



Missive

AUGUST 9, 2022

The Mayor White Problem for Investors

Dear fellow investors,

While reading Jeff Nussbaum's new book *Undelivered*, I came across the story of Boston's Mayor Kevin White and the 1974 busing of Boston public school students. As a millennial, busing is something I have heard of and never had to experience personally. The story was very telling.

Busing was a theory pushed in the 1970s to fix the inequalities that were seen after the civil rights movements of the 1960s. White neighborhoods were white and black neighborhoods were black and unlikely to make in-roads between those communities. The theory was that if you would integrate the children these stark community contrasts would change. Let me highlight those ideas like open enrollment, where a child in Boston could enroll at whatever Boston public school he or she would like, was not the principal at hand. It was telling the child that they had to be bused to another community in this grand social experiment.

The city of Boston had experienced its first two days of court-mandated busing to integrate the city's schools the week prior. In the initial phase of busing, ordered by district court judge Arthur Garrity, white students would be bused from South Boston to integrate predominantly Black Roxbury, and Black students would make the opposite trip to integrate predominantly white South Boston. The first two days had not gone well; chaos ruled, several buses had been damaged, and six student and one police officer had been injured. Now the word on the street was that on Monday of the first full week of school (later that very morning), Boston's notorious Irish American Mullen Gang intended to co-opt a planned anti-busing march and get violent, potentially even trying to shoot and kill black students.

This was a very dark hour in the history of the city of Boston. Ideological lines ran everywhere. Caught in the middle of this storm were innocent children. Boston Mayor Kevin White had decisions to make. He couldn't violate a judge's order but hated the idea of forcing policies down on families. Investors may feel some of Mayor White's problems today.

The old proverb says that the road to hell is paved with good intentions. The same could be said of the predicament that Mayor White found himself in 1974. It is our opinion at Smead Capital Management that what has transpired via ESG mandates in the economy of the world is very similar. Ideological thinking has run amok in the allocation of capital. This has transpired from government edicts and will, a typical creator of a bubble. It is promoted by the promoters, who are another element of bubbles. Their love child is what we now refer to in the investment business as ESG.

Police officers and children being bused across town come with explicitly high costs. ESG is carrying the same problems. Andy Kessler's [article](#) *The Many Reasons ESG Is a Loser* touches on the typical symptom of the ideologues and the promoters, it comes at a higher cost.

Kessler wrote, "These days ESG is big business, with \$2.77 trillion in 'global sustainable fund assets.' The average expense ratio is 0.41%. And sure enough, apparently some funds aren't ESG enough." He goes on to say, "Fees on ESG Aware are 0.15%, or 15 basis points. BlackRock's plain-vanilla iShares Core S&P 500 ETF index fund charges only 3 basis points. That's right, BlackRock charges five times as much for juggling a few names and slapping ESG on the name. Capitalists indeed."

As was true in 1974, the intentions of busing were good, the integration of communities from stark to blended forms. However, the timeline and the means to reach that have proven inconclusive. As Nussbaum says in his work, "The legacy of busing is a complicated one and still being discussed in today's political debates." He continues:

White flight to suburban and parochial school accelerated. In 1972, 60 percent of the student in Boston Schools were white, 33 percent Black, 5 percent Hispanic, and 2 percent Asian. By 1993, 48 percent of Boston's students were Black, 23 percent were Hispanic, 19 percent White, and 9 percent were Asian. Put another way, Boston schools had gone from 60 percent white to 80 percent minority, ironically making schools more technically "segregated."

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What we take away from this is that the goal was never met. The danger to what is going on, not in our schools, but in our political debate and our capital markets, may be an unattainable goal. While we in America are not suffering at the same level as European countries are in the post-Ukrainian invasion, we should feel very blessed from prior policy decisions in our country.

The countries that have believed in the ideology of ESG the most and have allowed the promoters to be the most aggressive (even down to regulatory bodies and their rulings across the European continent) have only found misery in electricity prices, gasoline prices and the costs to their economies from higher oil and gas prices for political security. Looking at the results today, you would assume that these policy prescriptions would be quickly corrected. This is foolish to believe. As Nussbaum said in his book, busing is still debated, but the white flight from Boston public schools is not. The agenda of ESG in 20 years may still be debated, but we don't believe the returns to investors will be. We believe the difference in returns will be black and white.

Fear stock market failure,



Cole Smead, CFA
President & Portfolio Manager

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