

Lessons From The Titanic



Newsletter, December 2020

"I cannot imagine any condition which would cause a ship to founder. I cannot conceive of any vital disaster happening to this vessel."
Edward Smith (1850 - 1912), Captain of the doomed RMS Titanic

Captain Smith was no novice, having accumulated more than 40 years of experience, commanding some of the largest and most prestigious ships of the time across the vast oceans. Not only was he a highly seasoned commander, capable of navigating the treacherous seas, he likely thrived in conditions of uncertainty and chaos, tackling nature's adverse elements in their most destructive forms. This is why, when news of the RMS Titanic accident reached the shores, it had the effect of a shockwave: nobody fathomed such an extreme catastrophic event from materializing and for good reason. The Titanic was a marvel of engineering, its sheer size and splendor were such that when combined with all the marketing, it gave the impression of invincibility, indestructible against the elements, a sense that nature had finally met its match!

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You would think that a 52,000 ton, state of the art behemoth, "made out of thousands of one inch-thick mild steel plates and two million steel and wrought iron rivets", designed to stay afloat even when four of its sixteen watertight compartments are compromised, would be able to withstand being struck by an iceberg on its maiden voyage¹ "factory fresh" condition. It wasn't that the engineers hadn't thought of the risk of collision with an iceberg that was ten times its size into their design framework. The fatal mistake here, as with many such ill-fated endeavors that came before and after, was to consider risks in isolation, compartmentalizing them when it was in their potential interactions that effort should have been directed.

We had a seasoned captain, commanding a ship with multiple redundancies, meaning it was capable of withstanding substantial structural damage. But there were other circumstances at play that, when combined with everything else, created a more vulnerable condition to prevail. To start with, an unusually mild winter in 1912 had caused a large number of icebergs to drift off the west coast of Greenland, just around the time that the Titanic had set sail. Also, the vast majority of the crew were never trained to be sailors², and most of those that were had not had enough time to familiarize themselves with the ship. Making matters considerably worse was the fact that the Titanic was equipped with only 20 lifeboats, providing capacity for less than half the number of people on board³ because nobody at the time thought that a ship as majestic as the Titanic would just "crash and burn".

The high loss of life (1,500 out of the 2,224 souls on board) is due to the combination of these events and some very bad luck. The iceberg that struck the ship happened to damage 6 of the 16 compartments, compromising its structural

¹ <https://www.materialstoday.com/metals-alloys/news/what-really-sank-the-titanic/>

² They were either engineers, firemen, stokers, stewards, or galley staff tending to the 1,320 passengers.

³ In an emergency, lifeboats at the time were intended to be used to transfer passengers off the distressed ship and onto a nearby vessel. It was therefore commonplace for liners to have far fewer lifeboats than needed to accommodate all their passengers and crew

integrity. Precious time was wasted as a constrained crew struggled to familiarize itself with its surroundings, and when the passengers began to realize the gravity of the situation, it was too late to do much about it. There weren't enough lifeboats to accommodate everyone, and with no other vessels in sight, many of the passengers that had actually made it out alive ended up perishing in the icy seas.

There were two types of distinct risks at play here, the first had to do with uniqueness of the event itself: the Titanic was certainly not the first ship to sink, but it was the largest ever, putting it in a class of its own, which meant that less attention was placed to its vulnerability, which was no different to that of other such vessels. Some of the most damaging risks are those that we don't plan for, either because we have become too complacent (we think we have mastered a threat when it hasn't repeated itself in a long enough time) or technological leaps and bounds have created the illusion that a paradigm shift has taken place, such that we don't attach as much weight on the past. The greatest risks are not those that we recognize and talk about, it is those that we don't consider, either because we have no clue of their existence or because we don't appreciate their significance.

The second form of risk arises from our failure to look at their sources in combination, rather than in isolation. Take the COVID-19 pandemic as an example. It wasn't a singular random mutation of a well-known virus that set off the pandemic. It was a confluence of various seemingly unrelated events that, when combined, created an outcome that was far greater than the sum of its parts⁴. We were looking at the problem from a single point of failure perspective when we should have been considering multiple sources and their cumulative effects. Same with the Titanic, where the iceberg collision was treated in isolation to everything else that contributed to its sinking⁵. Even if the lessons from such disasters may be evident, the culprit is buried in our very nature, which makes us prone to repeating the same mistakes time and again.

Where Do We Go From Here?

The outcome of the U.S. presidential elections and recent major strides in the development of an effective vaccine against COVID-19 have created strong tailwinds for the global markets. The road ahead does, however, remain bumpy and there is always the possibility that this somewhat fragile recovery derails. The Trump administration's efforts to undermine the election results by instilling doubt and spewing his divisive rhetoric appear to be failing. Biden's comfortable lead in the electoral votes, his universal recognition by world leaders, and the fact that Trump's attempt to challenge the voting outcomes are going nowhere have left him with no other option than to concede defeat.

The process has not ended yet, Trump could still pull off a constitutional crisis through the election certification due on the 8th of December. There is a slight chance that some states won't make the deadline, which in itself could cause havoc if Republican-run state legislatures take that opportunity to appoint pro-Trump slates of presidential electors, despite Biden having won the popular vote in those states⁶. The other major risk to which the U.S. economy is exposed concerns the second and seemingly more virulent wave of the pandemic, which could spiral out of control, triggering another string of bankruptcies if the authorities are forced to impose more aggressive lockdown measures to counter it.

With Trump defeated, we are likely to see a near-term rolling back of his more caustic, divisive policies (healthcare, environment, immigration) that were introduced over the last four years. We can expect at least some resistance if the senate falls into the hands of Republicans like it is anticipated to. The U.S. is also likely to resume its former "leadership" role on the international arena, which should bring more stability on the geopolitical front, especially if autocratic regimes turn more mindful on the potential consequences of their actions. All this doesn't mean Trump's brand of populism will

⁴ We had also become way too complacent for our own good: the last pandemic had taken place almost a century ago, which means that we had long forgotten the human suffering and hardship it had caused. The eradication of many diseases over time also gave us a false sense of security. We thought that we were in "control" when in fact we were not.

⁵ https://en.wikipedia.org/wiki/Single_point_of_failure

⁶ <https://edition.cnn.com/2020/11/22/politics/what-matters-for-november-22/index.html>

just vanish overnight. On the contrary, it will remain a significant thorn on the establishment for some years to come. The new administration will likely center their efforts on attenuating the “anger” by finding common ground, trying to unify a country that has become deeply divided on a broad range of key matters.

With winter in full swing in the western hemisphere, the main challenge for many governments will be to juggle the economy, keeping it as active as possible during the crucial holiday season, but not to an extent that it further compromises the health of its citizens sufficiently that more severe preventive measures are needed. Recent news on vaccine advances and the prospects of an actual “cure” in the near term is already being priced into the markets. The authorities are going to be racing against time not only in their attempt to obtain necessary quantities of the vaccines, but also in inoculating a significant enough proportion of the population that it stops the pandemic before winter ends.

If the stars get aligned with the virus defeated and harmonious global leadership, the ensuing economic rebound could be substantially stronger and more protracted than the earlier one this year. With the rise in household disposable income from government outlays and the constrained spending from the first lockdown, and as the dual pandemic and U.S. elections related uncertainties are behind us, sentiment could go through the roof, such that it triggers inflationary pressures unseen in more than a decade⁷. Maybe 2021 will be the year we finally experience a return to some form of normalcy? Not all threats have been eradicated, and the ones that remain may appear harmless...until they combine forces and cause havoc. Its not the first time that has happened, and certainly not the last!

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⁷ With businesses in many industries having remained idle for some time, combined with the layoffs and bankruptcies, it means that firms will be left scrambling to meet the pent-up demand for goods and services, forcing many to jack up prices in the short term to make up for the acute shortages. This will create upward price pressure on the economy.