(3%)	
MSCI Europe	(23%)		(2%)	

Source: Bloomberg

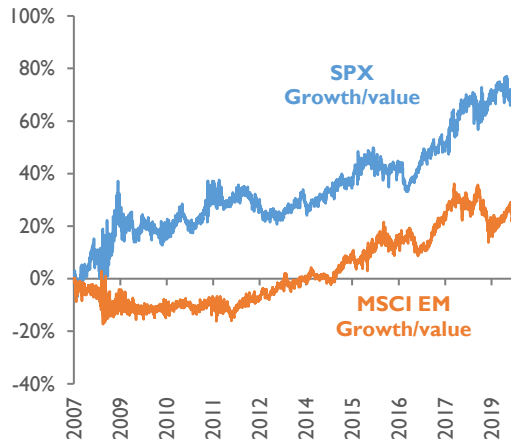
Another example is the divergent performance of investment styles. In the U.S., if you invested in the S&P growth index per year-end 2007, you would have outperformed the S&P value index with 64% by November 2019. And this is not just a U.S. phenomenon. The EM Growth index also outperformed the EM Value index by 25% over the same period.



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### **Growth stocks have been outperforming value stocks for more than a decade**

S&P 500 Growth Index return relative to S&P Growth Value Index and MSCI Emerging Market Growth Index return relative to MSCI Emerging Market Value Index



Source: Bloomberg

In emerging markets, where liquidity is usually much lower, the divergence of valuation can look even more extreme. In some cases, we even see good businesses trading at negative enterprise value for an extended period of time.

In other words, if you were “just” a value investor – which was the holy grail of investing - you would have likely underperformed significantly. The same applies if you were an emerging market listed equity investor. Therefore, having the flexibility to switch course is paramount.

We at Heyokha will continue to spread our exposure across multiple countries, industries, and asset classes – guided by our view on the bigger picture. At the same time, we stay true to our selective nature and only invest in those securities in which we have conviction.

Our investment approach will therefore be concentrated in opportunities yet diversified across asset classes and markets.

### **Wrapping it up**

Considering the current environment and what we learned from reading books like *Factfulness*, *Superforecasting*, and *Range*, we find it fascinating how the following words of Bruce Lee are so applicable to contemporary investing:

- Research your own experience
- Adapt what is useful
- Reject what is useless
- Add what is specifically your own

We conclude: the best investment style is no style.

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**To improve is to change; to be perfect is to change often.**

-Winston Churchill-

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[Enjoy reading our reports? Check out our website for more!](#)

**-The End-**

## Portrait of a Super Forecaster

The following is quoted from the book “*Superforecasting: the art and science of prediction*”, by Philip E. Tetlock and Dan Garder. Emphasis in the last paragraph is ours.

*“We have learned a lot about superforecasters, from their lives to their test scores to their work habits. Taking stock, we can now sketch a rough composite portrait of the modal superforecaster.*

*In philosophic outlook, they tend to be:*

- **CAUTIOUS:** Nothing is certain
- **HUMBLE:** Reality is infinitely complex
- **NONDETERMINISTIC:** What happens is not meant to be and does not have to happen

*In their abilities and thinking styles, they tend to be:*

- **ACTIVELY OPEN-MINDED:** Beliefs are hypotheses to be tested, not treasures to be protected
- **INTELLIGENT AND KNOWLEDGE-ABLE, WITH A “NEED FOR COGNITION”:** Intellectually curious, enjoy puzzles and mental challenges
- **REFLECTIVE:** Introspective and self-critical
- **NUMERATE:** Comfortable with numbers

*In their methods of forecasting they tend to be:*

- **PRAGMATIC:** Not wedded to any idea or agenda

- **ANALYTICAL:** Capable of stepping back from the tip-of-your-nose perspective and considering other views
- **DRAGONFLY-EYED:** Value diverse views and synthesise them into their own
- **PROBABILISTIC:** Judge using many grades of maybe
- **THOUGHTFUL UPDATERS:** When facts change, they change their minds
- **GOOD INTUITIVE PSYCHOLOGISTS:** Aware of the value of checking thinking for cognitive and emotional biases

*In their work ethic, they tend to have:*

- **A GROWTH MINDSET:** Believe it's possible to get better
- **GRIT:** Determined to keep at it however long it takes

*I paint with a broad brush here. Not every attribute is equally important. **The strongest predictor of rising into the ranks of superforecasters is perpetual beta, the degree to which one is committed to belief updating and self-improvement.** It is roughly three times as powerful a predictor as its closest rival, intelligence. To paraphrase Thomas Edison, superforecasting appears to be roughly 75% perspiration, 25% inspiration.”*

## On the ground: co-working and co-living spaces in Indonesia

After the failure of the WeWork IPO, people suddenly felt confident to bash the company's cofounder, Adam Neumann, along with the co-working-space business model in general. Yet, with such impressive event, it is important for investors to not "throw the baby out with the bathwater".

Ahead of the failed WeWork IPO, Heyokha team put boots on the ground to gain first-hand experience with co-working spaces in Bali. At the risk of our work sounding like post hoc reasoning, we present our original story below.

In June 2019, we were attending an investment conference in Bali. This time, we came up with the idea that, since life is too short, we should probably try a different kind of accommodation. After giving it a thought, we eventually found a promising experience: trying some of Bali's co-living and co-working spaces.

We learned that Bali, in addition to being one of the most enchanting holiday destinations, has also been transforming itself gradually into a promising creative hub for entrepreneurs from all corners of the world.

Perhaps healthy exposure to sun and sea, plus the gorgeous rice fields have awakened the innovative spirits of many to try doing things differently. This combo of beauty and creativity has been attracting digital nomads and investors alike, perhaps in chasing the dream of paradise.

So, armed with a short-list of co-working spaces to visit - and a booking at a co-living accommodation - we headed for Bali.

In the future, as an investor, we could be more actively looking at start-up opportunities in Bali. This is the first stage of our study about the start-up opportunity in Bali.

Here are our findings.

### Co-working in Indonesia

The first co-working space in Indonesia was Hackerspace Bandung that was established by Forum Web Anak Bandung (FOWAB) in 2010. Since then, along with the mushrooming start-ups,

we have seen co-working spaces blossom in many cities.

More recently, the explosive growth of co-working spaces is evident in Indonesia. According to our conversation with Indonesian property consulting company Leads Property Services, out of the 100,000sqm office space deals that they dealt with last year, a staggering 50% are for co-working spaces.

And the rise of co-working spaces has not shown any sign of slowing down this year.

The main reasons behind the rising demand for co-working spaces are: the upsurge of freelancing (growing number of workers were able to choose freelancing as their primary source of income), the booming start-ups, changes in technology, and more established businesses tolerating co-working culture and flexible working to minimise their spending on square footage.

Also, many members in the co-working space value local and global networking opportunities. At least theoretically, working out of a co-working space allows members to access cheaper office rental and to bump into random people to spark creative ideas.

In terms of the tenant mix, co-working spaces allow freelancers - especially those in the creative and digital areas, start-ups, and smaller companies - to acquire a decent space that they normally can't afford.

In addition, co-working spaces are very attractive for companies who hire contract workers. For instance, it will be a good deal for oil and gas companies who are embarking on a 3-5yr project.

On the supply side, big co-working operators in Indonesia currently benefit from the weak office market, which allows them to secure long-term contract at attractive rates.

Overall, our property source suggested that a building drops in value when there is a co-working space operating inside - as co-working spaces currently offer unsustainably low rates. Yet, thanks to the dreary office market, landlords are still willing





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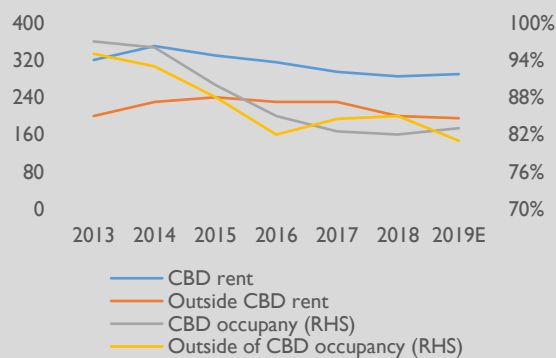
to rent out their vacant space as they are desperate to generate cash flow. Or at least to avoid their building from looking like a ghost town.

As for the question of whether these low rental rates paid by co-working spaces are sustainable, it largely depends on the supply-demand situation in the office market.

The data below suggests that office space occupancy is still very weak. This trend may translate into more landlords being tempted to join the bandwagon and convert their vacant property into co-working spaces.

### Co-working space could take advantage of the vacant office space

Jakarta's office space occupancy rate (%); Rental rate (IDR per sqm)



Source: Colliers Research

### VAS co-living and co-working, Seminyak, Bali

We spent our first day in VAS co-living. One room cost only Rp230k/night (US\$16) and considering that it includes a free co-working space, not to mention the strategic location in Seminyak, we figured that it is a great deal.



A subpar co-working and co-living space in Seminyak, Bali.

Awkwardly, the supposedly co-working space is not really a proper working space. It looks just like any common place in a hotel or villa. On that particular

evening, nobody was working out of that co-working space.

According to the caretaker, only the owner of the co-working space and his friends work there daily.

When we ask how much it costs to use the co-working space, her answer was “just buy a bottle of beer and you can work here all day”. That sounded like a great deal and we were delighted to take it.

Their website stated a Rp7.5mn (US\$524) monthly fee for co-living and co-working. But considering the response from the caretaker, we believe the price is negotiable.

As an aside, we also saw rental bikes offered by the GoWes start-up there. From what we learned, nobody rented the bikes as the rental price was rather steep. At Rp75k (US\$5.30) / day, rental scooters are more in demand.

### Bali Bustle (co-living and co-working), Kuta, Bali



A cosier co-working and co-living space with proper ergonomic chair, great facilities, and great view

On the second day, we decided to stay at another co-living/working space called Bali Bustle – which is strategically located in backpacker hotspot Kuta.

We had more luck this time. This place was much more “happening” as compared to the first one.

Room rates were very affordable. For a two-bedroom unit they charged IDR1mn (US\$70) per night. When renting for a full month, the rate is IDR 9.2mn (US\$ 650). Little extras such as a small kitchen made the stay more enjoyable.



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Also, those who stay at the Bali Bustle co-living space can access the co-working space for no extra charge. This means automatic access to ergonomic chairs and desks, meeting rooms, ping-pong table, lounge, café, and swimming pool.

And of course, networking opportunities, or at least someone to play ping pong with. We imagined that freelancers would enjoy staying here.

For those not staying in the Bali Bustle co-living space, the price tag is IDR 150k (US\$ 11) per day or IDR 2.2mn (US\$ 155) per month to get a desk and use the co-working facility. Still reasonable.

Most of the people who work there are from Russia and England. The majority is working in the creative field, in particular graphic design.

We saw people working late until midnight and seemingly in a hyper focused state. With the rapid growth of freelancing and the gig economy, as we mentioned in our 4Q 2018 report, this particular segment is expanding fast.

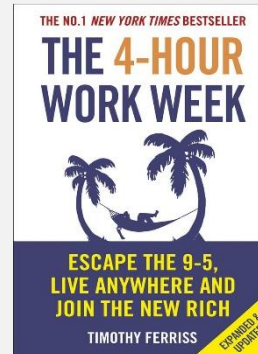
What makes it more interesting, is that there are regular events such as rooftop yoga, movie night, gatherings, and seminars, which provide good opportunities for freelancers to interact and network.

## Conclusion

We learned from our trip that the co-working business model seems to work in Bali. Independent operators such as the Bali Bustle are brimming with confidence.

Clearly, co-working (and co-living) spaces create a new market by catering to freelancers and digital nomads who cannot afford the bigger size and longer-term nature of traditional office spaces. Freelance work is booming, along with the explosion in the gig economy.

According to a survey by Daily Social in 2018, only about 13% of the co-working space members are entrepreneurs. The rest are creative workers. And Bali boasts a big digital nomad community, who is often seen in such a scurry in the island, looking for good Wi-Fi and great coffee.



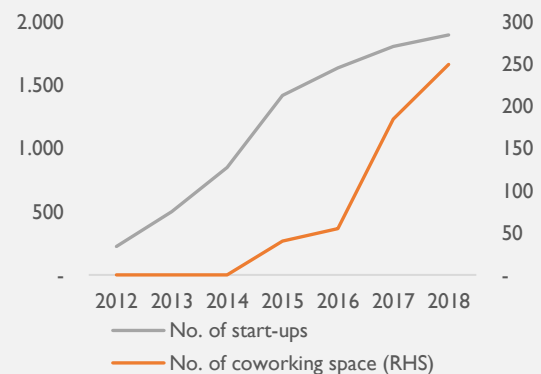
Books like “*The 4-hour Work Week, Escape the 9-5, Live Anywhere and Join the New rich*” by Tim Ferriss, 2007. Many of today’s freelancers are motivated by this beautiful book (some productivity enhancement suggestions are worth trying)?

However, there was something troubling. When we were looking for a co-working space in Bali, we found at least fifty of them.

From places that have become institutions like Hubud, Dojo, and Outpost to something that costs you “whatever you are willing to pay” like VAS. And location-wise, whether one is in Canggu, Kuta, or Ubud, there are co-working spaces to be found everywhere.

## No. of players in co-working space in Indonesia grow rapidly to capture the mushrooming no. of start-ups

No. of start-ups and coworking space players in Indonesia



Source: Indonesian co-working space association

And this wide availability of spaces is not just a Bali thing.

To us, the co-working space business model seems to have limited moat due to a low barrier to entry. Not for nothing there are so many around.

That is not to say that there can be no good co-working space businesses.

Perhaps some parallels can be found in the fitness industry. It is mostly a low barrier to entry market



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dominated by single location fitness centres - with some successful chains that offer the additional benefit of access to multiple locations, and a wider package of services, etc.

These fitness chains have usually proven themselves in being able to execute and attract customers. So, whether such company will be a good investment will primarily be driven by the price you pay for it.

We believe co-working spaces are here to stay. But, from an investment standpoint valuation still matters. Maybe if it feels and smells like an office rental business, it is an office rental business after all – and should be valued as such.